

# COUNCIL COPY

## PLANNING AND ECONOMIC DEVELOPMENT COMMITTEE

13-0342R

RESOLUTION AUTHORIZING AN EIGHTH AMENDMENT TO THE MINNESOTA INVESTMENT FUND (MIF) AGREEMENT WITH THE STATE OF MINNESOTA AND FURTHER AUTHORIZING AN EIGHTH AMENDMENT TO THE MIF LOAN AGREEMENT AND AN EIGHTH PROMISSORY NOTE MODIFICATION AGREEMENT WITH NORTHSTAR MACHINE & TOOL, INC., D.B.A. NORTHSTAR AEROSPACE, MODIFYING PAYMENTS FROM JULY 1, 2013 THROUGH DECEMBER 31, 2013

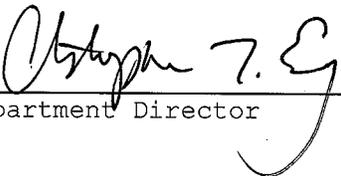
### CITY PROPOSAL:

RESOLVED, that the proper city officials are hereby authorized to enter into an eighth amendment to the MIF loan agreement and an eighth 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 ("Northstar"), allowing Northstar to make payments of interest plus an amount equal to one-fourth of the principal payment provided for under the note for a six-month period, from July 1, 2013, through December 31, 2013.

FURTHER RESOLVED, that the proper city officials are hereby authorized to execute an eighth amendment to the grant agreement with the state of Minnesota, such amendment to reflect the eighth amendment to the MIF loan

agreement and eighth promissory modification agreement with Northstar.

Approved:

  
\_\_\_\_\_  
Department Director

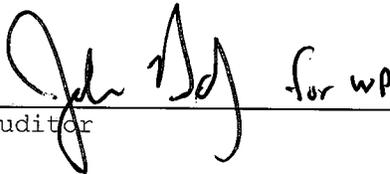
Approved for presentation to council:

  
\_\_\_\_\_  
Chief Administrative Officer

Approved as to form:

  
\_\_\_\_\_  
Attorney

Approved:

  
\_\_\_\_\_  
Auditor

BD/ATTY HTB/JC:bel 06/14/2013

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.

In March 2011, the City and DEED approved an additional six-month extension of interest but modified terms to also require the payment of half the principal with a fifth amendment to the MIF loan agreement and a fifth promissory note

modification agreement. This resulted in monthly payments of approximately \$1,667.00 during the period of April 1 through September 30.

Full principal/interest payments were made by Northstar in October and November 2011. In November 2011, the City and DEED approved an additional five-month extension of one-half principal plus interest for the period of December 1, 2011 through April 30, 2012. The Council, in May 2012, approved a seventh extension, for full interest plus one-fourth principal payments, through June 30, 2013.

Northstar has submitted another written request for an eighth extension of same terms through December 31, 2013 (see attached). Staff from the City and the other two lenders involved in this 2006 financing project (1200 Fund and Republic Bank) have met with both DEED and Northstar staff to discuss this request, of which the bank recommends approval. DEED has indicated their willingness to support this eighth amendment upon Council's approval of this resolution, which allows for monthly payment of one-fourth principal plus interest for a six month period. The lenders have requested three-year detailed projections from Northstar for review and discussion over the next six months

Northstar has maintained an excellent payment history on its MIF loan with the City, which has a current balance of approximately \$416,000. Its promissory note with the City requires full repayment of the loan.



May 1, 2013

Heidi Timm-Bijold  
City of Duluth Business  
Resources Manager  
City Hall, Room 402  
Duluth, MN 55802

Dear Heidi:

Northstar Aerospace, formally requests an extension of our MIF loan effective June 2013 to December 31 2013, @ interest plus ¼ % principal.

On behalf of all of us at Northstar Aerospace, I am pleased to take this opportunity to present to you our 2012 financial statements and a brief description of our year (see attached document).

2012 has allowed us an opportunity as an organization to pick ourselves up out of the ditch of carrying a negative cash balance every month to cash flowing without the help of monthly cash distributions from our owners. We continue to struggle with the long-term debt obligations that overshadow our balance sheet, but can see some relief through a slow but steady increase in monthly revenues. I realize that we are living in a false sense of economy because of the loan payment deferments as well as a rent holiday that we have been able to negotiate with our key stakeholders. We are grateful for their patience and benevolence through this process.

I am very pleased with our team overall for stepping up to the challenges and decreasing our costs company wide. In some cases this required some investment in better tooling and/or process enhancements as well as some investment in human resources. Our challenge has been to invest the necessary resources with a very limited supply of cash. Ultimately our investments will not only provide us with a long term return, but also have awarded us a short term return by giving our people the confidence that we all need to understand that Northstar has a fair shot at the future. We are doing much more with less due to the dedication and work ethics throughout or team.

We are seeing a small uptick in the aerospace industry. We have found a fair amount of success in winning more work from some of our existing, established customers that we did not previously have. We are fortunate to be winning some jobs that are new to us and some come to us from new customers which we developed through our networking in various industries. We are no longer held captive by just a couple customers but are working with an average of 18 customers on a monthly basis and are pleased to say, establishing a wider, more stable customer base.



2013 has strengthened our belief that we are turning the corner. We were awarded a substantial project with "Enflite" after waiting for more than a year, and we are working towards turning that 6 month contract into a 4 year contract. Eclipse Aerospace is back in operation after a 4+ year post bankruptcy rebuilding process. We will be supplying 6 seats for each of the 14 aircraft (84 completed seats) that have been committed to being delivered this year. That is great news for us and allows us to dust off many thousands of dollars of inventory that has been sitting on our shelves for a long time and turn it into revenue.

I look forward to meeting the challenges of the future with the continued strong support of our shareholders and investors, the dedication and hard work of our management team, and the strong relationships we have with our business partners, local and state government agencies, and area community foundations.

Sincerely,

Gary Corradi  
President & CEO

**AGREEMENT FOR LOAN OF MINNESOTA INVESTMENT FUND**

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

**EIGHTH AMENDMENT**

THIS EIGHTH AMENDMENT is made 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, by fourth amendment dated October 15, 2010, by fifth amendment dated April 19, 2011, by sixth amendment dated December 2, 2011, and by seventh amendment dated August 10, 2012 (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 an eighth promissory note modification agreement in substantially the form set forth at Exhibit C-8.

2. 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-8, 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; one-half of the principal payments plus interest as provided for in the Note from April 1, 2011 through September 30, 2011, and from December 1, 2011 through April 30, 2012; one-quarter of the principal plus full interest payments from May 1, 2012 through December 31, 2013. 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.

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

IN WITNESS WHEREOF, the parties have caused this Eighth Amendment to be duly executed as of the date below written.

CITY OF DULUTH

NORTHSTAR MACHINE & TOOL CO., INC.

\_\_\_\_\_  
Mayor

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

Date: \_\_\_\_\_

Date: \_\_\_\_\_

ATTEST:

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

Date: \_\_\_\_\_

APPROVED AS TO FORM:

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City Attorney

COUNTERSIGNED:

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City Auditor

## EXHIBIT C-8

### EIGHTH PROMISSORY NOTE MODIFICATION AGREEMENT

This Eighth Promissory Note Modification Agreement is made 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. On April 19, 2011, and December 2, 2011, Maker and the City modified the note to allow Maker to make one-half of the principal payments plus interest payments as provided for in the note from April 1, 2011 through September 30, 2011, and from December 1, 2011 through April 30, 2012. On August 10, 2012, Maker and the City modified the note to allow Maker to make one-quarter principal plus full interest payments from May 1, 2012 through June 30, 2013 (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; one-half of the principal payments plus interest payments as provided for in the Note from April 1, 2011 through September 30, 2011 and from December 1, 2011 through April 30, 2012; one-quarter of principal

plus full interest payments from May 1, 2012 through December 31, 2013.

Except as provided above, the said Note and all provisions thereof shall remain unaffected and unchanged by this Eighth 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 Eighth Promissory Note Modification Agreement to be duly executed as of the date below written.

CITY OF DULUTH

NORTHSTAR MACHINE & TOOL CO.,  
INC.

\_\_\_\_\_  
Mayor

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

Date: \_\_\_\_\_

Date: \_\_\_\_\_

ATTEST:

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

Date: \_\_\_\_\_

APPROVED AS TO FORM:

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

COUNTERSIGNED:

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