

PLANNING AND ECONOMIC DEVELOPMENT COMMITTEE

11-0141R

RESOLUTION AUTHORIZING A FIFTH AMENDMENT TO THE MINNESOTA INVESTMENT FUND (MIF) AGREEMENT WITH THE STATE OF MINNESOTA AND FURTHER AUTHORIZING A FIFTH AMENDMENT TO THE MIF LOAN AGREEMENT AND A FIFTH PROMISSORY NOTE MODIFICATION AGREEMENT WITH NORTHSTAR MACHINE & TOOL, INC., D.B.A. NORTHSTAR AEROSPACE, MODIFYING PAYMENTS THROUGH SEPTEMBER 30, 2011.

CITY PROPOSAL:

RESOLVED, that the proper city officials are hereby authorized to enter into a fifth amendment to the MIF loan agreement and a fifth promissory note modification agreement substantially in the form of those on file in the office of the city clerk as Public Document No. \_\_\_\_\_ with Northstar Machine and Tool, Inc., d.b.a Northstar aerospace, allowing Northstar to make payments of interest plus an amount equal to one-half of the principal payment provided for under the note for an additional six-month period, from April 1, 2011, through September 30, 2011.

FURTHER RESOLVED, that the proper city officials are hereby authorized to execute a fifth amendment to the grant agreement with the state of Minnesota, such amendment to reflect the fifth amendment to the MIF loan agreement and fifth promissory modification agreement.

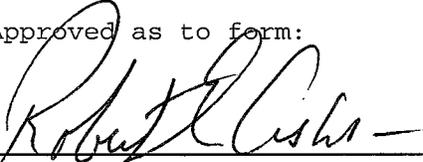
Approved:

  
Department Director

Approved for presentation to council:

  
Chief Administrative Officer

Approved as to form:

  
Attorney

Approved:

  
Auditor

BD/ATTY JC:dma 03/11/2011

STATEMENT OF PURPOSE: In 2006, the City applied to the Minnesota Department of Employment and Economic Development (DEED) for a MIF grant in order to provide Northstar funds to purchase new facility expansion equipment. The City received a grant in the amount of \$500,000 from DEED and made a MIF loan of the same amount to Northstar. The subsidy is in the form of one percent interest. In exchange, Northstar agreed to create 50 new full-time equivalents by February 23, 2009.

In January 2009, the City and Northstar entered into an amendment to the MIF loan agreement and a promissory note modification agreement pursuant to which the time within which the jobs were to be created was increased by one year, until February 23, 2010. Additionally, Northstar was allowed to make interest only payments from January 1, 2009, through June 30, 2009. In June 2009, the City and DEED approved a second six-month extension of interest-only payments with a second amendment to the MIF loan agreement and a second promissory note modification agreement. In December 2009, the City and DEED approved a third six-month extension of interest-only payments with a third amendment to the MIF loan agreement and a third promissory note modification agreement. In October 2010, the City and DEED approved an additional nine-month extension of interest only payments with a fourth amendment to the MIF loan agreement and a fourth promissory note modification agreement.

Northstar is requesting that the time within which interest only payments are to be made be extended an additional six-month period, beginning April 1, 2011, through September 30, 2011. Northstar's reason for this request is set forth in the letter attached to the hard copy of this resolution. DEED is unable, by statute, to approve another six months of interest-only but, in view of the difficulty economic times, agreed to provide some additional relief by requiring that payments against principal would only be one-half of the amount which would otherwise be required under the Note. This will result in payments against principal of approximately \$1,677 per month during the six month extension period. Northstar will fully repay the loan and is current on its payments.

Extension of such relief for the MIF loan requires approval by the other two lenders involved in the 2006 financing project-Republic Bank and the 1200 Fund. Approval from both lenders was recently secured, allowing this request from Northstar to be considered by the City. DEED has agreed to this concession conditioned upon City Council approval.



March 9, 2011

Mayor Don Ness  
City of Duluth  
411 West 1<sup>st</sup> Street, Room 403  
Duluth, MN 55802

Dear Mayor Ness:

Northstar Machine and Tool Company, Inc. d/b/a Northstar Aerospace (4212 Enterprise Circle, Duluth, MN 55811) formally requests an extension of our Minnesota Investment Fund interest only repayment period beginning April 1, 2011 through September 30, 2011.

I hope you can appreciate how difficult it is for our leadership team to be thrust into a position where we must ask favors of our local government, business and community leaders in order to survive the worse economic downturn in recent memory. We are genuinely appreciative of your past support, and are hopeful that this time will be the last time we come before you to request interest only payments.

Northstar Aerospace is now the business equivalent of a family living paycheck to paycheck. We continue to align our expenses with revenues to achieve some measure of cash neutrality, and this has positioned us to move off survival mode to one of re-growth. Our dilemma today is having enough available cash to fund our recovery which includes purchasing increased quantities of raw materials and adding to our workforce.

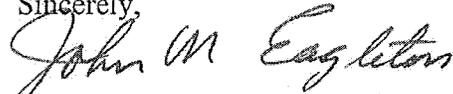
Our recovery began in 2010, when we grew 20 percent in an industry that declined 7.7 percent last year (*General Aviation Airplane Shipment Report 2010 Year End*). You may be interested to know that General Aviation sales declined 80 percent worldwide since the beginning of the recession. We achieved our 20 percent growth by adding over 20 new customers in the past 20 months, and we have seen steady increase in their orders as the nation's economy turns around.

Further evidence of our recovery is seen in our sales backlog report. We have signed purchase orders through April 2011, equal to our total sales in 2010. NOTE: This includes total projected sales of Cirrus Aircraft through the end of the year. Clearly something good is beginning to happen in aerospace and aviation, and should this trend continue, our recovery has us approaching 2008 levels in the next two to three years.

Recovery also means jobs, and two weeks ago we achieved a major recovery milestone surpassing 50 full time jobs – a level we haven't seen since November 2008. Again, if what we're seeing in our recovery holds true, we could conceivably employ somewhere in the neighborhood of 65 full time workers by years end.

Once again on behalf of the entire Northstar Aerospace team, I want to thank you for believing in our story. We got into this business to make a profit, to be an industry leader, and to be a community partner employing highly skilled people to live and work in Duluth and the region. Please know that we have received similar commitments from our corporate banker, the Northland Foundation, and the City of Duluth's 1200 Fund.

Sincerely,

A handwritten signature in cursive script that reads "John M. Eagleton". The signature is written in black ink and is positioned above the typed name.

John M. Eagleton, President/CEO

cc: Brian W. Hanson  
Business and Community Development Director

Heidi Timm-Bijold  
Business Developer

## FIFTH PROMISSORY NOTE MODIFICATION AGREEMENT

This Fifth Promissory Note Modification Agreement is made this \_\_\_\_ day of \_\_\_\_\_, 2011, by and between Northstar Machine & Tool Co., Inc. D.B.A. Northstar Aerospace, a Minnesota corporation, (the "Maker") and the City of Duluth (the "City")

The Maker acknowledges that it received from the City of Duluth (the "City"), the principal sum of Five Hundred Thousand and No/100 Dollars (\$500,000) pursuant to the terms of a note dated February 8, 2007. The note was payable in installments due as follows:

The Loan shall bear interest at a rate of one percent (1%) per annum and interest shall commence to accrue as of the Initial Disbursement Date as defined in the Loan Agreement of even date herewith. Payments of principal and interest shall commence on the first day of the first month immediately following the Initial Disbursement Date, and continue on the first day of each and every month thereafter until paid in full. Such payments shall fully amortize the Loan over fifteen (15) years; provided, however, the entire remaining unpaid balance of principal and interest shall be due and payable in full on the first day of the eighty-fourth (84th) month following the Initial Disbursement Date.

On January 30, 2009, August 24, 2009, January 28, 2010, and October 15, 2010, Maker and the City modified the note to allow Maker to make interest only payments from January 1, 2009 through March 31, 2011 (the note and the modifications to the note hereinafter referred to as the "Note").

Maker and the City desire that the Note be further modified as herein provided, but that all terms not so modified remain unchanged and in full force and effect.

Now, therefore, in consideration of the mutual covenants herein contained, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

**Payment Schedule:** The payment schedule provided in said Note is hereby modified to allow the Maker to make interest only payments from January 1, 2009, through March 31, 2011 and interest payments as provided for in the Note and one-half of the amount of payments against principal as provided for in the Note from April 1, 2011 through September 30, 2011.

Except as provided above, the said Note and all provisions thereof shall remain unaffected and unchanged by this Fifth Promissory Note Modification Agreement and all terms, conditions and provisions of said Note not modified are hereby ratified and confirmed in all respects and Maker promises to pay the aforesaid sum with interest and in the manner stated above.

IN WITNESS WHEREOF, the parties have caused this Fifth Promissory Note Modification Agreement to be duly executed as of the date first above written.

CITY OF DULUTH

NORTHSTAR MACHINE & TOOL CO.,  
INC.

\_\_\_\_\_

By \_\_\_\_\_

Mayor

Its \_\_\_\_\_

ATTEST:

\_\_\_\_\_  
City Clerk

APPROVED AS TO FORM:

\_\_\_\_\_  
City Attorney

COUNTERSIGNED:

\_\_\_\_\_  
City Auditor

**AGREEMENT FOR LOAN OF MINNESOTA INVESTMENT FUND**

**NORTHSTAR MACHINE & TOOL CO., INC.**

**FIFTH AMENDMENT**

THIS FIFTH AMENDMENT is made and entered into as the \_\_\_\_\_ day of \_\_\_\_\_, 2011, by and between the City of Duluth, (the "City") and Northstar Machine & Tool Co., Inc. D.B.A. Northstar Aerospace (the "Developer").

**RECITALS:**

- A. On February 8, 2007, the City and Developer entered into a Minnesota Investment Fund loan agreement which was amended by first amendment dated January 30, 2009, by second amendment dated August 24, 2009, by third amendment dated January 28, 2010, and by fourth amendment dated October 15, 2011 (the loan agreement and the amendments hereinafter referred to as the "MIF Loan Agreement"); and
- B. The parties desire to further amend the MIF Loan Agreement as set forth herein.

NOW THEREFORE, it is agreed by and between the parties hereto as follows:

1. That Section 3.5, Promissory Note, of ARTICLE 3, is hereby amended as follows:

Section 3.5. Promissory Note. The Developer shall execute a fifth promissory note modification agreement in substantially the form set forth at Exhibit C-5.

3. That Section 5.5 of ARTICLE 5 is hereby amended as follows:

Section 5.5. Loan Repayments Schedule. The cost of all Equipment purchased and furnished to Developer under Section 5.1. above shall constitute a loan to Developer. Prior to the Initial Disbursement, Developer executed a note in the amount of Five Hundred Thousand and No/100 Dollars (\$500,000) bearing

interest at the simple rate of one percent (1%) per year. Pursuant to the terms of said note and subsequent modifications thereto, including the note modification agreement attached hereto as Exhibit C-5, payments of principal and interest shall commence on the first day of the first month immediately following the Initial Disbursement Date, and shall continue on the first day of each and every month thereafter until paid in full, except that Developer is allowed to make interest only payments under the Note from January 1, 2009 through March 31, 2011 and interest payments as provided for in the Note and one-half of the amount of payments against principal as provided for in the Note from April 1, 2011 through September 30, 2011. Thereafter the monthly payment amounts shall fully amortize the Loan over fifteen (15) years; provided, however, the entire remaining unpaid balance of principal and interest shall be due and payable in full on the first day of the eighty-fourth (84th) month following the Initial Disbursement Date.

4. Except as provided in this Fifth Amendment, all terms and provisions of the MIF Loan Agreement shall remain in force and effect.

IN WITNESS WHEREOF, the parties have caused this Fourth Amendment to be duly executed as of the date first above written.

CITY OF DULUTH

NORTHSTAR MACHINE & TOOL CO., INC.

\_\_\_\_\_  
Mayor

By \_\_\_\_\_  
Its \_\_\_\_\_

ATTEST:

\_\_\_\_\_  
City Clerk

APPROVED AS TO FORM:

\_\_\_\_\_  
City Attorney

COUNTERSIGNED:

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City Auditor

## EXHIBIT C-5

### FIFTH PROMISSORY NOTE MODIFICATION AGREEMENT

This Fifth Promissory Note Modification Agreement is made this \_\_\_\_\_ day of \_\_\_\_\_, 2011, by and between Northstar Machine & Tool Co., Inc. D.B.A. Northstar Aerospace, a Minnesota corporation, (the "Maker") and the City of Duluth (the "City")

The Maker acknowledges that it received from the City of Duluth (the "City"), the principal sum of Five Hundred Thousand and No/100 Dollars (\$500,000) pursuant to the terms of a note dated February 8, 2007. The note was payable in installments due as follows:

The Loan shall bear interest at a rate of one percent (1%) per annum and interest shall commence to accrue as of the Initial Disbursement Date as defined in the Loan Agreement of even date herewith. Payments of principal and interest shall commence on the first day of the first month immediately following the Initial Disbursement Date, and continue on the first day of each and every month thereafter until paid in full. Such payments shall fully amortize the Loan over fifteen (15) years; provided, however, the entire remaining unpaid balance of principal and interest shall be due and payable in full on the first day of the eighty-fourth (84th) month following the Initial Disbursement Date.

On January 30, 2009, August 24, 2009, January 28, 2010, and October 15, 2010, Maker and the City modified the note to allow Maker to make interest only payments from January 1, 2009 through March 31, 2011 (the note and the modifications to the note hereinafter referred to as the "Note").

Maker and the City desire that the Note be further modified as herein provided, but that all terms not so modified remain unchanged and in full force and effect.

Now, therefore, in consideration of the mutual covenants herein contained, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

**Payment Schedule: The payment schedule provided in said Note is hereby modified to allow the Maker to make interest only payments from January 1, 2009, through March 31, 2011 and interest payments as provided for in the Note and one-half of the amount of payments against principal as provided for in the Note from April 1, 2011 through September 30, 2011.**

**Except as provided above, the said Note and all provisions thereof shall remain unaffected and unchanged by this Fifth Promissory Note Modification**

Agreement and all terms, conditions and provisions of said Note not modified are hereby ratified and confirmed in all respects and Maker promises to pay the aforesaid sum with interest and in the manner stated above.

IN WITNESS WHEREOF, the parties have caused this Fifth Promissory Note Modification Agreement to be duly executed as of the \_\_\_\_ day of \_\_\_\_\_, 2011.

CITY OF DULUTH

NORTHSTAR MACHINE & TOOL CO.,  
INC.

\_\_\_\_\_  
Mayor

By \_\_\_\_\_  
Its \_\_\_\_\_

ATTEST:

\_\_\_\_\_  
City Clerk

APPROVED AS TO FORM:

\_\_\_\_\_  
City Attorney

COUNTERSIGNED:

\_\_\_\_\_  
City Auditor