



## Proceedings of the Economic Development Corporation Meeting

Wednesday April 3, 2013

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A Regular Meeting of the Economic Development Corporation was held on Wednesday, April 3, 2013 at 10:00 A.M. in the Conference Room #1, Second Floor of the Municipal Memorial Building in the City of Ironwood, Michigan.

1. Director Brown called the meeting to Order at 10:00 a.m. In the audience were Mr. Michael Pope, Esq., and Mr. Matt Weber, Old World Meats and Mr. Marion True, and Scott Erickson, City of Ironwood Manger.
2. Recording of the Roll

MEMBER	Present		EXCUSED	NOT EXCUSED
	YES	NO		
Cayer, Joseph F.	X			
Lemke, Joseph		X	X	
Peterson, Jim	X			
Ramme, Dave	X			
Ruppe, Mark	X			
Schneller, Tom	X			
Schonberg, Bob	X			
Wyssling, John	X			

3. Approval of the December 5, 2013 Meeting Minutes. **Motion** by Peterson; **Second** by Ruppe, to accept the meeting minutes with corrections. **Motion Carried 7 - 0.**
4. Approval of the Agenda  
**Motion** was made by Ramme, **Second** by Peterson to accept the Agenda. **Motion Carried 7 - 0.**
5. Citizens wishing to address the Commission regarding Items on the Agenda (Three-minute limit)

Matt Weber, Old World Meats, was introduced to the Corporation by Director Brown. Director Brown asked Mr. Weber to appear and explain the current status of Old World Meats. Mr. Weber stated that he officially closed the store on March 1, 2013 and is looking at selling it. He is still currently selling on the internet. He currently has 3 partners and knows he can't do this by himself. Bessemer is separate and is closed. That was funded from Northern Initiatives.

Cayer asked what the timeline is for closing and Mr. Weber stated the end of the month. Mr. Weber said that back in November, the sales never came up, nor at Christmas. His partners (two of them) are currently ill and can't help any further. There is a possibility of a buyer. If that fails, the equipment could be auctioned off and the equipment could bring in more than is owed. Mr. Weber wants to work with the City of Ironwood if they want to take the equipment and auction it off. There are two lists of equipment,

one which the City of Ironwood has on the equipment, and Northern Initiatives has another equipment list for their loan. Cayer asked that if the loan goes through would the City of Ironwood be paid off. Mr. Weber indicated that yes, that would happen. Mr. Weber hopes that this will be taken care of this month, and depending on whether the other buyers can get financed.

The equipment is still there and the rent is being paid by Mr. Weber and he will continue to pay it. Ruppe indicated that it looks like the City of Ironwood must wait and Mr. Weber indicated yes. Mr. Ruppe wanted to know if the equipment could just be transferred to the new buyers and would the City of Ironwood be acceptable that the new owners take over the payments. An attorney should look at this.

Cayer wanted to know if water and sewer is under Mr. Weber's name. Electricity he is making payments on; water is current. There is a copy of the lease in the file. His landlord signed a subordination agreement that they can't take over this equipment. The lease is in arrears. Mr. Weber indicated the loan is in arrears and he is making small, regular payments.

The Corporation wanted to know what exactly it is that Mr. Weber wants. Do we want to give Mr. Weber more time; go in and seize his equipment and auction it off and pay off the loan?

Mr. Weber indicated he would like until the end of the month to see where things settle out. Mr. Michael Pope stated that there are enough personal assets with Mr. and Mrs. Weber to cover this debt. Mr. Weber indicated there was over \$40,000 worth of equipment.

**Motion** by Cayer to set a meeting for the first of May with Mr. Weber present to update the Corporation.  
**Second** by Schonberg. **Motion Carried 7 to 0.**

6. Citizens wishing to address the Commission regarding Items Not on the Agenda (three-minute limit).

None

7. Items for Discussion and Consideration:

7a: Jim Huss Resignation and Interim President

Director Brown stated that Mr. Huss has resigned the EDC Corporation. John Wyssling is the Vice Chair and will take over in his stead. Reelection will happen in the fall. Dave Ramme is Secretary.

The Commission would like a plaque to be presented to Mr. Huss by the City of Ironwood Commission.

7b: Revolving Loan Fund Defaults: Letters have been sent to all the groups that are in default

Entrée Companions: The City of Ironwood has control of the property. Director Brown stated that the City of Ironwood is not even going receive any bids. If we don't get a lot of money, we may have to have another sale.

A question was asked by Cayer wondering if one check or were multiple checks written to Entrée? Director Brown indicated it was one check.

Josepheson's Nursing Home: Mr. Pope recommends writing this debt off. The loan was only made to the company, not the Debtor. There are no guarantees. Director Brown needs to talk to the state about what happens with this loan. If the State requires repayment the City of Ironwood may have to come up with the money to pay this debt. The State doesn't know what the path should be at this

point with this Debtor. They are getting their funds from the federal government as well as marching orders.

Old World Meats: Mr. Pope said The City of Ironwood a year ago signed a Subordination Agreement on its lien on the equipment with Northern Initiatives. It references Attachment "B" which is not found. If Attachment B is not located, the City of Ironwood will take a second position to Northern Initiatives. Mr. Pope requests that Director Brown take a look for Attachment B. The equipment on that list will be the only superior equipment to Northern Initiatives. Mr. Pope requests the Corporation hold off on seizing the equipment until the outcome of Entrée Companions is determined. May 1 is the scheduled bid closing date for Entrée Companions. Balance is around \$21,000 so there is more than enough to pay this debt. Director Brown indicated we have a list which we sent to Northern Initiatives for including in their list. We have a list of items supposedly bought by Mr. Weber.

Black River Dental: Director Brown called and asked Mr. McCalley to come and speak to the Commission. (He did not show). There was an issue in trying to seize the equipment. We sent a letter to Mr. McCauley asking him to voluntarily surrender the equipment. Mr. Pope stated that it would be about \$1,500 to start the lawsuits.

Mr. Peterson said to Director Brown that someone is in the businesses and working at Dr. Gresham's office. John Wyssling confirmed that he is there.

Sears Company: Recommendation is to sue them. We cannot collect attorney's fees on this. Mr. Pope is registered in Wisconsin so could move in Wisconsin to get judgments.

Director Brown indicated that the City of Ironwood has no money budgeted for lawsuits. Director Brown put down for the budget for attorney's fees.

Top Notch has been paying, slowly, owes approximately \$4,700.

Dr. Toohey is paying on a regular basis.

**Motion** by Schneller to sue Sears. **Second** by Ramme. **Motion carried 6 to 1 with Ruppe and Wyssling dissenting.**

**Motion** by Schneller to sue Black River Dental. **Second** by Schonberg. **Motion carried 5 to 2 with Ramme dissenting.**

**Motion** by Ruppe to table action on Entrée Companions until May 1, 2013. **Second** by Peterson. **Motion carried 6 – 1 with Ramme dissenting.**

**Motion** by Ruppe to table Old World Meats and give Matt Weber a thirty-day extension to get things finalized with the business. **Seconded** by Schonberg. **6 to 1 with Peterson abstaining and Ruppe dissenting.**

**Motion** by Peterson to take the recommendations by Michael Pope on Josephson's Nursing Home. **Seconded** by Ramme. **Motion carried 7 – 0.**

7c: Revolving Loan Fund Regionalization:

Director Brown presented his Memorandum and discussed his trip to Marquette

HUD'S plans are to include a compliance audit of all the funds in the state. They have started this process. There are a lot of communities in the state that has this program so we do not know when they will be here. Two issues are if HUD finds we are compliance, there are no issues. If they find compliance issues with how the money was loaned out, etc., there could be repercussions, the City just doesn't know yet. They could find the City liable and require it to pay. These are assumptions at this point.

The city can participate with the Regionalization of the RLF or they have the option of keeping the money local and not be involved with the regionalization of the money. Director Brown's Memorandum has broken down these two options.

**Motion** by Peterson to send this matter to the City Commission and recommend that the City of Ironwood regionalize. **Second** by **Schneller**. **Motion carried 6 to 1 with Ramme Dissenting.**

Ruppe asked Director Brown to do further research on grants/options. He also asked if the EDC was still a viable group to handle future issues.

8. Other Business

a. Other Business:

Jim Peterson stated he has a conflict and needs to abstain in the future on Old World Meats. Records of this meeting will be corrected to show that Mr. Peterson had to abstain on Old World Meats discussions and votes.

Mr. Peterson asked what if a former partner who is on the loan application, can he take this business over with additional funding by the EDC? An application would have to be made.

Mr. Lanctoe was introduced as the Leassor of Old World Meats. Mr. Lanctoe wants to know what he is to do with the equipment in Old World Meats. Wyssling brought Mr. Lanctoe up to date on what was discussed earlier. The equipment is being kept there. Lanctoe said Mr. Weber is not even close on what he owes on the rent. Weber did give him \$100. Mr. Lanctoe wants to know who is going to fix the roof and other damages? The City of Ironwood is not responsible for his losses due to Mr. Weber.

Mr. Ruppe indicated that with Mr. Huss's resignation from the Corporation, we should have a plaque done for him for his many years on the Corporation. **Motion** by Ruppe to give Mr. Huss recognition for his years of service with a plaque. **Second** by Schneller. **Motion Carried 7 to 0.**

9. Next Meeting

May 1, 2013 10:00 a.m.

10. Adjournment. **Motion** to Adjourn by Schneller; **Second** by Ramme. **Motion Carried 7 – 0** at 11:03 a.m.

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John Wyssling, President

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Kim M. Coon  
Community Development Assistant



## MEMO

**To:** Mayor Corcoran and the City Commission

**From:** Michael J. D. Brown, Community Development Director

**Date:** April 8, 2013

**Meeting Date:** April 22, 2013

**Re:** Revolving Loan Fund Defaults

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As you may be aware there are a number of loans that have been issued by the City through its Revolving Loan Fund (RLF) program that are in default. Attached is a memo regarding those defaults. Below is a summary of the Economic Development Corporation's (EDC) recommendations on each defaulted loan.

1. Black River Dental: The EDC voted 5-2 to sue based on attorney Pope's recommendation.
2. Entrée & Companions: The EDC voted 6-1 to table the item until May to see the results of the bidding process to sell the equipment the City is holding as collateral.
3. Josephson's Nursing Home: The EDC voted 7-0 to take no further action based on attorney Pope's recommendation.
4. Old World Meats: The EDC voted 5-1 with 1 abstention to table until May. The owner of Old World Meats addressed the EDC at its meeting and indicated he may have a potential buyer of the business in which case he would be able to pay back the loan through the sale of the business.
5. Sears: The EDC voted 6-1 to sue based on attorney Pope's recommendation.

Currently there is no money available to sue. City attorney Pope has provided estimates for lawsuits at approximately \$1,500.00 on the low end but that number could increase if the defendants contest. Staff has requested money be included in the next budget for potential lawsuits if the City Commission decides to sue. There is no word from the State yet on what happens if the City takes no action against the defaulted loans; worst case scenario is the loans would have to be paid back and potentially the City could be liable for those repayments.

The City Commission should discuss how it would like to proceed on each item above.



## MEMO

**To:** Economic Development Corporation Members

**From:** Michael J. D. Brown, Community Development Director

**Date:** March 26, 2013

**Meeting Date:** April 3, 2013

**Re:** Revolving Loan Fund Regionalization

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As you are aware the Revolving Loan Fund (RLF) program is being regionalized. Paul Linn, Finance Director, and I attended a meeting with the State of Michigan Economic Development Corporation (MEDC) and other Upper Peninsula communities in Marquette, MI on Thursday March 21, 2013 to discuss the regionalization. The following is a summary of that meeting and how the regionalization will affect the City.

The MEDC started out by explaining that the U.S Department of Housing and Urban Development (HUD) will be completing a compliance audit on all RLF funds throughout the State of Michigan. Because there have been unofficial compliance issues throughout the State and local communities, new rules and regulations will be implemented by HUD. HUD's findings will determine if each RLF fund was properly issued and administered. Those RLF funds that are found to be in compliance but have loans that have defaulted, for reasons uncontrollable by the business, may be forgiven/written off. If HUD finds compliance issues related to how the RLF fund was issued or administered and loans have defaulted, the loans may still be required to be paid back, which means the City could be responsible for the payments.

The remainder of the meeting discussed the regionalization process. The City has two options regarding the regionalization which has been broken down below.

Option 1 is to participate in the regionalization of the RLF.

Option 2 is to keep the RLF funds within the City.

### **Option 1 Summary**

- If the City chooses to participate in the regional fund it would sign an agreement with the regional fund manager (Northern Initiatives out of Marquette) to manage future projects.
- The City's existing RLF fund balance would be transferred to the regional fund manager upon execution of the agreement.
- The City's RLF fund balance would be required to be used completely in Ironwood until it has been exhausted. So if we have a current fund balance of \$125,000 that entire amount would have to be spent on projects in Ironwood and nowhere else; a separate fund would be set up for each community so that Ironwood's funds would be separate from everyone else. These projects will still be required to comply with HUD rules and regulations which include job hiring requirements, income

verifications of employees and other rules and regulations HUD will be instituting.

- Any loan payments made after regionalization occurs would be put into the regional fund for all U.P. communities to use. It will take some time to build up the regional fund because it is only funded with loan payments. The repaid funds will be defederalized money and will not be required to comply with HUD requirements such as job hiring requirements, income level verifications of employees and other rules and requirements HUD will be instituting; the program will be more flexible.
- The regional fund manager will be paid through the 18% administration fee the fund is allowed to collect on principle and interest payments. The City will not be required to pay the regional fund manager to administer new projects.
- The City and the regional fund manager can negotiate for the regional fund manager to administer existing projects, many of which are out of business and in default, however, the regional fund manager may require additional fees on top of the 18% allowed to collect, which would cost the City.
- In addition, in June of 2012 a new rule was created that stated a new RLF loan must be issued every twelve (12) months otherwise the City and/or regional fund risks its fund balance being recaptured and being used in other Community Development Block Grant (CDBG) programs.
- Review of new projects in Ironwood using the regional fund would be handled by a regional board which would include MEDC staff, regional fund manager staff and a City representative such as a staff person and possibly an elected/appointed official (presumably someone from the EDC) as well as concurrence by the Ironwood EDC and a resolution of support by the City Commission.

### **Option 1 Pros/Cons**

#### ***Pros***

- Because of existing and new rules and regulations being implemented by HUD, the regional fund manager has the capacity, knowledge and experience in underwriting federal loans. City staff is not trained or qualified to underwrite federal loans nor has the capacity to do so. The regional fund manager would handle the underwriting and financial analysis as well as the administration of the loans (collection, income verifications etc.). The EDC and City would still make a recommendation to the regional fund board on all projects in Ironwood.
- There is no cost to the City.
- Existing City RLF fund balance would be used only in Ironwood.
- Once the regional fund is built up through repayments the money is defederalized and there will be less stringent rules and regulations on how the money can be used. There will be more flexibility. Currently, the City is bound by HUD rules on how we can use the money and is limited on what it can give a loan for.
- The City can negotiate to have the regional fund manager take on administration of its existing RLF loans, except there may be additional fees associated with this.
- The regional fund manager only collects fees on repayments of loans, so if they work on a deal and it doesn't go through or a loan defaults or doesn't pay, they are responsible for compliance. This also means, if a loan defaults, the regional fund manager is responsible for costs associated with trying to collect.
- There will be a larger fund of money to draw from to complete projects.



### ***Cons***

- There would be no City representation for review of new projects using regional funds not in Ironwood. A concern that was brought up at the meeting was that bigger communities that have bigger projects (such as Marquette) will get all the money. The MEDC assured the group that a set of standards will be implemented to review applications and that the size/amount of money for a project will not be one of them. Issuance of RLF loans will be based on the feasibility of the project not how much money is being requested.

### **Option 2 Summary**

- If the City decides to keep the funds within the City it continues to manage the RLF but will be required to comply with new stricter rules and regulations by HUD regarding the underwriting and administration of the loans.
- The City can contract with a financial institution to administer the RLF loans, similar to how the regional fund manager option would work.

### **Option 2 Pros/Cons**

#### ***Pros***

- The City maintains control of the RLF program.
- The City can contract with a financial institution to administer the program.

#### ***Cons***

- Because staff doesn't have the capacity to complete the underwriting and administration of the RLF the City would need to contract with a financial institution to perform these duties and it may charge more than the 18% allowed to be collected through the program. These fees would either have to be paid for by the City or future RLF applicants.
- The City would have access to less money.
- The City would be required to comply with HUD rules and regulations which are stricter than the defederalized money available through the regional fund. There is less flexibility in how and what the City can use the money for.

The EDC should discuss these options. There are still a lot of details to be ironed out with the MEDC, the regional fund manager and HUD. Staff will eventually be receiving agreements from the MEDC to be reviewed by the City and its council prior to making a decision and moving forward. However, a recommendation from the EDC will need to be made to the City Commission on how to move forward.

While the pros/cons of Option 1 appear to outweigh the pros/cons of Option 2, if the City decides to select Option 2 it will need to seriously consider contracting with a financial institution to underwrite and administer the loans. Contracting this may well cost the City additional funds that it doesn't have readily available.