



**Buffalo and Erie County Regional Development Corporation
Board of Director Meeting
January 22, 2020
@ 12:00 p.m.
95 Perry Street
5th Floor - ESD Conference Room
Buffalo, New York 14203**

1.0 Call to Order

2.0 Approval of Minutes

2.1 Approval of the November 20, 2019 Minutes of the Board of Directors Meeting (Pages 2-4)

3.0 Reports / Action Items / Information Items:

3.1 Financial Report (Informational)

3.2 2019 Loan/Portfolio Status Report (Informational)

3.3 Approval of the following Loan Case(s)
a) Highway Rehab Corp. (Action Item) (Pages 5-8)

4.0 Adjournment - Next Meeting February 26, 2020 @ 12:00 p.m.

**MINUTES OF THE
BOARD OF DIRECTORS
OF THE
BUFFALO AND ERIE COUNTY REGIONAL
DEVELOPMENT CORPORATION
(RDC)**

DATE AND PLACE: November 20, 2019, at the Erie County Industrial Development Agency, 95 Perry Street, 5th Floor ESD Conference Room, Buffalo, New York 14203

PRESENT: Denise Abbott, Hon. Joseph H. Emminger, Hon. Howard Johnson, Tyra Johnson, Richard Lipsitz, Jr., Brenda W. McDuffie, Hon. Glenn R. Nellis, Hon. Mark C. Poloncarz, Sister Denise Roche, Kenneth A. Schoetz and Art Wingerter

EXCUSED: Hon. Diane Benczkowski, Rev. Mark E. Blue, Hon. Bryon W. Brown, James F. Doherty, Dottie Gallagher, Hon. Brian J. Kulpa, Hon. Darius G. Pridgen and Charles F. Specht

OTHERS PRESENT: Steve Weathers, Chief Executive Officer; John Cappellino, Executive Vice President; Mollie Profic, Chief Financial Officer; Gerald Manhard, Chief Lending Officer; and Karen M. Fiala, Assistant Treasurer/Secretary

GUESTS: Robert G. Murray, Esq., General Counsel/Harris Beach PLLC; Maria Whyte, Deputy County Executive; Andrew Federick, Erie County Senior Economic Development Specialist

There being a quorum present at 12:05 p.m., the meeting of the RDC Board of Directors was called to order by its Chair, Ms. McDuffie.

MINUTES

The Minutes of the October 23, 2019, meeting of the Board of Directors of the RDC were presented. Sister Denise moved, and Mr. Emminger seconded, to approve of the minutes. Ms. McDuffie called for the vote and the minutes were unanimously approved.

REPORTS/ACTION ITEMS/INFORMATION ITEMS

Financial Report. Ms. Profic provided a report on the October 2019 financial statements noting that the RDC finished the month of October with total assets of \$17.2 million and net assets of \$16.9 million. The monthly income statement shows income of almost \$10,000 for October. Overall revenues were below the monthly budget by about \$6,000. Total expenses

were also under budget for the month by \$4,000. The year to date income statement reflects \$464,000 of revenue and \$1.8 million of expenses, for a net loss of \$1.4 million through October. Ms. McDuffie directed that the report be received and filed.

Update and Discussion for Reporting Loan Delinquencies. Mr. Weathers reviewed the status of the Delinquent Loan Report and noted the RDC Loan Committee has met twice to discuss the presentation of past due versus delinquent versus defaulted loans. Mr. Weathers disclosed new RDC procedures for loan delinquency reporting as follows:

1. *Past Due: Payment 1-89 days Past Due*
 - a. RDC staff works with borrower to cure delinquency.
 - b. Loan status not reported to RDC Board at this time.

2. *Delinquent: 90+ days Past Due*
 - a. Staff will continue working with borrower to cure delinquency.
 - b. Loan status reported to RDC Board: loan balance, days past due, amount past due.

3. *Default: Legal action filed*
 - a. Legal action filed against borrower.
 - b. Legal action(s) taken to collect balance reported to RDC Board.
 - c. Loan status reported to RDC Board: borrower name, loan balance, days past due, amount past due.

Mr. Emminger confirmed that the RDC Loan Committee had two meetings to discuss reporting and disclosure, and that significant input from all Committee members was obtained wherein discussion revolved around balancing fairness and disclosure with attempts to assist a borrower if there is only a short term struggle.

Mr. Poloncarz thanked the RDC Loan Committee for their efforts, expressed his opinion that there should be more disclosure, and asked for clarity on the meaning of the term “default”.

Mr. Manhard confirmed RDC loan agreements have defined default provisions, and when a loan is in default, the loan agreement permits the RDC to take certain recovery actions, like sending a demand letter, for instance.

Mr. Wingerter asked if the “default” language per the proposed policy gives flexibility to the RDC. Mr. Manhard confirmed that it does.

Ms. McDuffie directed that the report be received and filed.

RDC Loan Status Report. Mr. Manhard reviewed the RDC Loan Status Report. Ms. McDuffie directed that the report be received and filed.

There being no further business to discuss, Ms. McDuffie then adjourned the meeting at 12:28 p.m.

Dated: November 20, 2019

Karen M. Fiala, Secretary



**Buffalo and Erie County Regional Development
RDC Loan Analysis**

Borrower:	Highway Rehab Corp.	Structure:	S-Corp	Year Established:	1981
Address:	100 Stradtman St.	City:	Cheektowaga	Zip:	14206
Type of Business:	Highway, street rehabilitation	NAICS:	237310	SIC:	1611
RDC Loan Amount:	\$1,600,000	Interest rate:	5.25%	Term:	10 years
Monthly Payment:	\$17,167	Contact Name:	Tom Colella	Site Visit:	
Jobs Existing:	55	Jobs to be Created:	0	Jobs Retained:	55

SOURCES AND USES

Sources:	Amount	% of Project
Key Bank Term Loan	\$6,300,000	70%
RDC Term Loan	\$1,600,000	18%
Equity	\$1,100,000	12%
Total Sources	\$9,000,000	100%
Uses:		
Key Bank	Amount	
Refinance existing debt	\$1,850,000	21%
Stock Purchase	\$4,450,000	49%
RDC		
Stock Purchase	\$1,550,000	17%
Fees & Expenses	\$50,000	1%
Equity		
Sub, Seller Debt	\$1,000,000	11%
Fees & Expenses	\$100,000	1%
Total Uses	\$9,000,000	100%
Dollars Leveraged:	\$7,400,000 (6.7x)	

COLLATERAL AND SECURITY

Collateral:	2 nd lien on all business assets behind Key Banks 1 st lien
Guarantors:	Michael Haggerty and Thomas J. Colella
Life Insurance	Key Man life insurance on both Michael Haggerty and Thomas J. Colella- Minimum \$1,600,000

SUPPLEMENTAL INFORMATION

Fund Criteria:	Job Creation: <input type="checkbox"/> Job Retention <input checked="" type="checkbox"/> Target Area: <input checked="" type="checkbox"/> Target Industry: <input type="checkbox"/> MWBE: <input type="checkbox"/>
Eligibility:	Bank Declination: <input checked="" type="checkbox"/> Financing Gap: <input checked="" type="checkbox"/>
Recommended By:	Gerald Manhard, Chief Lending Officer and Daryl Spulecki, Credit Analyst
Loan Committee Vote:	Approved: <input checked="" type="checkbox"/> Declined: <input type="checkbox"/>
Date: 1/8/2020	Signatures:

I. Background:

Highway Rehab Corporation is a New York State corporation that commenced operations on March 3, 1981 and its principal activity is road paving for counties, cities, towns, and contractors in New York, Pennsylvania, and New England. The business performs the work using the process of Hot In-Place Asphalt Recycling (link to video showing process <https://www.highwayrehab.com/hip-video>). Hot In-Place Asphalt Recycling is an on-site, in-place method that rehabilitates deteriorated bituminous pavements, minimizing the use of new materials. It is a pavement preservation technique that is cost effective, extends pavement life, improves safety and motorist satisfaction while saving public tax dollars. The process costs 30% to 40% less than traditional paving. Because asphalt is a unique construction material that can be effectively and economically restored, Hot In-Place Mill Recycling encourages restoration rather than applying new material over deteriorating pavement. The process involves heating, scarifying/milling, adding a rejuvenating agent, mixing, placing and compacting the new recycled bituminous pavement structure. Paving work occurs from April through October typically and generally require bids that are based on square yardage. Hot In-Place Mill Recycling effectively addresses the classic symptoms of deteriorated oxidized lifeless pavements.

In addition to the paving work, the business also fabricates the recycling machines at its facility in Cheektowaga, NY. The business employs 21 full-time employees through the whole year and ramps up to 55 employees during their primary operating season.

II. Project Description:

Tom Colella (VP of Operations) and Michael Haggerty (President) are looking to purchase the business from Ken Carr in the form of a Stock Purchase with a purchase price of \$7,000,000. Key Bank will also be refinancing the existing \$1,900,000 of Highway Rehab's long-term debts. This will be a Stock Purchase rather than an Asset Purchase for tax saving purposes. Mr. Carr has had several offers from companies located throughout New England to purchase the business (this would result in the business moving out of its Cheektowaga location) but he would prefer the business be owned and operated by current employees.

The total project cost will be \$9,000,000. The business is requesting a \$1,600,000 RDC term loan to fill the financing gap as Key Bank would not lend the total amount needed because of its leverage and collateral coverage ratio requirements.

III. Company Management:

- Tom Colella (VP of Operations) has over 20 years with the company and is responsible for the crew management, safety, equipment design, project setup and overseeing the shop.
- Michael Haggerty (President) has been with the company for over 6 years and has over 40 years of experience in the industry. His role includes being responsible for sales, operations, business development and pricing.
- A majority of the key employees supporting the operation have been with the company 20+ years.

IV. Market Analysis:

Referenced from IBIS World, over the next 4 years, the Road and Highway Construction industry is expected to exhibit growth of 2.1% annually due to an expected increase in government funding for transportation. America's Transportation Infrastructure Act of 2019 is the largest amount of funding provided for highway

reauthorization legislation in history. The bill authorizes \$287 billion from the Highway Trust Fund over five years in investments to maintain and repair America's roads and bridges and to keep our economy moving.

Additionally, as the elements take their toll on roadways and new highways are developed in states across the country, there will be a continual need for construction services to maintain new and existing infrastructure. The federal government has strong incentives to spend billions of dollars on highway infrastructure, our roads are crucial to daily life and the economy. Safe roads and highways ensure the transportation of people to and from their jobs, allow for products to be delivered to companies and customers, and connects the distant regions of the country. For construction vendors, the industry can be unpredictable at times but the fact that government spends so much on road and highway projects make them a reliable source of revenue for many small and medium-sized construction companies.

V. Loan Committee:

On January 8, 2020, the RDC Loan Committee met to review Highway Rehab's \$1.6 million loan request in more detail. Items discussed during the meeting were centered around the historical financial performance of the company and guarantors, review of the business plan, management team, and collateral. The RDC Loan Committee concluded Highway Rehab's financial performance was adequate to service the proposed debt and proceeds from the loan were being used to meet the mission of the RDC loan fund. The Loan Committee unanimously voted to approve the loan request and recommended the loan be presented to the RDC Board for final approval.

VI. Job Creation/Retention:

- Participating in this project will assist in retaining 55 FTE jobs in Erie County. This exceeds the RDC's job requirement of one job per \$75,000 lent ($\$1,600,000 / \$75,000 = 21.33$ FTE jobs).
- Presently there are 21 full time positions year-round and 55 FTE during the paving season.

VII. Strengths and Weaknesses:

Strengths:

- Increasing revenue trends from FYE 10/31/16 through FYE 10/31/19.
- Adequate cash flow both historically and projected to meet the proposed debt service.
- The new owners are highly experienced in the industry and have worked for Highway Rehabilitation Corp. for 20 and 6 years respectively.
- New ownership will start with positive equity in the company as they are getting a very good purchase price for the company and will not have any goodwill associated with the purchase.
- Good personal credit history and positive net worth of the guarantors.
- It's a healthy industry and investment in infrastructure has never been higher.
- The financing package will allow the company to continue its operations in Erie County thus preserving jobs.

Weaknesses:

- Less than adequate collateral coverage.
- Fluctuating Accounts Receivable
- A changing political climate could affect infrastructure spending.
- Weather can affect job completion times.

VIII. Recommendation:

Based on the above case analysis, recommendation of the RDC Loan Committee and the retention of 55 full-time equivalent jobs, it is recommended the \$1,600,000 RDC Term loan be approved with the following terms:

Loan Amount: \$1,600,000
Interest Rate: 5.25%
Loan Amortization: 120 months
Loan Term: 126 months (6-month interest only period)
Monthly P & I payment: \$17,166.67

Security/Collateral:

- 2nd blanket lien on the business assets subordinate to Key Bank
- Unlimited personal guarantees of Michael Haggerty and Thomas J. Colella
- Keyman life insurance on both Michael Haggerty and Thomas J. Colella

Loan Disbursement Procedure:

Six (6) month grid note with a interest only draw period that will begin to amortize in month seven (7) with principal and interest payments based on a ten (10) year amortization period.

SUPPLEMENTAL INFORMATION

RDC Eligibility:

- The company is an eligible NAICS sector 237310 under the RDC Loan Administration Plan.
- The project will enable the business to continue operating in Erie County and retain 55 FTE jobs.
- Non-substitution: RDC debt is not being substituted for bank financing.