

Local Development Finance Authority

Regular Meeting Minutes

Monday, May 16, 2016
4:00 p.m., Council Chambers
South Haven City Hall



1. Call to Order by Bolt at 4:00 p.m.

2. Roll Call

Present: Eugen Gawreliuk, Mike Henry, Andy Klavins, Christine Valentine, Art Bolt
Absent: Tom Erdmann, Robert Herrera, Stephanie Timmer

Also present: Brian Dissette, City Manager

3. Approval of Agenda

Motion by Valentine, second by Klavins to approve the May 16, 2016 Regular Meeting Agenda as presented.

All in favor. Motion carried.

4. Approval of Minutes – April 11, 2016

Motion by Klavins, second by Henry to approve the April 11, 2016 Regular Meeting Minutes as written.

All in favor. Motion carried.

5. Interested Citizens in the Audience Will be Heard on Items Not on the Agenda

None at this time.

6. Financial Report

Hosier reviewed the financial report.

Motion by Henry, second by Klavins to accept the financial report as presented.

All in favor. Motion carried.

7. Economic Development Report

Hosier explained that the Economic Development Director was unable to attend for personal reasons.

8. 220 Aylworth – Bohn Building Offers

Dissette reviewed marketing efforts of 220 Aylworth by city staff, noting that the LDFA will be receiving two offers today. Over the last four to five months, city staff has been working with Abonmarche to do a survey of the existing property. This work will be done whether held by the city or a private party. This work includes but is not limited to improvements to the HVAC system; surface water issues; lead abatement and paint. Dissette made it clear that whether the board approves a buy-sell agreement or asks for more time, the city will need to deal with expenses for the property. Dissette noted that, for consideration, we have members of the public to represent potential ventures at the site.

Wendell Payne, CFO, Coach Marine Group LLC, headquartered in Louisiana. Explained Coach produces pontoon boats in Iowa, have experienced significant growth and are looking at another facility. Noted they like what they see and want to present an offer, explaining these would be established brands we have. Would set this facility up and do the improvements; should be able to produce boats in four to five months. Job wise, in the first year Payne stated Coach would have sixty full time jobs ranging from 13 dollars to 25 dollars per hour. Payne noted that once built out, speculatively, Coach might move the Iowa facility here as well. Noted the Iowa facility currently has 97 jobs. Payne commented, “We like the area; we like the facility; we appreciate the help we’ve received here. We want to make this go forward.”

The board reviewed drawings of how the production would be done while Payne explained that in less than two years the facility would be producing fifteen boats per day with employment status of 120 to 140 individuals.

Bolt asked whether Elkhart is their main market to which Payne responded that Elkhart is their main vendor area. “We are spending 500 to 600 dollars per item in shipping fees; that drives us here, closer to Elkhart, which is the capital of what we do, the RVs and marine, but we don’t want to locate there (in Elkhart) and compete with their RV industry for workers.”

Klavins asked, “On the face value of it, your offer states that you look at investing four hundred fifty thousand dollars in real or personal property improvements. How do you do that? I thought you’d have to have millions to create this facility.” Payne responded that they don’t anticipate spending millions, maybe six hundred fifty thousand dollars would be more realistic, but they are trying to be conservative.

Klavins pointed out that our local Woodhams Ford dealership is doing more than a million dollars in improvements and noted that he finds it hard to believe this can be done for the numbers provided. Payne responded that their facility is not a retail facility noting that all their equipment; benders, rollers, are outsourced, so the furniture comes from Elkhart; that will come this way. “We are an assembly plant; the main fabrication is on the chassis using welding and tube rollers. Our main thing is to have enough electricity to the building to run welders.

Klavins asked about expansion plans, which he thought was planned in three phases to which Payne responded that it is actually two phases; if they start producing two brands for the 2017 model year, that growth alone should be less than a year. Payne expressed their

main issue as getting up and running, noting, "We have the orders and sales, we just have to produce them. We're going to hit the ground running."

Henry sees the purchase price of 10 thousand dollars as incredibly low, noting that he does not know if the contract says there is a promise or any tangible leverage to invest the four hundred fifty thousand. Payne responded that once the building is acquired, that investment will be required, noting there is nothing in there to produce boats, adding, "If we're going to produce we have to make the investment."

Bolt stated that the LDFA has been selling vacant land for much less and will end up putting money into this property just to walk away from it. "You've looked at the costs for the utility hookups and upgrades. Just that with your ten thousand dollar purchase price means the city is going to have to write a check and walk out of closing. If you buy the property for ten thousand dollars and walk away or sell to someone else for twenty-thousand dollars there's no claw back provision, which leaves us in a shaky place to be."

Payne said "You can put language in there; I'm willing to negotiate. If there wasn't a building there I wouldn't be here today. That's all part of it, figured in the price; at that point we're vested in the community, that's why we're here."

Bolt asked how long the business has been in Iowa to which Payne responded 25 years.

Henry how long the brand has been in existence to which Payne responded that the Coach brand is fairly new; Xcursion was previously Payne's business but had a dispute with Forest River so just got Xcursion back in a court settlement. Payne added, "It's an established product and one of the top brands in the country today."

Bolt asked if their main market is in the south to which Payne responded, "No, Minnesota is our biggest market; the south is the smallest market." Payne stated the largest markets are in the north.

Dissette noted there is a second proposal for the board's consideration.

Sean Russell and Renee Russell, Lukela Group LLC. Sean Russell noted that he and his wife were born and raised in South Haven and here to present their plan as it stands right now for the Aylworth property. Our method of getting to the final product for this property is different than Coach Marine; that was very deliberate. The Russell's have a three phase plan that would carry through to manufacturing and jobs. Russell stated this is important to them but realistic. Phase 1, the most important and time critical, would be to address the building deficits as it is deteriorating quickly. The Russells feel the office building is a loss at this point; noting that it is significantly worse than when they saw it in the fall. Phase 1 is to get that building back to a usable condition, which the Russells feel will cost over four hundred thousand dollars, to seal up the building, address HVAC, exit signs, doors, brownfield issues. Russell stated they needed a plan to carry us to a point of manufacturing; they looked at the market and that's where they came up with the idea of climate controlled boat storage accessible from a seventy-mile radius around South Haven.

Phase 2, according to Russell, is marketing, direct and significant marketing, once the building is such that it can be used immediately. And Phase 3 would be further marketing of the property, perhaps in the area of "build to suit."

Gawreliuk asked how many employees Russell expects to employ and Russell responded, initially 4 to 6 to get the storage piece up and running. Looking at scaling that, perhaps offer outdoor storage, as well. The city has a lot of situations with density; cars, parking and rentals so the Russells envision a place where we could have a stow-and-go or park-and-go storage; instead of parking their boat in their driveway, the neighbors' driveway or on the street. Russell noted that they have looked at estimates up to over one hundred employees depending on what is done with "build to suit" on the property.

Klavins remarked that the Russells have hit the nail on the head with need, noting that he has clients looking for indoor storage for furniture, and wondered if that would be something they would offer. Russell responded, "Great question, but no, that's not in our plan. We could go to offering indoor climate controlled storage units, but feels we have plenty of market for boat and RV storage. It is a large property, though."

Klavins said he has people storing things in Hamilton who would like to do that here. Russell said he thinks the market is there; we want to keep the property as a potential manufacturing site, the property is there, but we certainly want to go where economics drive us.

Dissette interjected, "For your information, when the city and LDFA agreed to take ownership of this building, someone was renting it for storage and the utilities were shut off due to non-payment. That lessee had fitted fork lifts with flashlights so they could see to maneuver through the building; the city had to end that agreement just due to building code issues." Dissette continued, "There is absolutely a need. To have two competitive offers for the site, this is positive and exciting for this board and the city. We have spent some time with the Lukela group and the Coach proposal just came through in the last few days, city staff would need time to work through an agreement with Coach."

Valentine asked what level of experience the Russells have to which Russell responded, "Nothing this big, I'm a military guy, have had to figure out where and how to store the toys. It's great to have the toy, but there is a need for a place to put it off season. The need piece is storage with climate control. We've both run several businesses, but not of this size. The nice thing about this business is its more hands off when you get the right people in there." Russell noted he is not a manufacturer and that he and his wife see themselves as facilitators.

Valentine asked, "Regarding financing, are you pretty confident you can get the money to get this off the ground?" Russell responded, "Absolutely. We both have had smaller businesses, not on the level of Coach, but the financial piece would include private investors, our own equity, and commercial lenders.

Valentine asked about Brownfield funding. Bolt explained that the LDFA would still have an ongoing responsibility in the area of the lagoon in the back; we have to own up to that if there turns up to be anything else; it is a brownfield district already." Bolt noted that the money is there to fund that remediation. Bolt explained that he does not expect to find anything else; he believes the only thing in the offing is that pond or lagoon, which may or may not be a big issue.

Dissette added that Envirologic worked with the city at the time of the LDFA taking ownership and that the city connected the Russell's with Envirologic, to have an opportunity to hear what has already been done. Dissette highlighted the ongoing maintenance and

noted that an updated brownfield plan should be worked up for the board's consideration, noting it may include fencing; maybe assisting with teardown of the old office. Dissette also stated that the potential buyers would likely work with Envirologic because Peterson has good knowledge of that site, but stressed that would be their decision.

Bolt called for a motion.

Henry commented that Lukela is obviously putting some money on the table and there is risk with that. "I see just a token going forward with the Coach group."

Klavins added that when you break down the numbers, if we like Coach and Coach continued with their proposal, the city would have to come to the table with a check. The city has already written a very big check to acquire the property, contract engineers and do clean up. Klavins calculated that with the Coach Pontoon offer the LDFA would net eight thousand four hundred fifty and still have money going out.

Gawreliuk noted that with Coach it is about five hundred dollars per acre and a lot more expense.

Motion by Klavins to accept the Lukela Group's offer and continue on with purchase agreement with Lukela. Second by Henry.

All in favor. Motion carried.

Henry commented that it is great to have an agreement and see some progress. "It will be wonderful to see that place squared away."

Klavins remarked that Lukela has done their homework to which Bolt agreed.

Henry noted that he understands Coach wanting to be near Elkhart; that made sense.

Valentine noted that a manufacturing facility made sense, also, but the ten thousand dollars was too low.

Bolt added that there were no guarantees.

Valentine pointed out that the strength of their offer was they actually have a manufacturing facility.

Bolt added, "We don't own it for very much longer."

Hosier asked for clarification of the motion. After a brief discussion the board agreed that they want the motion to note that the board is ready for the Lukela offer to be signed.

Amendment to the motion by Henry to add "have the chair and the secretary sign the Offer to Purchase documents". Second by Valentine.

All in favor. Motion carried.

9. General Comments

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There were none.

10. Adjourn

Motion by Henry, second by Klavins to adjourn at 4:37 p.m.

All in favor. Motion carried.

RESPECTFULLY SUBMITTED,

Marsha Ransom
Recording Secretary