



BIG SKY ECONOMIC DEVELOPMENT

EDA · EDC CREATING MONTANA BUSINESS OPPORTUNITIES

EDA/EDC Joint Board Minutes

Thursday, May 9th 2019

7:30 AM – 9:00 A.M.

Big Sky Economic Development – Yellowstone Conference Room
Granite Tower 222 N. 32nd Street, Billings, MT

BIG SKY ED Mission Statement: - Focused on sustaining and growing our region's vibrant economy and outstanding quality of life, Big Sky Economic Development provides leadership and resources for business creation, expansion, retention, new business recruitment and community development.

EDA Board Members Present: Cory Moore, Fred Sterhan, George Warmer, Greg McDonald, Jennifer Smith, Jennifer Owen, Ken Lutton, Paul Neutgens, Robin Rude, Don Jones (Ex-Officio), John Brewer (Ex-Officio), Shaun Brown (Ex-Officio)

EDA Board Members Absent: Dana Pulis, Judi Powers, Greg Upham (Ex-Officio), Katy Easton (Ex-Officio)

EDC Board Members Present: Aaron Ramage, Andy Gott, Ann Kosempa, Bob Wilmoth, Dave Ballard, David Ellis, Denis Pitman, Eric Simonsen, Jon Stepanek, Mac Fogelsong, Mike Nelson, Mike Phillips, Mike Seppala, Mitch Goplen, Molly Schwend, Spencer Frederick

EDC Board Members Absent: Craig Bartholomew, Dan Edelman, Doug Hansen, Nicole Bengel, Scott Chesarek, Steve Loveless

Staff and Guests: John Ostlund, James Smith, Jack Nickels, Tony Rosanova, Russ Fagg, Evelyn Pyburn, Dustin Frost, Kevin Scharfe, Karen Baumgart, Roz Dix, Deanna Langman, Dianne Lehm, Brandon Berger, Dena Johnson, Lorene Hintz, Allison Corbyn, Melanie Schwarz, Steve Arveschoug, Becky Rogers

Call to Order:

Cory Moore, EDC Chair, called the meeting to order at 7:30 A.M. with the Pledge of Allegiance.

Agenda Changes:

James Smith from Rocky Mountain College will be added to the Public Comment portion of the Agenda. There will also be no action at this time on the Future Facilities Update. Lastly, the Board Planning Recap will be moved to June.

Public Comment/Recognitions/Special Announcements and Introductions:

Public Comment

Deanna Langman with the PTAC gave a plug for their annual Match Making Event at the Northern Hotel on May 29th and asked the Board to reach out to companies they think should be in attendance.

Jack Nickels gave an update about Giving Day in Billings. The event raised \$197,000.

James Smith began by reflecting on his service on the BSED Board and how much he had learned about our regional economy, the state of businesses in the area, and the political happenings in our area. He mentioned that there were several times where he had wished his students could have been present to listen and learn as well. James has an idea he discussed with Steve about creating an Ex-Officio position on the Board that some of his students would fill. James would like the Board to mull the idea. James thinks that bringing in the perspective of

college students would be beneficial to all involved. Steve asked that James draft a narrative detailing outcomes and objectives of the Idea that he would then present to the June Executive Committee.

Melanie was up next to discuss Economic Development Week. Melanie made a list of accomplishments that the BSED team has completed in the last 60 days. The list was extensive and impressive and illustrates the hard work that each of our 23 staff members put in on a daily basis.

Russ Fagg thanked BSED and Becky for the opportunity to participate in our RFP for a new facility. He said the process was comprehensive and fair and is looking forward to working on our lease agreement as we prepare to transition.

Mike Nelson spoke about the Billings Preservation Society and told the Board that the Moss Mansion received \$400,000 for repairs as an outcome of legislation passed in Helena this session. Steve and Mike met with directors at the Moss Mansion yesterday to help with their needs assessment and where we can come in to help fill gaps. Mike went on to invite the Board to the 6th Annual Cigar Dinner on the lawn of the mansion. The event includes, dinner, drinks, and of course, cigars. The event will be on June 27th.

Consent Agenda:

Approval of the April 2019 Board Meeting Minutes, the Budget Workshop Minutes, and the March Financial Statements

Motion: Ken Lutton, to approve the April 2019 Board Meeting Minutes, Budget Workshop Minutes, and the March Financials as presented to the Board.

Second: Paul Neutgens

Discussion: None

Motion carried

Program Level Reports and Action Items

First Draft Proposed FY 2020 Budget Review –Jim/Becky

Jim gave a budget update to the Board. This is the first draft of our FY 2020 Budget before we present our final product in June. Jim took the Board through the budgeting work conducted over the past two months and then presented some highlights. He started by making the Board aware that due to the recommendation of our auditors, the Recruitment, BillingsWorks and Rock31 programs are no longer a single expense line item on the P&L. The auditors have asked us to split those expenses into their respective expense categories such as travel, professional fees, marketing, etc.

With respect to the EDA, we assumed a full mill levy will be received and tax protests at 2.4%. An important item to note is a change in the Management Services Agreement. The EDC will start reimbursing the EDA for 25% of the controller's salary. The Management Services Agreement will be amended to reflect that change. Another important note is what remains of the initial Opportunity Fund contribution for Rock31. We expect to have \$87,000 of the initial \$150,000 available to roll over into the next fiscal year. One last item to note is the reimbursement agreement with the Defense Logistics Agency. We will receive additional reimbursement once the formal contract is finalized. Lastly, Jim announced staffing changes. We have 1.5 FTE retiring at the end of the fiscal year. We are reducing our administrative staff by .5 FTE. In addition, we have plans to elevate a current staff position to a program manager. Overall, the staffing budget for adjustments is roughly \$39,000.

On the EDC side, we have decided to not fill a loan officer position this fiscal year but will keep it in mind for next year. As for revenue projections, the budget represents \$350,000 for Member Investor revenue and the Big Sky Finance loan funding target to increase to \$9 million resulting in the projected loan origination fees. Jim then reviewed the year or year expenses with the Board.

The budget work for FY2020 is still in progress but the big picture takeaway is that FY2020 is balanced. However, we are more concerned about what happens with the budget past 2020 if expenses continue to outpace the Mill Levy and if we are incurring additional costs for a new facility. We are taking a look at what we can do now to help

future challenges. The goal is to start making strategic budget considerations now rather than reactively over the next couple of years.

Having referred to Melanie's Member Investor goal, Steve announced to the Board that in order to allow her to spend more time concentrating on MI dues, Marcell has been promoted to Marketing Program Manager. Marcell taking on this new role will give Melanie that much needed latitude to focus on revenue generation for the organization.

Big Sky Finance – Brandon
SBA 504 Loan Requests

I. Big Sky EDC is requesting approval to submit to the US Small Business Administration the following SBA 504 loan requests. The Big Sky EDC Loan Committee has reviewed the requests and recommends approval to the full EDC Board for submission to the SBA for final approval. The requests meet all the underwriting and eligibility requirements of the EDC.

1. **Snyder Motors Inc. / Z Enterprises LLC** – Request is for an increase in the amount of the SBA debenture from \$741,000 to \$816,000. This was originally approved on September 13, 2018. This is a new construction project. Project/construction costs increased due to changes that were made to the building and additional fire suppression systems not originally included in plans. Construction is nearly completed at this time and no additional advances will be made. Borrower continues to demonstrate sufficient cash flow to service the additional debt resulting from the increased costs.

Original Request – 09/13/2018: Request is for the purchase of land and new construction for Snyder Motors Inc. located in Bozeman, MT. This will be a relocation from a previously leased building in the same Bozeman/Belgrade area. The new project will be located on Jackrabbit Lane just north of Four Corners. Previous location was further north off Jackrabbit Lane. Snyder Motors has been in operation since 2011 and is owned 100% by Zach Snyder. It is a pre-owned, late model dealer and also provides maintenance and repairs and detailing services. They have a second location in Bozeman on 7th Avenue. They have been one of the top used car dealers in the Bozeman/Belgrade area.

There are projected to be three new jobs created resulting from this project. A Public Policy goal of Rural Development will be met. The total SBA debenture will be \$741,000 on a 20-year note comprising 40% of the total project costs. Big Sky EDC will be in a 2nd lien position on the real property behind Opportunity Bank (Bozeman).

Motion: Mike Seppala, to approve the Snyder Motors Inc. / Z Enterprises LLC loan request as presented to the Board.

Second: Andy Gott

Discussion: None

Abstentions: Mike Phillips

Motion carried

2. **Advanced Therapy Clinic LLC** – Request is for the purchase of an existing building with minor renovations for the offices of Advanced Therapy Clinic LLC. The project is located at 1701 Avenue E, Billings, MT. The renovations are minimal and necessary to convert a portion of the space suitable to their practice. Advanced Therapy Clinic LLC is owned by Patrick and Anna Brown. They provide pediatric speech, occupational, physical and behavioral therapy and counselling. Services are primarily offered to children, but they also work with adults. They have outgrown their leased space and this new building will provide them with room for growth. They also have offices in Butte and Bozeman.

There are projected to be six new jobs created resulting from this project. The total SBA debenture will be \$403,000 on a 25-year note comprising 40% of the total project costs. Big Sky EDC will be in a 2nd lien position behind First Interstate Bank on the real property acquired.

Motion: Mike Phillips, to approve the Advanced Therapy LLC loan request as presented to the Board.

Second: Mike Seppala

Discussion: None

Abstentions: Andy Gott

Motion carried

- 3. DJ&A, P.C. – Request is for an increase in the amount of the SBA debenture from \$2,899,000 to \$3,104,000. This request was originally approved at the January 10, 2019, Board meeting. The request for increase has been approved by the Loan Committee with recommendation for approval. Due to the size of the debenture exceeding \$2MM, the request must be approved by the EDC Board prior to SBA submission. Total project costs have changed slightly due to the exclusion of equipment and increase in professional fees. Financing related to our project now only includes the real property. Overall, total project costs have decreased. Additionally, the allocation has changed to a typical 50-40-10 structure. The anticipated increase in the gross debenture is \$205k, however total financing has only increased \$103k due to the reallocation. Annualized payments on the property debt will increase by \$5.2k which the business can easily service. Spreadsheet to be provided separately.**

Original Request – 01/10/2019: Request is for the purchase of land and new construction for the offices of DJ&A's corporate headquarters located in Missoula, MT. DJ&A, P.C. has outgrown its existing facility on Russell Street. This new facility will be located on West Broadway and will consist of a 24,000 s.f. office building and will be 100% occupied by DJ&A. DJ&A is an engineering company which has been in existence since 1973 and has been incorporated in Missoula as DJ&A, P.C. since 1999. They currently employ over 50 employees. The business provides a variety of civil engineering services including environmental, surveying, transportation, municipalities, land use planning and development and structural engineering. They work on projects all over the northwestern United States.

There are projected to be nine new jobs created resulting from this project. They will meet a Public Policy goal as they will be located in a HUBZone. The total SBA debenture will be \$2,899,000 on a 25-year note comprising 36.44% of the total project costs. Big Sky EDC and the SBA will be in a 2nd lien position on the real and personal property behind Missoula Federal Credit Union.

Motion: Mike Phillips, to approve the DJ&A P.C. loan request as presented to the Board.

Second: Eric Simonsen

Discussion: Mike Seppala is a "no" vote and explained we was uncomfortable endorsing a tax-exempt organization benefiting from the SBA 504 program, which is tax payer funded.

Abstentions: None

Motion carried

Future Facilities Taskforce Update/Recommendation – Becky

Becky presented her Future Facilities update and handed out a packet of materials including a slideshow presentation. Becky started by saying the Future Facility Taskforce will have a recommendation for the Board today, but it has been requested to hold the vote until a few days after the meeting to give Board Members a chance to think over the analysis presented before casting a vote. The Board inquired about the need to hold off the vote. Steve said we wanted to make sure the Commissioners and the Board are in agreement about how the ownership of the building is structured and will be meeting with the Commissioners later today. It was determined an electronic vote would be held on Monday, May 13th.

Becky gave a brief overview of the RFP process and the Taskforce that convened to evaluate proposals. She reminded the Board why we launched into a facility search months ago and what we intended to accomplish. Becky then presented the analysis conduct on both the Fratt Memorial Building and the Montana National Bank Building. Becky thanked Mitch and Gene for the donation of their time and expertise in assessing these properties. It was determined that both facilities met the requirements set out in the RFP and both were suitable for BSED needs. Each building presented unique opportunities, and both needed extensive renovations. Both were

proposed at a sale price of \$1.75 million. Becky then presented the renovation for each facility. The goal of each renovation was to bring the facility up to code and satisfy ADA requirements as well as finish out the space to meet program specifications. Both renovations were extensive and exceed the original project budget. In his due diligence work, Gene also provided options and impacts of considering partial renovations. In response to the project budget, Becky and Steve sat down with each building owner and spoke to them about considering a provision in the RFP to contribute to the project as a way to support our Economic Development mission. We learned both were willing to make a financial donation. The Fratt owners were willing to donate \$75,000 and Zoot was willing to donate \$750,000. Becky then compared the occupancy cost of each facility and its impact on the budget. In addition, Becky shared a comparison of what it would cost to occupy a facility that we owned vs leasing.

Becky then discussed with the Board the need to look at a new budget concept considering the cost of renovations and opportunity to secure a Federal EDA grant. The goal with the revised concept was three-fold. First, we wanted to make sure we were maximizing our ability to leverage other funds. Second, we wanted to purchase the facility without incurring additional debt service. And third, we wanted to create a sustainable asset for the community. The revised budget concept showed a contribution from the Opportunity Fund for up to \$2M (depending on the outcome of the grant) and a contribution from the EDC of \$500,000. Becky also showed what could potentially be leveraged by the Federal EDA Grant and the owner contributions based on this concept. Becky also mentioned that we would continue to drive down the project cost as much as possible to ensure all funds were being spent effectively.

Becky then gave the floor to Ken Lutton, who is the Chair of the Opportunity Fund Committee, to present their recommendation. Ken spoke about the OF meeting to consider the ask and their recommendation of using Opportunity Fund Dollars as presented. The Committee believes in the project and wants to capitalize on the unique opportunities presented. He also mentioned that the building is a historical part of the city and will give our programs wonderful exposure. Becky then turned the time over to Eric Simonsen to present the Future Facility Taskforce recommendation. Eric spoke to how thorough and comprehensive the process was and based on that, the Future Facility Taskforce makes the recommendation to close the RFP, submit the EDA Grant Application (now due June 6th) with the Montana National Bank building as the selected facility, enter a letter of intent with the owners of the building, commit up to \$2,000,000 in Opportunity Fund dollars, commit \$500,000 from the EDC and to conduct immediate next steps of due diligence as outlined. Each Board Member who served on the Taskforce then spoke to why they are recommending this facility. Steve then reflected on the process and the decision before the Board. Steve feels that we have done our homework and this move will demonstrate to the community that we are further investing our resources in them and that we are investing in the businesses of our region. Steve referred the Board to the information before them and the preliminary application for the EDA Grant included in their handouts. Steve hopes that in the coming months, we will be standing in front of this facility and showing the community how committed we are to our collective, regional success. With the floor open to questions, Andy Gott asked what the opportunity cost of dipping into the Opportunity Fund is. Steve said he couldn't speak exactly to what future opportunity is lost, but we will see lost interest revenue on that \$2M we would otherwise be receiving. Steve went on to say that when we receive an appraisal, we can see the actual value of the asset and what the economic analysis would look like from purchasing a facility below market value. Mike Seppala said one of his primary concerns were the community optics of the move. Mike went on to say the due diligence analysis gives us a very defensible position. It was asked what we will do if the EDA Grant doesn't award enough funding to make the budget work. Steve said the outcome of the award is likely the biggest contingency at this point and it may come to the point where we will have to walk away from the deal if we are unable to find a way to make the finances pencil. However, our intention will be to find a way to continue forward with the project.

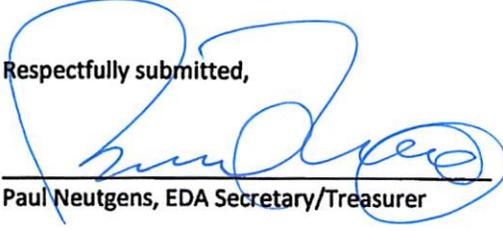
With the meeting running late, it was determined that the remaining items on the agenda would be moved to the June meeting and that Dianne's TEDD update will be sent out via email.

Cory Entertained a motion to adjourn.

Meeting adjourned: 9:30 A.M.

Next Meeting – June 13th, 2019

Respectfully submitted,



Paul Neutgens, EDA Secretary/Treasurer



Steve Loveless, EDC Secretary/Treasurer

When approved, minutes and meeting materials will be filed electronically in the Big Sky EDA office.

Big Sky Economic Development Board of Directors will make reasonable accommodations for known disabilities that may interfere with an individual's ability to participate. Persons requiring such accommodations should make their requests to Big Sky Economic Development as soon as possible before the meeting day. Please call Big Sky ED at 256-6871.