



Legislation Details (With Text)

File #: 18-034 **Version:** 1 **Name:** RLF Program - Cast Technologies Inc
Type: Agreement **Status:** Approved
File created: 2/5/2018 **In control:** City Council
On agenda: 2/13/2018 **Final action:** 2/13/2018
Title: Communication from the City Manager with a Request to APPROVE a Loan from the City's REVOLVING LOAN FUND to CAST TECHNOLOGY INC., in the Amount of \$250,000.00, and to Authorize the City Manager to Execute the Necessary Documents.

Sponsors:

Indexes: Goal 4 - Grow Peoria, Grow employers and jobs.

Code sections:

Attachments: 1. AGMT NO 18-034 Cast Loan Agmt, 2. AGMT NO 18-034 Cast Loan Agmt, 3. 00 Cast - RLF Application - 180205 Signed

Date	Ver.	Action By	Action	Result
2/13/2018	1	City Council	approved	Pass

ACTION REQUESTED:

Communication from the City Manager with a Request to APPROVE a Loan from the City's REVOLVING LOAN FUND to CAST TECHNOLOGY INC., in the Amount of \$250,000.00, and to Authorize the City Manager to Execute the Necessary Documents.

BACKGROUND: Cast Technologies Inc. (Cast) is seeking to modernize their manufacturing operations in preparation for growth, and in response to a large contract they are fulfilling. Cast plans to invest \$1.8 million in capital equipment to improve the melting, pouring, and molding processes in their foundries. The installation of machinery and equipment will take place in two phases, roughly 9 months apart at two foundries. The investment will include \$820,610 for the No-Bake Foundry at 2718 SW Adams; and \$860,000 for the Green Sand Foundry at 1100 SW Washington.

The modernization of Cast's operations will position the company for growth, build future capacity, improve productivity, and prepare them to meet growing demand. Of particular importance is the fulfillment of orders from Oshkosh Defense which has secured a Department of Defense contract to manufacture 17,000 Joint Tactical Light Vehicles through 2023. The JTLV will replace the Hummer vehicle used by the military.

Company Background

Cast is a "centurion" company-operating for more than 100 years and serving more than 100 customers. Cast Technologies began its long history in 1887 as The Brass Foundry and Heating Company in Peoria, Illinois making railroad castings and pipe fitting for local customers. In 1909, the company was purchased by E. B. Hazen and J. G. Kasjens and changed the name to The Brass Foundry. In 1923, Mr. Kasjens died, and the business became the sole ownership of E. B. Hazen and his son George Hazen. Today the company continues to have an heir to the founder in its management--Jim Mehlenbeck, President and CEO.

The company has a rich history of supplying parts to several area companies, most notable they made the first engines for the Duryea Automobile, which supplied parts to The Holt Manufacturing Company, which later combined to become Caterpillar, to which it continues to be a major supplier. The expansion of their customer base and diversification of aluminum castings and machined complete product lines inspired the company to change its name in January 1998 to Cast Technologies Inc. Cast currently employs 90 people, 66 hourly and 24 salaried, and intends to add 10 new employees as a result of this project.

Financing Structure and Terms

Cast's \$1.8 million in capital investment include \$1.4 in machinery and equipment and the remainder in building improvements. The new capital investment includes: a) replacing of two furnaces to increase melting capacity, b) adding degassing equipment to improve molten metal quality and durability, c) automating the delivery and pouring of molten metal at two foundries through bridge crane and monorail systems, d) extending existing molding lines and adding a new molding line, and e) adding a sand compactability controller for molds

The following is a breakdown of Sources and Uses of funding for the \$1.8 million project:

<u>USES OF FUNDS</u>			<u>SOURCES OF FUNDS</u>		
Real Estate Purchase	\$ -	0%	City - RLF Loan	\$ 250,000	14%
Building Improvements	\$ 336,515	19%	City - Grant	\$ -	0%
Machinery & Equipment (new)	\$ 1,436,922	80%	Bank Loan - Term Loan	\$ 1,370,000	76%
Machinery & Equipment (exist)-	\$ -	0%	Bank Loan - LOC	\$ -	0%
Inventory	\$ -	0%	Other Lender	\$ -	0%
Working Capital	\$ 26,563	1%	EDA Grant	\$ -	0%
Other	\$ -	0%	Owner's Equity	\$ 180,000	10%
TOTAL USES	\$ 1,800,000	100%	TOTAL SOURCES	\$ 1,800,000	100%

The loan was reviewed by the Loan Review Panel and recommended for approval, with the following parameters:

- **Loan Terms** - A loan amount of \$250,000 at an interest rate of 4% for a term of 10 years, amortized over 20 years. The loan will be disbursed with 50% at the start of phase 1, and 50% upon the start of phase 2. A closing fee of 1% or \$2,500 may be added to the principal amount or paid upfront at closing.
- **Collateral Requirements** - The loan will be secured with a: a) first mortgage on two properties- 2718 SW Adams and 100 SE Persimmons; and b) a corporate guarantee from Cast Technologies Inc. The City will be named additional insured on all assets financed.
- **Conditions** - It was noted and understood that the City loan is conditional upon a \$1.37 million loan from a private lender, and an equity of \$180,000 from Cast.

RLF Program Background

The City's Revolving Loan (RLF) Fund Program was initially capitalized in 1988 with \$769,232 by an EDA grant of \$500,000 and matching funds from the City of \$269,232. As of September 2017 the capital base has grown to \$1.2 million through net income from interest (\$893,001.12) minus losses (\$436,313.37). In total the program has loaned over \$3.8 million to 43 different projects in the industrial, commercial, and service industries and has assisted with the creation/attraction of 1,947 jobs. City loans of \$3.8 million were leveraged with \$45.5 million of other funds and has resulted in an overall investment of \$49.3 million. On average, RLF projects represent an investment of \$1.15 million, 45 jobs, and a City loan of \$86,000. For every \$1.00 of RLF proceeds loaned by the City an additional \$12 was leveraged.

FINANCIAL IMPACT: If approved, the City would disburse \$250,000 from the RLF Fund which had a balance of \$885,137.36 as of December 31, 2017.

NEIGHBORHOOD CONCERNS: Not applicable

IMPACT IF APPROVED: The City would support the retention of 90 jobs and the 10 new jobs for the community.

IMPACT IF DENIED: A financial gap of \$250,000 would continue and the project would either be scaled back, the project would be delayed; and/or additional equity/debt would need to be raised.

ALTERNATIVES: None

EEO CERTIFICATION NUMBER: Not applicable.

DEPARTMENT: City Manager's Office