

PLANNING AND ECONOMIC DEVELOPMENT COMMITTEE

12-0310R

RESOLUTION AUTHORIZING AN AGREEMENT FOR LOAN A WITH AAR AIRCRAFT SERVICES, INC. IN AN AMOUNT NOT TO EXCEED \$500,000, CONTINGENT UPON RECEIPT OF A MINNESOTA INVESTMENT FUND GRANT FROM THE MINNESOTA DEPARTMENT OF EMPLOYMENT AND ECONOMIC DEVELOPMENT.

CITY PROPOSAL:

RESOLVED, that the proper city officials are hereby authorized to enter into an agreement, substantially in the form of that on file in the office of the city clerk as Public Document No. _____, with AAR Aircraft Services, Inc. in an amount not to exceed \$500,000, payable from Economic Development Fund 255-020-5434, contingent upon receipt by the city of a Minnesota investment fund grant from the Minnesota department of employment and economic development (DEED) pursuant to Grant # _____ (the "MIF grant").

FURTHER RESOLVED, that the city hereby accepts a guaranty provided by the Duluth Economic Development Authority (DEDA), the Duluth Airport Authority, the county of St. Louis, Upper Minnesota Properties, Inc. (an Allete subsidiary), and the Northland Foundation ("guarantors"), in an amount not to exceed \$50,000 each, pursuant to which the city's repayment obligation to DEED under the MIF grant is

being guaranteed in the amount of \$250,000, said guaranty substantially in the form of that on file in the office of the city clerk as Public Document No.

Approved:


Department Director

Approved for presentation to council:


Chief Administrative Officer

Approved as to form:


Attorney

Approved:


Auditor

BD/ATTY HTB/JC:tmn 06/21/2012

STATEMENT OF PURPOSE: This resolution authorizes the City to enter into a loan agreement titled "Loan A Agreement of Minnesota Investment Funds" (MIF) with AAR in the amount of \$500,000. The source of funds for this City loan to AAR is a DEED MIF grant. The loan proceeds will be provided to AAR upon their written request after they move into the former Northwest Maintenance, Repair and Overhaul (MRO) facility. One-half of the loan amount, or \$250,000, will be guaranteed to the City by five entities, each at \$50,000: Duluth Economic Development Authority (DEDA), the Duluth Airport Authority, the County of St. Louis, Upper Minnesota Properties, Inc. (an Allete subsidiary), and the Northland Foundation. This MIF loan is a business subsidy with two stated goals: to create 100 new FTE jobs by one year after AAR receives the Loan A proceeds; and to invest no less than \$1,000,000 into the MRO facility, at least half of which are non-public funds. If both goals are achieved by the end of the first year, the loan will be forgiven. If one or both of the goals are not met by the end of the first year, a pro-rata share of the loan will be repaid by AAR.

As part of the financing necessary to the project, AAR will be receiving support in the form of JOBZ benefits and, at the end of the JOBZ program, tax abatement. Therefore, the tax impact to the City of this project will be de minimus for the immediate future.

LOAN A AGREEMENT OF MINNESOTA INVESTMENT FUNDS

THIS LOAN A AGREEMENT is made and entered into on the ___ day of June, 2012, by and between the City of Duluth (the “City”) and AAR Aircraft Services, Inc., an Illinois corporation (the “Borrower”);

WITNESSETH:

WHEREAS, the City has applied to the Minnesota Department of Employment and Economic Development for a Minnesota Investment Fund program grant pursuant to an application (the “Grant Application”) and received approval for said grant; and

WHEREAS, Grant Agreement Number CDAP-12-0010-H-FY12 (the “Grant Agreement”) between the Minnesota Department of Employment and Economic Development and the City has been executed and requires that the Borrower provide sufficient funds to complete financing and agree to loan terms with the City regarding the Minnesota Investment Fund Grant; and

WHEREAS, the parties hereto agree to incorporate into this Loan A Agreement by reference said Grant Application and Grant Agreement as if fully set forth herein word for word;

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

ARTICLE 1 **Definitions**

Section 1.1. Definitions. In this Loan A Agreement, unless a different meaning clearly appears from the context:

“**Benefits**” mean health, life, dental and disability insurance, retirement compensation and profit sharing paid by the Borrower as part of employee’s compensation.

“**Borrower**” means AAR Aircraft Services, Inc., an Illinois corporation.

“**City**” means City of Duluth.

“**DEDA**” means the Duluth Economic Development Authority.

“Development Property” means the real property described at **Exhibit A** hereto.

“Facility” means a 152,300 square foot maintenance, repair and overhaul facility located on the Development Property to be operated by Borrower to provide products and services to the commercial aviation industry.

“Full-time Equivalent or FTE” means permanent employment positions within the State providing 2,080 hours of employment per year unless, prior to job creation, Borrower provides documentation showing industry standards vary from 2,080 hours per year.

“Grant Agreement” means Minnesota Department of Economic and Economic Development Grant Agreement CDAP-12-0010-H-FY12.

“Grantor” or “Grantor Agency” means the Minnesota Department of Employment and Economic Development.

“Initial Disbursement Date of Loan A Proceeds” means the date of the first disbursement of any Loan A Proceeds by the City to the Borrower which shall also be the Benefit Date as defined in Minnesota Statute Section 116J.993 (the Business Subsidy Law).

“Lease Agreement” means that agreement between DEDA and Borrower of even date herewith pursuant to which Borrower is leasing the Development Property.

“Loan A Leveraged Funds” means the non-public funds described in Section 2.1 of this Loan A Agreement in an amount of at least \$500,000 or the outstanding principal amount of Loan A whichever is less.

“Loan A” means the funds loaned by the City to the Borrower pursuant to this Loan A Agreement.

“Loan A Proceeds” means the funds disbursed to the Borrower pursuant to this Loan A Agreement and any proceeds thereof.

“Loan A Promissory Note” means the promissory note, dated as of the date hereof, executed by the Borrower in favor of the City evidencing its obligation to repay Loan A in the form of **Exhibit B** hereto.

“MIF” means the Minnesota Investment Fund.

“MIF Grant” means the grant of funds by the Grantor Agency to the City pursuant to the Grant Agreement.

“Progress Report” means the City’s annual progress report to the Grantor.

“Project” means the Borrower’s expansion in Duluth, Minnesota, including salaries of employees based in Duluth; training costs (only those costs not reimbursed from other programs); capital equipment for the Facility; costs to prepare the Facility; installation of equipment, fixtures, and

furnishings for the Facility; inventory for this Facility; and accounts receivable for work done in Duluth.

“**State**” means the state of Minnesota.

“**Termination Date**” means the Date the Borrower has repaid Loan A pursuant to the terms of the Loan A Promissory Note.

ARTICLE 2
Financing for Project

Section 2.1. Loan A Leveraged Funds. The Borrower shall commit the Loan A Leveraged Funds and other sources of funding to the completion of the Project in the amounts, for substantially the same purposes and under the same terms, rates, and conditions described in the Grant Application unless prior written consent is received from the Grantor Agency (which consent shall not be unreasonably withheld, conditioned or delayed).

Section 2.2. MIF Loan/Grant. The MIF Grant will be used by the City to make a loan to the Borrower of not more than \$500,000 for Project costs. The City’s obligations under this Loan A Agreement are expressly contingent on the City’s receipt of funds from the Grantor Agency in an amount adequate to make Loan A.

ARTICLE 3
MIF Loan Terms and Conditions

Section 3.1. Basic Loan A Terms. Except as provided in Section 7.1, the principal amount of Loan A shall not exceed \$500,000. Loan A shall bear interest at the implicit price deflator as defined in Minnesota Statutes, Section 275.70, Subd. 2 (“Recapture Interest”). Loan A terms may not be modified without prior written approval from the Grantor Agency. Loan A shall be used exclusively for Project costs. The term of Loan A is set forth in Section 5.4 of this Loan A Agreement.

Section 3.2. Prepayment. Prepayment of Loan A may occur at any time during Loan A without penalty.

Section 3.3. Assignment. If, prior to the Termination Date and without the consent of the City and the Grantor Agency (which consent shall be at the discretion of the Grantor Agency and the City), the Borrower terminates the Lease Agreement or abandons, sells, conveys, transfers, or disposes of the Development Property, or any part thereof or interest therein, the Borrower shall immediately repay all amounts then outstanding on Loan A. This shall be in addition to any other remedies at law or equity available to the City.

Section 3.4. Termination. This Loan A Agreement shall automatically terminate without any notice to Borrower: (1) if no Loan A Proceeds have been disbursed to the Borrower prior to June 30, 2013; or (2) if: (a) the Borrower has not received any disbursement of Loan A Proceeds from the City; and (b) the Borrower fails to pay its debts as they become due, makes an assignment for the benefit of its creditors, admits in writing its inability to pay its debts as they become due, files a

petition under any chapter of the Federal Bankruptcy Code or any similar law, state or federal, now or hereafter existing, becomes "insolvent" as that term is generally defined under the Federal Bankruptcy Code, files an answer admitting insolvency or inability to pay its debts as they become due in any involuntary bankruptcy case commenced against it, or fails to obtain a dismissal of such case within sixty (60) days after its commencement or convert the case from one chapter of the Federal Bankruptcy Code to another chapter, or is the subject of an order for relief in such bankruptcy case, or is adjudged a bankrupt or insolvent, or has a custodian, trustee, or receiver appointed for it, or has any court take jurisdiction of its property, or any part thereof, in any proceeding for the purpose of reorganization, arrangement, dissolution, or liquidation, and such custodian, trustee, or receiver is not discharged, or such jurisdiction is not relinquished, vacated, or stayed within sixty (60) days of the appointment.

Section 3.5. Loan A Promissory Note. The Borrower shall deliver the Loan A Promissory Note to the City upon execution of this Loan A Agreement.

Section 3.6. Non-Minnesota Construction Contracts. If Loan A Proceeds are used for construction or rehabilitation through a contract with any non-Minnesota construction contractors and the contract for such work exceeds \$50,000, the Borrower must comply with Minnesota Statute, 1989, 290.9705, by either:

- (a) depositing with the State, 8% of every payment made to non-Minnesota construction contractors where the contract exceeds \$50,000; or
- (b) receiving an exemption from this requirement from the Minnesota Department of Revenue.

Section 3.7. Annual Financial Statements. For the term of Loan A the Borrower must submit to the City the most recent annual financial statement prepared in accordance with generally accepted accounting principles. The annual financial statements shall include a profit and loss statement, balance sheet, statement of cash flow, notes and an opinion from the accountants of such statements acceptable to the City. This information must be submitted within 120 days after the end of the Borrower's fiscal year.

ARTICLE 4 **Default and Collateral**

Section 4.1. Default. It shall be an "Event of Default" under this Loan A Agreement upon the happening of any one or more of the following events:

- (a) the Borrower fails to pay when due any amount payable on Loan A and such nonpayment is not remedied within ten (10) business days after written notice thereof to the Borrower by the City;
- (b) the Borrower is in breach of any material respect of any obligation or agreement under this Loan A Agreement (other than nonpayment of any amount payable on Loan A) and remains in breach in any material respect for thirty (30) business days after written notice thereof to the

Borrower by the City; provided, however, that if such breach shall reasonably be incapable of being cured within such thirty (30) business days after notice, and if the Borrower commences and diligently prosecutes the appropriate steps to cure such breach, no default shall exist so long as the Borrower is proceeding to cure such breach;

(c) if any, material, covenant, warranty, or representation of the Borrower shall prove to be untrue in any material respect, provided such covenant, warranty or representation of the Borrower remains untrue in any material respect for thirty (30) business days after written notice thereof to the Borrower by the City; provided, however, that if such untruth shall reasonably be incapable of being corrected within such thirty (30) business days after notice, and if the Borrower commences and diligently prosecutes the appropriate steps to correct such untruth, no default shall exist so long as the Borrower is so proceeding to correct such untruth;

(d) the Borrower, on or after the Initial Disbursement Date of Loan A Proceeds, fails to pay its debts as they become due, makes an assignment for the benefit of its creditors, admits in writing its inability to pay its debts as they become due, files a petition under any chapter of the Federal Bankruptcy Code or any similar law, state or federal, now or hereafter existing, becomes "insolvent" as that term is generally defined under the Federal Bankruptcy Code, files an answer admitting insolvency or inability to pay its debts as they become due in any involuntary bankruptcy case commenced against it, or fails to obtain a dismissal of such case within sixty (60) days after its commencement or convert the case from one chapter of the Federal Bankruptcy Code to another chapter, or be the subject of an order for relief in such bankruptcy case, or be adjudged a bankrupt or insolvent, or has a custodian, trustee, or receiver appointed for it, or has any court take jurisdiction of its property, or any part thereof, in any proceeding for the purpose of reorganization, arrangement, dissolution, or liquidation, and such custodian, trustee, or receiver is not discharged, or such jurisdiction is not relinquished, vacated, or stayed within sixty (60) days of the appointment;

(e) a final judgment is entered against the Borrower that the City reasonably deems will have a material, adverse impact on the Borrower's ability to comply with the Borrower's obligations under this Loan A Agreement;

(f) the Borrower sells, conveys, transfers, encumbers, or otherwise disposes of all or any part of equipment purchased with the Loan A Proceeds without the prior written approval of the City (which consent shall not be unreasonably withheld, conditioned or delayed), unless such equipment is replaced with equipment of reasonably equivalent value as of the date of such transfer; or

(g) the Borrower merges or consolidates with any other entity without the prior written approval of the City, which shall not be unreasonably withheld, conditioned or delayed;

Section 4.2. Remedies Upon Default.

(a) Upon the occurrence of an Event of Default, the City shall have the right as its option and without demand or notice, to declare all or any part of Loan A immediately due and payable, and in addition to the rights and remedies granted hereby, the City shall have all of the rights and remedies available under any applicable law.

(b) The Borrower agrees in an Event of Default to make any equipment purchased with the Loan A Proceeds available to the City. The Borrower agrees to pay the costs and expenses incurred by the City in enforcing its rights under this Loan A Agreement, including but not limited to the City's attorneys fees. If any notice of sale, disposition or other intended action by the City is required by law to be given to the Borrower, such notice shall be deemed reasonably and properly given if mailed to the Borrower at the Development Property or at such other address of the Borrower as may be shown herein, at least fifteen (15) days before such sale, disposition or other intended action.

Section 4.3. Default on Business Subsidy Act Requirements. (a) In the event of an Event of Default arising from a breach by the Borrower of any provision of Section 7.1 of this Loan A Agreement, if the implicit price deflator for government consumption expenditures and gross investment for state and local governments prepared by the Bureau of Economic Analysis of the United States Department of Commerce for the 12-month period ending March 31st of the previous year, exceeds zero percent (0)% on the date of the earliest such Event of Default, the Borrower shall, in addition to any other payment required hereunder, pay to the City the difference between the present value of the interest actually paid and accrued on Loan A as of the date of the payment required by this Section 4.3, and the amount of interest that would have been paid and accrued on Loan A if the interest rate of Loan A at all times had been equal to the implicit price deflator on the date of the earliest Event of Default.

(b) Nothing in this Section 4.3 shall be construed to limit the City's rights or remedies under any other provision of this Loan A Agreement, and the provisions of Section 4.3(a) are in addition to any other such right or remedy the City may have available.

ARTICLE 5

Loan A Disbursement Provisions

Section 5.1. Payment Requisition Documentation and Format. Loan A disbursements shall be for Project costs and shall not exceed \$500,000. Borrower may request the disbursement of Loan A in multiple disbursements with a maximum of four (4) disbursement requests. The first Loan A disbursement shall be disbursed to the Borrower upon written request and the provision by Borrower of documentation evidencing commencement of the Project. Subsequent Loan A disbursement requests by Borrower shall require provision of satisfactory evidentiary materials related to the Goals described in Article 7 of this Loan Agreement. Notwithstanding the above, no Loan A disbursement shall be made to the Borrower until such time as the City receives a fully executed guaranty by the Duluth Economic Development Authority, the Duluth Airport Authority, the County of St. Louis, Upper Minnesota Properties, Inc. which is a subsidiary of ALLETE, Inc., and Northland Foundation, as Guarantors, in favor of the City of Duluth pursuant to which each Guarantor unconditionally guarantees to the City the repayment obligation of the City to DEED pursuant to this Grant Agreement and any extensions, renewals or replacement hereof, but only as it relates to the Loan A Agreement, with each Guarantor guarantying up to and including \$50,000 with the total amount of the guarantee to the City being \$250,000.

Section 5.2. Provision for Evidentiary Materials. No disbursements of Loan A funds shall be made until all evidentiary materials required by the Grantor Agency have been submitted and

approved by the Grantor Agency. These evidentiary materials shall include, but are not necessarily be limited to, the materials described in Article 6 of this Loan A Agreement; upon submission of the proper evidentiary materials, the Grantor Agency shall have thirty (30) days to approve or indicate why such submissions are insufficient to allow for disbursement of funds, if no such indication is provided within thirty (30) days, the submissions shall be deemed approved.

Section 5.3. Project Time Frame. The time frame outlined in the Grant Application pertaining to the Project shall be met by the Borrower.

Section 5.4. Loan A Terms. The term of Loan A shall be one (1) year, commencing as of the Initial Disbursement Date of Loan A Proceeds. Loan A, or so much of the principal of Loan A as has been disbursed, shall bear interest as defined in the Loan A Promissory Note.

Section 5.5. Loan A Repayments Schedule. Such payments shall be in such amounts and on such dates as set forth in the Loan A Promissory Note and shall fully amortize Loan A over one (1) year or such lesser time in the event of multiple disbursements; provided, however, the entire remaining unpaid balance of principal and interest shall be due and payable in full on the first day of the twelfth (12th) month following the Initial Disbursement Date of Loan A Proceeds.

ARTICLE 6

Provision of Evidentiary Material Requirement

Section 6.1. Provision of Evidentiary Materials. In addition to those materials described in Section 5.2 of this Loan A Agreement, the Borrower shall provide the City with all evidentiary materials according to the format and timetable cited in the Grant Agreement. The City will forward these materials to the Grantor Agency and assist in expediting reviews leading to a release of Loan A; upon submission of the proper evidentiary materials, the Grantor Agency shall have 30 days to approve or indicate why such submissions are insufficient to allow for disbursement of funds, if no such indication is provided within 30 days, the submitted evidentiary materials shall be deemed approved.

Section 6.2. Documentation of Use of Funds. The Borrower must provide the City with necessary documentation that Loan A and the Loan A Leveraged Funds have been used for the items and purposes stated in the Grant Application prior to requesting grant closeout from the Grantor Agency.

ARTICLE 7

Provision of Goals

Section 7.1. Goals. The City finds that the public purpose of assistance to be provided pursuant to this Loan A Agreement is the completion of the Project which will 1) increase the number and diversity of jobs that offer stable employment and high quality wages and benefits, 2) contribute to the economic diversity of the City by growing the City's current aviation industry, 3) enhance and diversify the City of Duluth's tax base, 4) stimulate the redevelopment of underutilized facilities, and 5) achieve development on sites which would not be developed without business subsidies assistance.

(1) The Borrower agrees that it intends to meet the following goals (the "Goals"):

(a) Create 100 new FTE positions at the Borrower's Facility located on the Development Property in Duluth, Minnesota by the first anniversary of the Initial Disbursement Date of Loan A Proceeds, all paying a cash wage of at least \$10.25 per hour (exclusive of Benefits) plus a Benefit package sufficient for these new jobs to receive total compensation of at least \$12.19 per hour.

(b) Demonstrate a minimum investment of \$1,000,000 of which at least \$500,000 must be the Loan A Leveraged Funds.

If the 100 FTE jobs are created and a minimum investment of \$1,000,000 of which at least \$500,000 are the Loan A Leveraged Funds is made by the first anniversary of the Initial Disbursement Date of Loan A Proceeds, the full \$500,000 of Loan A plus accrued interest shall be forgiven by the City.

(2) If the Borrower requests multiple disbursements of the Loan A proceeds, the Borrower must demonstrate its pro rata job creation and project investment as described in Section 7.1.(a) and 7.1.(b). If the pro rata goals for the previous disbursement are met, the principal amount of that previous disbursement plus accrued interest shall be forgiven by the City. Notwithstanding the above, Borrower shall not have met all conditions of this Loan A Agreement until 100 FTE jobs are created and maintained and a minimum investment of \$1,000,000 of which at least \$500,000 are the Loan A Leveraged Funds is documented by the first anniversary of the Initial Disbursement Date of Loan A Proceeds.

(3) If the Goals are not met by the first anniversary of the Initial Disbursement Date of Loan A Proceeds, the Borrower shall repay all or a part of the outstanding principal amount of Loan A on a pro rata basis, plus interest set at the implicit price deflator defined in Minnesota Statutes, Section 275.70, Subdivision 2 ("Recapture Interest"), accruing from the Initial Disbursement Date of Loan A Proceeds or subsequent disbursement dates if more than one disbursement is made. If the Goals are only met in part by the first anniversary of the Initial Disbursement Date of Loan A Proceeds, the Borrower shall repay the greater of either:

(a) an amount equal to a pro-rata share of Loan A FTEs not created;

OR

(b) the amount of Loan A Leveraged Funds the Borrower failed to invest in the Project.

Section 7.2. Employment Documentation. Borrower shall provide to the City the information required pursuant to Minnesota Statute Section 116J.994 subdivision 7. All such reports shall be signed on behalf of Borrower by an officer of Borrower with authority to bind Borrower. The Borrower shall annually complete and provide to the City notification of employment of hiring each new permanent employee for inclusion in the City's annual Progress Report to the Grantor. The City shall have the right to inspect the Borrower's books and records to verify compliance with the requirements of Section 7.1. This notification requirement must be provided to the City no later than October 15 of each year and on the date 15 days after the first anniversary of the Initial Disbursement Date of Loan A Proceeds. This information must include:

- a. Permanent jobs created.
- b. Job title per job.
- c. Date employee(s) hired.
- d. Hourly wage.
- e. Hourly value of benefits paid.
- f. Description of benefits provided.

Section 7.3 Other Financial Assistance. A list of all financial assistance by all grantors for the Project is set forth in **Exhibit C**.

Section 7.4. First Source Employment Referral Agreement. The Borrower shall list any vacant or new positions with the jobs services of the Commissioner of Job Services or a local service unit operated by a city or counties operating under a joint powers agreement, one or more cities of the first class operating under a joint powers agreement, or a city of the first class.

Section 7.5 Continued Operations Commitment. Borrower commits to continue operations in the City for at least 5 years after the Initial Disbursement Date of the Loan A Proceeds.

ARTICLE 8

Provision of Monitoring Information Related To Project Progress

Section 8.1. Provision of Progress Information. The Borrower shall provide to the City information for incorporation into progress reports, as required by the Grantor Agency and as needed by the City, to monitor project implementation for compliance with Grantor and local guidelines. This information must be provided no later than January 10 of each year until the Grantor administratively closes the grant file.

ARTICLE 9

Compliance with Laws

Section 9.1. Nondiscrimination. The provisions of Minnesota Statutes, Section 181.59, which relate to civil rights and discrimination, shall be considered a part of this Loan A Agreement as though wholly set forth herein and the Borrower shall comply with each such provision throughout the term of this Loan A Agreement.

Section 9.2 Prevailing Wage. Pursuant to Minnesota Statutes 177.41 to 177.44 and corresponding Minnesota Rules 5200.1000 to 5200.1120, this contract is subject to the prevailing wages as established by the Minnesota Department of Labor and Industry if loan funds are used for the erection, construction, remodeling, or repair of a project financed in whole or part by state funds. Specifically, all Borrower's contractors and subcontractors must pay all laborers and mechanics the established prevailing wages for work performed under the contract. Failure to comply with the aforementioned may result in civil or criminal penalties.

Section 9.3 Living Wage Covenant. Borrower agrees to pay both current and new employees compensation, including benefits not mandated by law, that on an annualized basis is, at minimum, equal to at least 110 percent of the federal poverty level for a family of four or the living wage as set

forth in Section 2-137 of the Duluth City Code, 1959, as amended.

Section 9.4 Little Davis-Bacon. Borrower agrees to cause the laborers, mechanics or apprentice-trainees employed directly upon the work site to be paid the wage rates as set forth in Section 2-25 of the Duluth City Code, 1959, as amended.

Section 9.5 Generally. Borrower agrees to observe and comply with all laws, ordinances, rules and regulations of the United States of America, the State of Minnesota and the City and their respective agencies which are applicable to its activities under this Loan A Agreement.

ARTICLE 10

Borrower's Acknowledgments Representation, and Warrants

Section 10.1. Acknowledgments.

(a) The Borrower acknowledges that the City, in order to obtain funds for part of the City's activities in connection with the Project, has applied for the MIF Grant to the Grantor Agency, Business and Community Development Division, and that the City has entered into the Grant Agreement with the Grantor Agency, setting forth the terms, conditions, and requirements of the MIF Grant. The Borrower further acknowledges that it has made certain representations and statements in the Grant Application concerning its activities relating to the Project, and that the Borrower is designated and identified under the Grant Agreement.

(b) A copy of the Grant Agreement shall be on file in the offices of the City. In the event any provision of this Loan A Agreement relating to the Borrower's obligations hereunder is inconsistent with the provisions of the Grant Agreement relating to the Borrower's activities there under, the provisions of the Grant Agreement shall prevail.

(c) The Borrower acknowledges that nothing contained in the Grant Agreement or this Loan A Agreement, nor any act of the Grantor Agency or the City, shall be deemed or construed to create between the Grantor Agency and the Borrower (or, except as borrower and City between the City and the Borrower) any relationship, including but not limited to that of third-party beneficiary, principal and agent, limited or general partnership, or joint venture.

Section 10.2. Representations and Warranties. The Borrower warrants and represents, in connection with the MIF Grant and for the benefit of the Grantor Agency and the City, that:

(a) Representations, statements, and other matters provided by the Borrower relating to those activities of the Project to be completed by the Borrower, which were contained in the Grant Application, were true and complete in all material respects as of the date of submission to the City and that such representations, statements, and other matters are true as of the date of this Loan A Agreement and that there are no adverse material changes in the financial condition of the Borrower's business.

(b) To the best of the Borrower's knowledge, no member, officer, of employee of the City, or its officers, employees, designees, or agents, no consultant, member of the governing body of

the City, and no other public official of the City, who exercises or has exercised any functions or responsibilities with respect to the Project during his or her tenure shall have any interest, direct or indirect, in any contract or subcontract, or the proceeds thereof, for work to be performed in connection with the Project or in any activity, or benefit there from, which is part of the Project.

(c) The Borrower acknowledges that the Grantor Agency, in selecting the City as recipient of the Grant, relied in material part upon the assured completion of the Project to be carried out by the Borrower, and the Borrower warrants that said Project will be carried out by the Borrower.

(d) The Borrower warrants that to the best of its knowledge, it has obtained all federal, state, and local governmental approvals, reviews, and permits required by law to be obtained in connection with the Project and has undertaken and completed all actions necessary for it to lawfully execute this Loan A Agreement as binding upon it.

(e) The Borrower warrants that it shall keep and maintain books, records, and other documents relating directly to the Loan A Leveraged Funds, and that any duly authorized representative of the Grantor Agency shall, at all reasonable times, have access to and the right to inspect, copy, audit, and examine all such books, records, and other documents of the Borrower until such time that the City and the Grantor Agency have both determined that all issues, requirements, and close-out procedures relating to or arising out of the MIF Grant have been settled and completed.

(f) The Borrower warrants that no transfer of any or all of the Loan A Proceeds by the City to the Borrower shall be or be deemed an assignment of Loan A Proceeds, and the Borrower shall neither succeed to any rights, benefits, or advantages of the City under the Grant Agreement, nor attain any right, privileges, authorities, or interest in or under the Grant Agreement.

(g) The Borrower warrants that it has fully complied with all applicable local, state, and federal laws pertaining to its business and will continue such compliance throughout the terms of this Loan A Agreement. If at any time notice of noncompliance is received by the Borrower, the Borrower agrees to take any necessary action to comply with the local, state, or federal law in question.

ARTICLE 11
Other Special Conditions

Section 11.1. Antitrust. The Borrower hereby assigns to the State of Minnesota any and all claims for overcharges as to goods and services provided in connection with this Loan A Agreement resulting from antitrust violations that arise under the antitrust laws of the United States or the antitrust laws of the State.

Section 11.2. Workers Compensation Insurance. The Borrower has obtained workers compensation insurance as required by Minnesota Statutes, Section 176.181, subd. 2. The Borrower's workers compensation insurance information is as follows:

- (a) Company Name: _____
- (b) Policy Number: _____

(c) Local Agent: _____

Section 11.3. Business with the State of Minnesota/State Tax Laws. The Borrower is required by Minnesota Law to provide its Minnesota tax identification number if it does business with the State of Minnesota. This information may be used in the enforcement of Federal and State tax laws. Supplying these numbers could result in an action to require the Borrower to file State tax returns and pay delinquent State tax liabilities. This Loan A Agreement will not be approved unless these numbers are provided. These numbers will be available to Federal and State tax authorities and State personnel involved in the payment of State obligations.

Minnesota Tax ID: 463477000030
Federal Employer ID: 90-0168563

Section 11.4. Grant Closeout. The Borrower shall, prior to grant closeout from the Grantor Agency, provide the City with all documentation necessary to demonstrate that Loan A has been used for the items and purposes set forth in the Grant Application.

Section 11.5. Review of Documents. The Borrower shall not be entitled to any disbursement of Loan A Proceeds until the City's legal counsel and the Grantor Agency have reviewed and approved this Agreement and the exhibits attached hereto.

Section 11.6. Effect on Other Agreements. Nothing in this Loan A Agreement shall be construed to modify any term of any other agreement to which the City and the Borrower are parties.

Section 11.7. Release and Indemnification Covenants. Except for any breach of the representations and warranties of the City or the negligence or other wrongful act or omission of the following named parties, the Borrower agrees to protect and defend the City and the governing body members, officers, agents, servants, and employees thereof, now and forever, and further agrees to hold the aforesaid harmless from any claim, demand, suit, action, or other proceeding whatsoever by any person or entity whatsoever arising or purportedly arising from the acquisition, construction, installation, ownership, maintenance, and operation of the Project and the Borrower's activities on the Development Property.

Section 11.8. Modifications. This Loan A Agreement may be modified solely through written amendments hereto executed by the Borrower and the City and approved by the Grantor Agency.

Section 11.9. Notices and Demands. Any notice, demand, or other communication under this Loan A Agreement by either party to the other shall be sufficiently given or delivered only if it is dispatched by registered or certified mail, postage prepaid, return receipt requested, or delivered personally:

(a) As to the City: City of Duluth
Business Development
402 City Hall
411 West First Street
Duluth, MN 55802

ATTN: Manager, Business Resources

(b) As to the Borrower: AAR Aircraft Services, Inc.

or at such other address with respect to any party as that party may, from time to time, designate in writing and forward to the others as provided in this Section 11.9.

Section 11.10. Conflict of Interests; Representatives Not Individually Liable. No officer or employee of the City may acquire any financial interest, direct or indirect, in this Loan A Agreement. No officer, agent, or employee of the City shall be personally liable to the Borrower or any successor in interest in the event of any default or breach by the City or for any amount that may become due to the Borrower or on any obligation or term of this Loan A Agreement.

Section 11.11. Binding Effect. The covenants and agreements in this Loan A Agreement shall bind and benefit the heirs, executors, administrators, successors, and assigns of the parties to this Loan A Agreement.

Section 11.12. Provisions Not Merged With Deed. None of the provisions of this Loan A Agreement are intended to or shall be merged by reason of any deed transferring any interest in the Development Property and any such deed shall not be deemed to affect or impair the provisions and covenants of this Loan A Agreement. The City and the Borrower acknowledge that the Development Property is not being conveyed in connection with the transactions contemplated by this Loan A Agreement.

Section 11.13. Titles of Articles and Sections. Any titles of the several parts, Articles, and Sections of this Loan A Agreement are inserted only for convenience of reference and shall be disregarded in construing or interpreting any of its provisions.

Section 11.14. Counterparts. This Loan A Agreement may be executed in any number of counterparts, each of which shall constitute one and the same instrument.

Section 11.15. Choice of Law and Venue. This Loan A Agreement shall be governed by and construed in accordance with the laws of the state of Minnesota without regard to its conflict of laws provisions. Any disputes, controversies, or claims arising out of this Loan A Agreement shall be heard in the state or federal courts of Minnesota, and all parties to this Loan A Agreement waive any objection to the jurisdiction of these courts, whether based on convenience or otherwise.

Section 11.16. Waiver. The failure or delay of any party to take any action or assert any right or remedy, or the partial exercise by any party of any right or remedy shall not be deemed to be a waiver of such action, right, or remedy if the circumstances creating such action, right, or remedy continue or repeat.

Section 11.17. Entire Agreement. This Loan A Agreement, with the exhibits hereto, constitutes the entire agreement between the parties pertaining to its subject matter and it supercedes all prior contemporaneous agreements, representations, and understandings of the parties pertaining to the subject matter of this Loan A Agreement.

Section 11.18. Separability. Wherever possible, each provision of this Loan A Agreement and each related document shall be interpreted so that it is valid under applicable law. If any provision of this Loan A Agreement or any related document is to any extent found invalid by a court or other governmental entity of competent jurisdiction, that provision shall be ineffective only to the extent of such invalidity, without invalidating the remainder of such provision or the remaining provisions of this Loan A Agreement or any other related document.

Section 11.19. Immunity. Nothing in this Loan A Agreement shall be construed as a waiver by the City of any immunity, defenses, or other limitations on liability to which the City is entitled by law, including but not limited to the maximum monetary limits on liability established by Minnesota Statutes, Chapter 466.

IN WITNESS WHEREOF, the City has caused this Loan A Agreement to be duly executed in its name and behalf and the Borrower has caused this Loan A Agreement to be duly executed in its name and behalf as of the date first above written.

CITY OF DULUTH, MINNESOTA

By _____
Its: _____

By _____
Its: _____

By _____
Its: _____

By _____
Its: _____

AAR Aircraft Services, Inc.

By _____

Its: _____

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EXHIBIT A

LEGAL DESCRIPTION

Leased Property Legal Description

The Leased Property is all within Section 1, Township 50 North, Range 14 West and is generally described as follows:

Commencing at the point of intersection of the north line of Section 1, Township 50 North, Range 15 West with the north-south centerline of said Section 1; then south along said north-south centerline on a bearing of South 0 degrees 15 minutes 25 seconds East a distance of 699.87 feet to the point of beginning of the parcel to be described; thence turning to the left and continuing on a bearing of North 70 degrees 0 minutes 44 seconds East a distance of 316.22 feet to a point; thence turning to the right and continuing on a bearing of South 19 degrees 59 minutes 16 seconds East a distance of 600.00 feet to a point; thence turning to the right and continuing on a bearing of South 70 degrees 0 minutes 44 seconds West a distance of 675.23 feet to a point; thence turning to the left and continuing on a bearing of South 19 degrees 59 minutes 16 seconds East a distance of 361.60 feet to a point; thence turning to the right and continuing on a bearing of South 70 degrees 0 minutes 44 seconds West a distance of 673.67 feet to a point; thence turning to the right and continuing on a bearing of North 19 degrees 59 minutes 16 seconds West a distance of 1140.47 feet to a point; thence turning to the right and continuing on a bearing of North 70 degrees 0 minutes 44 seconds East a distance of 100.56 feet to a point; thence turning to the left and continuing on a bearing of North 19 degrees 59 minutes 16 seconds West a distance of 12.00 feet to a point; thence turning to the right and continuing on a bearing of North 70 degrees 0 minutes 44 seconds East a distance of 573.11 feet to a point; thence turning to the right and continuing on a bearing of South 19 degrees 59 minutes 16 seconds East a distance of 190.88 feet to a point; thence turning to the left and continuing on a bearing of North 70 degrees 0 minutes 44 seconds East a distance of 359.01 feet to the point of beginning and there terminating.

EXHIBIT B

LOAN A PROMISSORY NOTE

\$500,000.00

June _____, 2012

AAR Aircraft Services, Inc. an Illinois corporation (the "Maker"), for value received, hereby promises to pay to the City of Duluth (the "City") or its assigns (the City and any assigns are hereinafter referred to as the "Holder"), at its designated principal office or such other place as the Holder may designate in writing, the principal sum of Five Hundred Thousand and No/100 Dollars (\$500,000.00) or so much thereof as may be advanced under this Loan A Promissory Note, with interest as hereinafter provided, in any coin or currency which at the time or times of payment is legal tender for the payment of private debts in the United States of America. The principal of this Loan A Promissory Note is payable as follows:

1. Loan A shall bear interest at a rate at the implicit price deflator as defined in Minnesota Statutes, Section 275.70, Subdivision 2 ("Recapture Interest") accruing from the date disbursed and interest shall commence to accrue as of the Initial Disbursement Date of Loan A Proceeds as defined in the Loan A Agreement, as hereinafter defined. In the event of multiple disbursements, the interest shall commence to accrue on the date of such disbursement.

2. Payments of principal and interest shall be deferred for a period of one year after the Initial Disbursement Date of Loan A Proceeds.

3. On the first anniversary date of the Initial Disbursement Date of Loan A Proceeds, subject to the Maker satisfying the provisions of Section 7.1 of the Loan A Agreement, up to \$500,000 plus accrued interest shall be forgiven and deemed paid. If the Goals as defined in Section 7.1(1) of the Loan A Agreement are not met by the first anniversary date, then pursuant to Section 7.1(2) of the Loan A Agreement, the Maker agrees to repay all or a prorated share of the principal amount of this Loan A Promissory Note plus all or a prorated share of the accrued interest.

4. The Maker shall have the right to prepay the principal and the Recapture Interest of this Loan A Promissory Note, in whole or in part, without prepayment penalty.

5. This Loan A Promissory Note is given pursuant to the Loan A Agreement between the Maker and the City of even date herewith regarding the Project located on the Development property located in the City of Duluth, St. Louis County, Minnesota as those terms are defined in the Loan A Agreement.

All of the agreements, conditions, covenants, provisions, and stipulations contained in the Loan A Agreement, or any instrument securing this Loan A Promissory Note are hereby made a part of this Loan A Promissory Note to the same extent and with the same force and effect as if they were fully set forth herein. It is agreed that time is of the essence of this Loan A Promissory Note. If a default occurs under the Loan A Agreement, then the Holder of this Loan A Promissory Note may at its right and option, without notice, declare immediately due and payable the principal balance of this

Loan A Promissory Note plus accrued interest, together with any costs of collection including attorney fees incurred by the Holder of this Loan A Promissory Note in collecting or enforcing payment hereof, whether suit be brought or not, and all other sums due hereunder.

6. The remedies of the Holder of this Loan A Promissory Note as provided herein, and in the Loan A Agreement, or any other instrument securing this Loan A Promissory Note, shall be cumulative and concurrent and may be pursued singly, successively, or together, and, at the sole discretion of the Holder of this Loan A Promissory Note, may be exercised as often as occasion therefore shall occur; and the failure to exercise any such right or remedy shall in no event be construed as a waiver or release thereof.

The Holder of this Loan A Promissory Note shall not be deemed, by any act of omission or commission, to have waived any of its rights or remedies hereunder unless such waiver is in writing and signed by the Holder of this Loan A Promissory Note and then only to the extent specifically set forth in the writing. A waiver with reference to one event shall not be construed as continuing or as a bar to or waiver of any right or remedy as to a subsequent event. This Loan A Promissory Note may not be amended, modified, or changed except only by an instrument in writing signed by the party against whom enforcement of any such amendment, modifications, or change is sought.

7. This Loan A Promissory Note shall be governed by and construed in accordance with the laws of the state of Minnesota without regard to its conflict of laws provisions. Any disputes, controversies, or claims arising out of this Loan A Promissory Note shall be heard in the state or federal courts of Minnesota, and all parties to this Loan A Promissory Note waive any objection to the jurisdiction of these courts, whether based on convenience or otherwise.

8. This Loan A Promissory Note, with the other Loan A Documents, constitutes the entire Loan A Promissory Note between the parties pertaining to its subject matter and it supercedes all prior contemporaneous notes, representations, and understandings of the parties pertaining to the subject matter of this Loan A Promissory Note.

9. Wherever possible, each provision of this Loan A Promissory Note and each related document shall be interpreted so that it is valid under applicable law. If any provision of this Loan A Agreement or any related document is to any extent found invalid by a court or other governmental entity of competent jurisdiction, that provision shall be ineffective only to the extent of such invalidity, without invalidating the remainder of such provision or the remaining provisions of this Loan A Promissory Note or any other related document.

10. IT IS HEREBY CERTIFIED AND RECITED that all conditions, acts, and things required to exist, happen, and be performed precedent to or in the issuance of this Loan A Promissory Note do exist, have happened, and have been performed in regular and due form as required by law.

IN WITNESS WHEREOF, the Maker has caused this Loan A Promissory Note to be duly executed as of the ___ day of _____, 2012.

AAR AIRCRAFT SERVICES, INC.

By _____
Its _____

By _____
Its _____

EXHIBIT C

FINANCIAL ASSISTANCE / GRANTORS

All of the following forms of assistance have been proposed for this project:

1. Duluth Economic Development Authority (DEDA) Lease Subsidy, maximum - \$443,700
2. DEDA Conditional Grant for Substantial Rehabilitation of the Facility - \$350,000
3. State of Minnesota JOBZ tax abatement benefit, estimated - \$2,167,850
4. City of Duluth Tax Abatement, estimated - \$161,000
5. St. Louis County Tax abatement, estimated - \$320,000
6. State of Minnesota, Minnesota Investment Fund Forgivable Loan - \$500,000
((\$250,000 of the Forgivable Loan will be supported by short-term loan guarantees of \$50,000 each to be provided by DEDA, the Duluth Airport Authority, the Northland Foundation, Minnesota Power, and St. Louis County)
7. State of Minnesota, Minnesota Investment Fund Loan - \$500,000
8. Duluth 1200 Fund Loan - \$500,000
9. Arrowhead Regional Development Commission Loan - \$250,000
10. Northland Foundation Loan - \$450,000
11. Minnesota Community Capital Fund Loan - \$1,500,000
12. State of Minnesota, Minnesota Job Skills Partnership - \$400,000

GUARANTY

This Guaranty is given this ____ day of _____, 2012, by the Duluth Economic Development Authority, the Duluth Airport Authority, the County of St. Louis, Upper Minnesota Properties Development, Inc. a subsidiaries of ALLETE, Inc., and Northland Foundation (individually "Guarantor" and collectively "Guarantors"), to the City of Duluth, Minnesota ("City").

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and to induce the City to enter into that certain Minnesota Investment Fund Grant Agreement between the State of Minnesota through its Department of Employment and Economic Development, Business and Community Development Division ("DEED") and the City dated June _____, 2012 in the amount of \$750,000 with Grant Number CDAP-12-0010-H-FY12 (the "Grant Agreement"), and to further induce the City to enter into that certain Minnesota Investment Fund Loan Agreement between AAR Aircraft Services, LLC ("AAR") and the City dated June _____, 2012 in the amount of \$500,000 (the "Loan A Agreement"), the Grant Agreement and the Loan A Agreement being on file in the Office of the City Clerk and incorporated as if fully set forth herein, Guarantors hereby absolutely and unconditionally guarantee to the City on a pro rata basis, with each Guarantor guarantying up to and including \$50,000 (the "Individual Guarantee Amount") with the total amount of the guarantee to the City being \$250,000, the full, prompt and complete payment when due, whether at maturity or earlier by reason of acceleration or otherwise, of the debt, liability and obligation of the City to DEED evidenced by or arising out of the Grant Agreement and any extensions, renewals or replacements thereof, but only as it relates to the Loan A Agreement (hereinafter referred to as "Indebtedness").

The undersigned further acknowledges and agrees with the City that:

1. No act or thing, except discharge by DEED of the Indebtedness due to full payment or otherwise, shall in any way exonerate Guarantors or modify, reduce, limit or release the liability of the Guarantors hereunder.
2. Guarantors waive exhaustion of recourse against AAR and agree that any action that may be brought for enforcement of rights against AAR under the Loan A Agreement is in the City's sole discretion. The failure of the City to require strict performance of any of the terms of Loan A Agreement, or any extension of time, concession, indulgence or waiver of performance granted by the City will not release any Guarantor from liability under this Guaranty.
3. Guarantors shall not exercise or enforce any right of contribution, reimbursement, recourse or subrogation available to Guarantors against the City, AAR or any person or party liable for payment of the Indebtedness, or as to any

collateral security therefor.

4. The City may enter into transactions resulting in the creation or continuance of Indebtedness, without approval by or notice to Guarantors. Indebtedness may be created and continued in any amount whether or not in excess of \$250,000, without affecting or impairing the liability of Guarantors. The City may apply any sums received by or available to the City on account of the Indebtedness from AAR and any other person or party (except the Guarantors) to the payment of the excess. Such application to the payment of the excess shall not reduce, affect or impair the liability of Guarantors hereunder.
5. The liability of Guarantors shall not be affected or impaired by the following acts or things (which the City is expressly authorized to do without notice to or approval by Guarantors: (i) any one or more extensions or renewals of the Indebtedness or the Loan A Agreement (whether or not for longer than the original period) or any modification of the interest rates, maturities or other contractual terms applicable to the Indebtedness or the Loan A Agreement; and (ii) any waiver, adjustment, forbearance, or compromise granted by DEED to the City, any delay or lack of diligence by DEED in the enforcement of Indebtedness, or any failure to by DEED to institute proceedings, file a claim, give any required notice or otherwise protect the Indebtedness.
6. Guarantors waive any and all defenses, claims and discharges against the City, or any other obligor, pertaining to Indebtedness, except the defense of discharge of the Indebtedness by DEED. Without limiting the generality of the foregoing, Guarantors will not assert, plead or enforce against the City any defense of waiver, release, statute of limitations, res judicata, statute of frauds, fraud, incapacity, minority, usury, illegality or unenforceability which may be available to AAR or any other person liable in respect of any Indebtedness or any set off available against the City to AAR or any such other person, whether or not on account of a related transaction.
7. The validity of this Guaranty and the obligations of each Guarantor under this Guaranty will in no way be terminated, affected or impaired by reason of the bankruptcy of AAR or of any other Guarantor, or by the assertion by the City against AAR of any of the rights or remedies reserved to the City under Loan A Agreement.
8. Guarantors waive presentment, demand for payment, notice of dishonor or nonpayment, and protest of any instrument evidencing Indebtedness.
9. This Guaranty shall be effective upon delivery to the City, without further act, condition or acceptance by the City and shall be binding upon Guarantors and their heirs, legal representatives, successors and assigns of Guarantors for the benefit of the City and its successors and assigns.

