

PROVIDENCE ECONOMIC DEVELOPMENT PARTNERSHIP, INC.

THURSDAY, NOVEMBER 13, 2014

DRAFT LOAN COMMITTEE MEETING MINUTES

A meeting of the Providence Economic Development Partnership, Inc. (PEDP) Loan Committee was held at the office of the Department of Planning and Development, 444 Westminster Street, Providence, Rhode Island, in the 1st Floor Conference Room on November 13, 2014. The Loan Committee meeting was called to order at 12:25 P.M, with Gonzalo Cuervo presiding. Roll call of the members was conducted as well as of John J. Garrahy, Esq., PEDP legal counsel, Stuart MacDonald, PEDP consultant, and Thomas Hoagland, PEDP consultant. It was noted that a quorum was present.

MEMBERS IN ATTENDANCE

Members of the Loan Committee in attendance included Gonzalo Cuervo, Renee Bailey, Donald Gralnek and Daniel Murphy.

MEMBERS ABSENT

Members not in attendance were Doris Blanchard, Carmen Diaz-Jusino and Frank Benell.

STAFF MEMBERS IN ATTENDANCE

Staff members in attendance included: Stuart MacDonald, Department of Planning and Development (DPD) and PEDP consultant; Kathy Cosentino and Arthur Speaks.

OTHERS IN ATTENDANCE

Others in attendance were John J. Garrahy, Esq., Moses Afonso Ryan, PEDP legal counsel; and Thomas Hoagland, PEDP contract underwriter.

MEETING MINUTES

The minutes of the October 9, 2014 PEDP Loan Committee meeting were submitted for review and approval. Upon a motion made by Donald Gralnek and seconded by Renee Bailey, it was voted to approve the minutes of the October 9, 2014 meeting. Motion passed by unanimous vote.

REPORT OF THE ASSISTANT DIRECTOR

Stuart MacDonald stated that for those that do not know, he has left the city. He is working for the city as a consultant. The loans have dried up a little; there is one (1) in the pipeline. Thomas Hoagland added that there are two (2) since one is coming in. Mr. MacDonald reported to the committee that Garrison Confections has gone away due to the other financing having dried up. The principal is coming back in the near future with a new request for a new project. The committee approved his previous request and Mr. MacDonald encourages approval of any new request. There is a HUD evaluation that we are undergoing. Jim Bennett and Mr. MacDonald are meeting with HUD on a weekly basis. The review is on track.

NEW BUSINESS

The first agenda item entertained by the Loan Committee under New Business was the re-presentation of the loan request of Cromwell Ventures, LLC d/b/a The Armory Kitchen, Federico Manaigo and Antonio Manaigo, 55 Cromwell Street Providence, Rhode Island, 02907, in the modified amount of \$482,000.00, in order to provide an eighty percent (80%) loan-to-value. The loan request previously presented, in the amount of \$550,000.00, was recommended for approval by the Loan Committee at its October 2014 meeting, which was subject to: HUD approval of the loan and the job creation requirements; and all other financing being committed and the Borrower obtaining a construction loan. The recommendation for approval was tabled by the Board of Directors subject to HUD approval and a reasonable explanation of who the employees are and how they are being employed to the satisfaction of the committee. Mr. MacDonald presented the request. Mr. MacDonald provided a brief overview of the Loan Committee approval and the board's conditions. The issue is how the jobs being created are determined. If they go through the incubator and get Providence jobs, Cromwell can get credit for those jobs. Mr. MacDonald indicated that they will be able to at first blush and that HUD reviewed the

matter last week. Mr. MacDonald noted that this loan will be like the loan to the Mercantile, which uses its tenants to meet the job creation criteria. This one is trickier because they will not work there.

The board expressed that the loan was acceptable only so long as HUD is okay with the parameters. Mr. MacDonald stated that there are three (3) parameters: 1) it is an eligible activity; 2) it meets a National Objective; and 3) it has a Public Benefit. Mr. MacDonald also noted that the National Objective has to be met, or it is deemed an ineligible loan and has to be repaid by the city to HUD.

Legal counsel was questioned as to the vote that is required in connection with the re-presentation of this loan. Donald Gralnek indicated that he will recuse himself from this matter as the Providence Redevelopment Agency (PRA) has been in support of this project. Attorney Garrahy noted that he thought that Mr. Gralnek should recuse himself today as he did at the last meeting. Mr. Gralnek added that he thought it is self-evident that if the committee approved the full amount of this loan at a ninety-one percent (91%) relationship, the committee should approve the lower loan amount at an eighty percent (80%) relationship, subject to the same qualification of HUD signing off. The issue of a quorum was questioned due to the recusal. Gonzalo Cuervo stated that if we have a quorum to start the meeting, as long as everyone is present, if one member recuses, the committee can still vote, which was affirmed by attorney Garrahy.

Upon a motion made by Daniel Murphy and seconded by Renee Bailey, it was voted to recommend the approval of the modified loan to Cromwell Ventures, LLC d/b/a The Armory Kitchen, with the new loan terms presented, subject to HUD approval. Donald Gralnek recused from the vote in connection with the agenda item. The vote was three (3) in favor and one (1) recusal. Motion passed by vote.

The next agenda item entertained by the Loan Committee was the re-presentation of the loan request of 26 Turner Street, LLC, Joseph and Brenda Baginski, 26 Turner Street, Providence, Rhode Island, 02908, in the amount of \$120,000.00. The loan was previously approved at the October 2014 meetings. The request for the re-presentation of the loan is for consideration of a reduction in the loan interest rate from five percent (5%) to four percent (4%). Stuart MacDonald presented the request. The Borrower is going forward with the project to purchase the building and use it for the ambulance company. Mr. MacDonald stated that he had a meeting with the Borrower and talked about a lower rate. Our standard rate is five percent (5%), which he discussed with the Borrower and said that he would see what he could do below that rate. Mr. MacDonald restated that for full disclosure, he had a discussion of a lower rate with the Borrower. Mr. MacDonald did not reset the rate and presented the loan to the committee with the standard PEDP loan rate of five percent (5%). The loan merits the lower rate due to the strength of the credit, which is probably the strongest credit in his three (3) years involved here.

The board expressed concern relative to the amount of the withdrawals of the owners and would put a stipulation into the loan approval restricting the shareholder's draws. Over the past two (2) fiscal years, \$160,000.00 plus has been withdrawn, which is going into their pockets for personal expenditures. The board would want to restrict those withdrawals and keep checks and balances. It was added that in the event that the Borrower makes withdrawals, they would have to come back to PEDP first. Mr. MacDonald responded that they have significant cash flow and that this was not considered at our original approval. We are just considering the rate now, but guessed that because we opened it up by bringing it back that we can consider it now. Attorney Garrahy responded that we can consider it. Mr. MacDonald responded that we would not want them to run into excess retaining earnings either. Thomas Hoagland suggested that approval would be subject to the negotiation of a reasonable debt-to-equity ratio. The board reviewed the officer salaries over the 2011, 2012 and 2013 years; the draws of the owners or shareholders. Attorney Garrahy noted that the financials are of the ambulance company and not the Borrower for the loan. We do not have them as an entity and he does not think that we can say to them that we are going restrict them; or we can try. Mr. MacDonald stated that it is the cash flow

of the ambulance company is used to pay the debt, so they are tied together. Mr. Hoagland noted that we have the lease. Attorney Garrahy stated that the lease is collateral. It was questioned of attorney Garrahy whether the withdrawals of the owners can be restricted. Mr. Garrahy responded in the affirmative. Concern was expressed with regard to cash coming out of the Borrowing entity, into the ambulance company, and out to the owners. It was requested to have the loan documents have restrictions on distributions. Mr. MacDonald stated that this type of language is standard in commercial lending.

Upon a motion made by Donald Gralnek and seconded by Daniel Murphy, it was voted to recommend the approval of the reduction of the loan rate to 26 Turner Street, LLC from five percent (5%) to four percent (4%), subject to PEDP legal counsel drafting appropriate provisions in the loan documents that preserves and maintains the credit-worthiness of the Borrowing entity. Motion passed by unanimous vote. Attorney Garrahy noted that the motion is pretty broad.

The next agenda item was the report of loans/grants/programs/actions approved/taken by the Board of Directors, which there were none.

The next agenda item was the review of pending loans, which there were none.

EXISTING LOAN REQUESTS

The next agenda item entertained by the Loan Committee was the request of Plainfield Auto Sales, Inc. The request of the Borrower was a second request for the re-allocation of loan funds from acquisition of equipment to additional working capital for the balance of the loan funds in the amount of \$10,000.00. The previous request for the re-allocation of \$35,000.00 of funds allocated for acquisition of equipment to additional working capital was approved by the Board of Directors at its September 2014 meeting and was reported to the Loan Committee at its October 2014 meeting.

A status of what the Borrower did with the last request for additional working capital was requested. Mr. MacDonald responded that bills are submitted to us. The Borrower is buying the equipment themselves. We are adequately secured without the equipment anyway. It was further questioned if it is the role of the PEDP to take a look into this. The Borrower is using increased amount of money on daily expenses, therefore can we look at this to see if the Borrower is generating enough cash flow to come back to make them able to make the debt service. Mr. MacDonald responded that the evaluation is done when we underwrite the loan. Every check that is cut goes through a vetting process, for Davis-Bacon and for it being an eligible expense. The requisitions are looked at by quite a few eyes. Mr. Hoagland added that we get annual financial reports. Mr. MacDonald stated that we would not have those yet as the loan is not a year old and restated that the Borrower is buying the equipment with its own money. Mr. Hoagland added that it is still subject to our lien. It was questioned whether we are sure the Borrowing entity is the actual entity taking ownership of the equipment for it to be covered by our security lien. Mr. MacDonald responded that he was not sure but that it looks like it from the invoice that was submitted. We are not verifying the check that went out to acquire the equipment. It was questioned whether the disbursements are generally a joint check to the Borrower and the vendor. Mr. MacDonald responded that they are only if we are paying directly, but if we are reimbursing the Borrower, the check goes to the company. We know we have the correct entity there.

It was also questioned whether there is any way to ensure that the working capital that is injected inures to the benefit of PEDP. Mr. MacDonald responded that we look at every expenditure and back-up. The expenses have to be reasonable as to the business that they are in. He does not know what else we could do. It was expressed that was satisfactory and that we just want to ensure that the loan funds are not going to personal expenses.

A motion was made by Donald Gralnek and seconded by Renee Bailey and it was voted to approve the additional request of Plainfield Auto Sales, Inc. for the re-allocation of additional funds from acquisition of equipment to additional working capital, in the amount of \$10,000.00, as written-up and as analyzed by staff. Motion passed by unanimous vote.

A motion to adjourn was then made by Gonzalo Cuervo and seconded by Donald Gralnek, and the meeting was adjourned at 12:45 P.M.

Posted: December 15, 2014