

CARVER COUNTY CDA REQUEST FOR ACTION

MEETING DATE: June 19, 2014

AGENDA ITEM: Resolution No 14-14 CDA Business Loan Fund Loan Application for Super Radiator Coils Expansion Project in the City of Chaska, MN

PREPARED BY: John Sullivan, Economic Development Director

DISCUSSION: Introduction

Super Radiator Coils (SRC), Chaska, submitted an application to the CDA Business Loan Fund for loan financing in the amount of \$149,999 for the development of a new approximately 20,000 square foot building expansion to the current SRC building located in the Peavey Industrial Park, 104 Peavey Road Chaska. The site is owned by SRC. SRC is a custom manufacturer of specialty fin and tube heat exchangers (coils). SRC designs, manufactures, and sells throughout the United States and overseas from its locations in Chaska, Minnesota; Richmond Virginia, and Phoenix, Arizona. Their markets include power and energy, food processing, HVAC, industrial equipment, transportation, military, refrigeration display cases, industrial processing, testing and chambers, after market replacements, industrial heat recovery, carpet and floor cleaning equipment, laundry equipment, medical, data center cooling coils, clean rooms, wind tunnels, nuclear applications, etc.

Public Purpose: The loan purpose is for the construction of an approximately 20,000 sq. ft. building expansion to its existing manufacturing facility located at 104 Peavey Road, City of Chaska, Carver County, Minnesota. The proposed financing will allow the company to expand and increase products and sales to its existing line. Efficiencies will be realized with a larger space to accommodate the current and projected growth of the business and they plan to hire an additional 28 employees within 3 years in the space. SRC is growing, and is a very successful operation and needs to hire additional employees to keep up with demand for its products and design services.

Description of Company:

SRC was established in 1928 in Minneapolis by three businessmen and a young engineer named Merrill Benson, and the company offered a product line of freestanding steam coils and steam unit heaters. In 1948, the product line was expanded to include coils for refrigeration and other applications and the company relocated to St. Louis Park. In 1976 SRC was acquired by McQuay. In 1980 SRC built a plant in Richmond, Virginia. In 1984 McQuay was purchased by Snyder General Corporation. In 1985, SRC employees, with assistance from a venture capital group, purchased SRC from Snyder General Corporation. In 1987 the company buys out the venture capital group and becomes wholly owned by its key employees. In 1993, SRC purchased Sing-Air in Gardena, California and establishes a new SRC facility in Phoenix, Arizona. In 1998, the St. Louis Park operation moves to Chaska. In 2001 the Richmond, Virginia facility doubles in size from 112,000 sq. ft. to over 200,000 sq. ft. In 2008, the Phoenix facility expanded by purchasing a neighboring 20,000 sq. ft. building to expand the custom air coolers line, and also expanded the total Phoenix production capacity to 50,000 sq. ft. In 2010 SRC developed a state of the art Wind Tunnel test lab in the Richmond, Virginia facility. In 2012, SRC added 13,000 sq. ft. to the Chaska facility for additional production space. Now, in 2014, the company is in need of an additional 20,000 sq. ft. manufacturing space to add to its growth and strong product line.

Management (borrowers) of the company is strong. SRC is a Limited Partnership. The general Partner is SRC Company, Inc., which is owned by Jon R. Holt (the principal limited partner of the Partnership), Rob E. Holt and Kari Holt Mellina. Jon Holt serves as the private sector representative for Carver County to the Greater MSP Economic Development Partnership. Rob Holt and his father Jon are very active in the day to day management and operations of all three of the company United States facilities.

Jobs: SRC currently employs 131 at the Chaska facility and they are a union shop. The proposed expansion project will result in the following:

- Addition of 28 new full-time jobs
- At least 8 full time new jobs created within 1 year.
- At least 8 additional jobs created in year 2.
- An additional 12 jobs added in year 3
- The average wage of these jobs is \$27.00 per hour (including benefits of \$6.00 per job).

History

The CDA developed and adopted its own economic development loan fund in December of 2007 and called it the CDA Business Loan Fund.

The CDA BLF is a gap lender, meaning it does not do direct loans, and it requires a minimum of 50% of the project costs to be financed by a private lender, typically a bank, and required 10% equity. The BLF usually provides funds to a project where a funding gap exists, and will often be subordinate to the 1st lender to give them an incentive to make the loan with the ultimate goal being to create jobs, construct buildings, rehabilitate buildings, redevelop downtown areas of cities, and increase the tax base.

Before the June 19, 2014 CDA Board presentation, there were numerous benchmarks and items that needed to be completed to make this project able to be financed and ready for construction.

- ✓ The City of Chaska had to review and approve a supporting resolution for SRC for a State DEED Job Creation Fund (completed 6-16-14)

Items Pending:

- ✓ The development plans for the site need to be approved (plan approval pending)
- ✓ A sworn construction statement and construction agreement needs to be developed between the contractor and approved by the company ; BMO Harris Bank (lender); and the CDA for the project construction work
- ✓ Bank needs to complete an appraisal and it needed to come in at least 70% Loan to Value (the appraisal will be completed in July, 2014)
- ✓ DEED Job Creation Fund approval of SRC's application up to \$500,000 in benefits (rebates based on performance)

Current Circumstances

The CDA is being asked by the company and DEED to participate in the project as there is a project funding gap of \$150,000 created as a result of the project. The gap is being made up by equity contributions of cash from the borrowers as well as the proposed CDA loan of \$149,999 and BMO Bank proceeds.

The proposed loan and sources and uses breaks down as follows:

USES

Site Improvements:	\$750,000.00
Building Construction:	\$1,100,000.00
Renovation of Existing Building:	\$250,000.00
Machinery and Equipment:	\$450,000.00
Infrastructure:	\$450,000.00
TOTAL:	\$3,000,000.00

SOURCES

BMO Bank Minneapolis:	\$2,100,000.00 (70.00%) (first mortgage)
CDA BLF:	\$150,000.00 (5.00%) (subordinate mortgage to BMO Bank)
Borrower Equity:	\$750,000.00 (25.00%) (cash/land/DEED JCF)
TOTAL	\$3,000,000.00 (100%)

BMO Harris Bank of Minneapolis is the lead bank on the project and they have assisted the CDA staff underwrite the loan for the CDA Business Loan Fund and the CDA will collect payments and service the loan in-house. The borrower has submitted a complete loan package to the CDA and bank including financials, tax returns, resumes, and business plan.

Proposed terms from the Carver County CDA Business Loan Fund (BLF) for the financing request of Super Radiator Coils would be approximately as below:

- **\$149,999 Loan:** Subordinate mortgage to BMO Harris Bank, 2.5% interest rate fixed (as an incentive) , 20 year amortization loan (balloon at 5 years second mortgage on real estate (building and land).
- **CDA Requirements/Contingencies:** Personal guaranty from borrowers, security agreement, subordination agreement with bank, mortgage, note, title insurance, CDA listed as additional insured on policy, city approvals, bank approval, SBA approval, development and loan agreement, etc.

Issues:

Timing is of the essence for this loan as construction of the project is to begin shortly for planned completion in December 2014 and the timing of the participating loans from the Bank.

Financial Impact:

\$149,999 loan

- ALTERNATIVES:**
1. Approve Resolution No 14-14 subject to CDA requirements above
 2. Deny Resolution
 3. Table upon additional information requested

- STAFF
RECOMMENDED
MOTION:**
1. Approve Resolution No. 14-14

- ATTACHMENTS:**
1. Resolution No. 14-14
 2. Loan and Development Agreement
 3. Building Plans
 4. Commitment from Bank

Reviewed by:

Julie Frick, Executive Director