



**Buffalo and Erie County Regional Development Corporation  
Meeting of the Board of Directors**

**July 27, 2022 @ 12:00 p.m.**

- 1.0 Call to Order**
- 2.0 Approval of Minutes**
  - 2.1 Minutes of the April 27, 2022 Meeting of the Board of Directors (Action Item) (Pages 2-3)
- 3.0 Reports / Action Items / Information Item(s):**
  - 3.1 Financial Report (Informational) (Pages 4-7)
  - 3.2 Loan Status Report (Informational) (Page 8)
  - 3.3 Approval of the Following Loan Case(s)
    - a) Johnson's Tap House (Action Item) (Pages 9-13)
    - b) Upstate Steel (Action Item) (Pages 14-19)
- 4.0 Management Team Report:**
  - 4.1
- 5.0 Adjournment- Next Meeting August 24, 2022**

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

- MEETING:** April 27, 2022
- LIVE STREAMED:** This meeting is being live-streamed and made accessible on the Erie County Industrial Development Agency website at [www.ecidany.com](http://www.ecidany.com).
- PRESENT:** Hon. Diane Benczkowski, Hon. Bryon W. Brown, Hon. Joseph Emminger, Hon. Howard Johnson, Tyra Johnson, Hon. Brian Kulpa, Richard Lipsitz, Hon. Glenn R. Nellis, Hon. Mark C. Poloncarz, Sister Denise Roche and Kenneth A. Schoetz, Maria Whyte (Member)
- EXCUSED:** Denise Abbott, Rev. Mark E. Blue, James Doherty, Dottie Gallagher, Brenda W. McDuffie, Hon. Darius G. Pridgen, Paul Vukelic and Renee Wilson
- OTHERS PRESENT:** John Cappellino, President & CEO; Beth O’Keefe, Vice President of Operations; Mollie Profic, Chief Financial Officer/Assistant Secretary; Atiqa Abidi, Assistant Treasurer; Gerald Manhard, Chief Lending Officer/Assistant Secretary; Grant Lesswing, Director of Business Development; Andrew Federick, Business Development Officer; Brian Krygier, Director of Information Technology; Carrie Hocieniec, Operations Assistant; Robbie Ann McPherson, Director of Marketing & Communications, Sean Fallon, Project Manager; Pat Smith, Senior Bookkeeper; Laurie Hendrix, Administrative Coordinator; Terrence Gilbride, ECIDA Bond Counsel and Robert G. Murray, Esq., General Counsel/Harris Beach PLLC
- GUESTS:** Zachary Evans, Erie County; Lisa Hicks and Alex Carducci on behalf of the City of Buffalo; Mike Szukala on behalf of Erie County; and Jim Fink on behalf of Business First

There being a quorum present at 12:36 p.m., the meeting of the Buffalo and Erie County Regional Development Corporation (the “RDC”), was called to order by Vice Chair, Mr. Lipsitz, who presided over the meeting in the absence of Chair McDuffie.

**MINUTES**

The minutes of the March 23, 2022 meeting of the members were presented. Mr. Brown moved and Mr. Johnson seconded, to approve of the minutes. Mr. Lipsitz called for the vote, and the minutes were then unanimously approved.

## REPORTS/ACTION ITEMS/INFORMATION ITEMS

Financial Report. Ms. Profic presented the March 2022 financial report. The balance sheet shows the RDC finished the month with total assets of \$21.8M, consisting mainly of cash and loans receivable. Liabilities reflect amounts due to ECIDA for 2022 costs and net assets are \$21.8M. The March income statement shows \$54,000 of revenue, mostly loan interest income, but also a commitment fee for a loan closed during the month, and \$67,000 of expenses. On March 31st, the provision for loan losses was increased by \$32,000 to reflect two loans facing possible repayment issues. As a reminder, the portfolio is reviewed internally each quarter, and these adjustments may be temporary. The year-to-date income statement shows revenues of \$127,000 and \$123,000 of expenses, for net income of \$4,000 through the first quarter of the year. Mr. Lipsitz directed that the report be received and filed.

Finance and Audit Committee Update. Ms. Profic advised the joint Finance & Audit Committee meeting was held on April 20, 2022. The Committee reviewed and recommended approval of the ECIDA bond refinancing and also discussed some minor adjustments to the ECIDA's 2022 budget. No items directly related to the RDC were discussed. Mr. Lipsitz directed that the report be received and filed.

Annual Report of Directors. Ms. Profic reviewed a memo regarding the RDC's Annual Report to Directors. New York State not-for-profit law requires certain information to be presented in a report annually to the RDC. As the memo outlines, the first four requirements were satisfied with the presentation of the audited financial statements. The final requirement is reporting that RDC continues to have 23 membership positions, consistent with the prior year's report. Mr. Lipsitz directed that the report be received and filed.

Loan Status Report. Mr. Manhard provided this report to members. Mr. Lipsitz directed that the report be received and filed.

Nominating Committee Update. Mr. Cappellino reviewed the entire slate of committee member appointments and officer position appointments, noting changes over the prior year's appointments. General discussion ensued. Mr. Poloncarz, as Chair of the Nominating Committee, thanked everyone to agreeing to serve.

Mr. Poloncarz moved and Mr. Johnson seconded to approve of the proposed committee member appointments and the officer position appointments as presented. Mr. Lipsitz called for the vote and the aforementioned motion was unanimously approved.

There being no further business to discuss, Mr. Lipsitz adjourned the meeting at 12:42 p.m.

Dated: April 27, 2022

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Gerald Manhard, Assistant Secretary

**Regional Development Corporation**  
**Financial Statements**  
As of June 30, 2022

**REGIONAL DEVELOPMENT CORPORATION ("RDC")**

**Balance Sheet**

June 30, 2022

|   | June 2022                   | May 2022                    | December 2021               |
|---|-----------------------------|-----------------------------|-----------------------------|
| <b>ASSETS:</b>                            |                             |                             |                             |
| Restricted Cash**                         | \$ 5,533,343                | \$ 5,548,603                | \$ 7,790,415                |
| Accounts Receivable                       | 180,036                     | 199,814                     | 10,168                      |
| Direct Loans *                            | 16,823,925                  | 16,740,228                  | 14,748,199                  |
| 50/50 Bank Participation Loans *          | 87,256                      | 91,564                      | 112,852                     |
| Reserve for Loan losses                   | (640,252)                   | (643,293)                   | (610,903)                   |
| Total Loan Assets, net                    | <u>16,270,929</u>           | <u>16,188,499</u>           | <u>14,250,149</u>           |
| <b>TOTAL ASSETS</b>                       | <u><b>\$ 21,984,308</b></u> | <u><b>\$ 21,936,917</b></u> | <u><b>\$ 22,050,732</b></u> |
| <br><b>LIABILITIES &amp; NET ASSETS</b>   |                             |                             |                             |
| Accounts Payable                          | \$ -                        | \$ -                        | \$ 133                      |
| Due to ECIDA                              | 155,681                     | 129,745                     | 297,384                     |
| Total Liabilities                         | <u>155,681</u>              | <u>129,745</u>              | <u>297,518</u>              |
| Restricted Fund Balance                   | <u>21,828,628</u>           | <u>21,807,173</u>           | <u>21,753,214</u>           |
| <b>TOTAL LIABILITIES &amp; NET ASSETS</b> | <u><b>\$ 21,984,308</b></u> | <u><b>\$ 21,936,917</b></u> | <u><b>\$ 22,050,732</b></u> |

| <b>* Loan Portfolio Summary:</b>    | June 2022 | May 2022  | December 2021 |
|-------------------------------------|-----------|-----------|---------------|
| # of Legacy RLF Loans               | 34        | 34        | 32            |
| # of CARES Act RLF Loans            | 30        | 30        | 30            |
| # of 50/50 Bank Participation Loans | 1         | 1         | 1             |
|                                     | <u>65</u> | <u>65</u> | <u>63</u>     |

\*\* Cash is invested in interest bearing accounts at M&T Bank. The maximum FDIC insured amount is \$250,000, with the remainder collateralized with government obligations by the financial institution.

**REGIONAL DEVELOPMENT CORPORATION ("RDC")**  
**Income Statement**  
 Month of June 2022

|                               | <b>Actual vs. Budget</b> |                    |                  |
|-------------------------------|--------------------------|--------------------|------------------|
|                               | <b>Actual</b>            | <b>Budget</b>      | <b>Variance</b>  |
| <b>REVENUES:</b>              |                          |                    |                  |
| Interest Income - Loans       | \$ 45,583                | \$ 47,083          | \$ (1,501)       |
| Interest Income - Cash & Inv. | 87                       | 42                 | 46               |
| Administrative Fees           | -                        | 1,250              | (1,250)          |
| Grant Income - CARES Act RLF  | -                        | 8,591              | (8,591)          |
| Other Income                  | 237                      | 417                | (180)            |
| <b>Total Revenues</b>         | <b>45,907</b>            | <b>57,383</b>      | <b>(11,476)</b>  |
| <b>EXPENSES:</b>              |                          |                    |                  |
| Management Fee - ECIDA*       | 23,800                   | 23,800             | -                |
| Provision for Loan Losses     | (3,041)                  | 62,500             | (65,541)         |
| Rent & Facilities Expenses    | 2,100                    | 2,083              | 17               |
| Professional Services         | 786                      | 3,333              | (2,547)          |
| General Office Expenses       | -                        | 142                | (142)            |
| Other Expenses                | 806                      | 1,815              | (1,008)          |
| <b>Total Expenses</b>         | <b>24,452</b>            | <b>93,673</b>      | <b>(69,221)</b>  |
| <b>NET INCOME/(LOSS):</b>     | <b>\$ 21,455</b>         | <b>\$ (36,290)</b> | <b>\$ 57,745</b> |

\* Represents an allocation of salary and benefit costs from the ECIDA based on time charged to RDC. The amount booked reflects 2022 budgeted figures.

**REGIONAL DEVELOPMENT CORPORATION ("RDC")**

**Income Statement**

Year to Date: June 30, 2022

|                               | Actual vs. Budget |                  |                  | Actual vs. Prior Year |                   |                    |
|-------------------------------|-------------------|------------------|------------------|-----------------------|-------------------|--------------------|
|                               | Actual            | Budget           | Variance         | Actual                | Prior Year        | Variance           |
| <b>REVENUES:</b>              |                   |                  |                  |                       |                   |                    |
| Interest Income - Loans       | \$ 254,284        | \$ 282,500       | \$ (28,216)      | \$ 254,284            | \$ 224,288        | \$ 29,996          |
| Interest Income - Cash & Inv. | 584               | 250              | 334              | 584                   | 1,897             | (1,312)            |
| Administrative Fees           | 9,500             | 7,500            | 2,000            | 9,500                 | -                 | 9,500              |
| Grant Income - CARES Act RLF  | 13,750            | 51,547           | (37,797)         | 13,750                | -                 | 13,750             |
| Other Income                  | 1,256             | 2,500            | (1,244)          | 1,256                 | 123,211           | (121,955)          |
| <b>Total Revenues</b>         | <b>279,374</b>    | <b>344,297</b>   | <b>(64,922)</b>  | <b>279,374</b>        | <b>349,396</b>    | <b>(70,021)</b>    |
| <b>EXPENSES:</b>              |                   |                  |                  |                       |                   |                    |
| Management Fee - ECIDA*       | 142,800           | 143,000          | (200)            | 142,800               | 160,200           | (17,400)           |
| Provision for Loan Losses     | 29,349            | 125,000          | (95,651)         | 29,349                | (38,584)          | 67,933             |
| Rent & Facilities Expenses    | 12,600            | 12,500           | 100              | 12,600                | 12,600            | -                  |
| Professional Services         | 17,713            | 28,019           | (10,306)         | 17,713                | 27,949            | (10,236)           |
| General Office Expenses       | 414               | 850              | (436)            | 414                   | 1,005             | (591)              |
| Other Expenses                | 1,084             | 10,888           | (9,803)          | 1,084                 | 45,122            | (44,038)           |
| <b>Total Expenses</b>         | <b>203,961</b>    | <b>320,257</b>   | <b>(116,296)</b> | <b>203,961</b>        | <b>208,293</b>    | <b>(4,332)</b>     |
| <b>NET INCOME/(LOSS):</b>     | <b>\$ 75,414</b>  | <b>\$ 24,040</b> | <b>\$ 51,374</b> | <b>\$ 75,414</b>      | <b>\$ 141,103</b> | <b>\$ (65,689)</b> |

\* Represents an allocation of salary and benefit costs from the ECIDA based on time charged to RDC. The amount booked reflects 2022 budgeted figures.







**RDC Loan Analysis**

|                         |                           |                       |                   |                           |            |
|-------------------------|---------------------------|-----------------------|-------------------|---------------------------|------------|
| <b>Borrower:</b>        | Johnsons Taphouse Inc.    | <b>Structure:</b>     | S-Corp.           | <b>Year Established:</b>  | 2021       |
| <b>Address:</b>         | 4040 Lake Shore Blvd.     | <b>City:</b>          | Hamburg           | <b>Zip:</b>               | 14075      |
| <b>Website:</b>         | www.pegspplacehamburg.com | <b>NAICS:</b>         | 722511            | <b>SIC:</b>               | 5812       |
| <b>Loan Amount:</b>     | \$600,000                 | <b>Interest Rate:</b> | 4%                | <b>Term:</b>              | 120 months |
| <b>Monthly Payment:</b> | \$6,074.71                | <b>Contact Name:</b>  | Robert P. Johnson | <b>Site Visit:</b>        | TBD        |
| <b>Purpose:</b>         | Equipment                 | <b>Jobs Existing:</b> | 0                 | <b>Jobs to be created</b> | 20         |

**SOURCES AND USES**

| <b>Sources:</b>                | <b>Amount</b>      | <b>% of Project</b> |
|--------------------------------|--------------------|---------------------|
| RDC Loan                       | \$600,000          | 10%                 |
| Evans Bank                     | \$1,250,000        | 21%                 |
| Pursuit 504                    | \$1,800,000        | 30%                 |
| Pursuit                        | \$1,000,000        | 17%                 |
| Equity                         | \$1,350,000        | 22%                 |
| <b>Total Sources</b>           | <b>\$6,000,000</b> | <b>100%</b>         |
| <b>Uses:</b>                   |                    |                     |
|                                | <b>Amount</b>      | <b>% of Project</b> |
| RDC Loan – Equipment           | \$600,000          | 10%                 |
| Evans Loan – Construction Mtge | \$1,250,000        | 21%                 |
| SBA/Pursuit 504 – Mortgage     | \$1,800,000        | 30%                 |
| Pursuit – Mortgage             | \$1,000,000        | 17%                 |
| Equity                         |                    |                     |
| Soft Costs                     | \$350,000          | 6%                  |
| Working Capital/Equip          | \$1,000,000        | 16%                 |
| <b>Total Uses</b>              | <b>\$6,000,000</b> | <b>100%</b>         |
| <b>Dollars Leveraged:</b>      | <b>\$5,400,000</b> | <b>90%</b>          |

**COLLATERAL AND SECURITY**

|                    |  |
|--------------------|--|
| <b>Collateral:</b> | 1st purchase money lien on equipment being purchased, a 3rd lien on ABA behind Evans Bank and SBA/Pursuit Lending. |
| <b>Guarantors:</b> | The unlimited personal guaranty of Robert P. Johnson and corporate guaranty of RJP Holdings, Inc.                  |

**SUPPLEMENTAL INFORMATION**

|                             |   |
|-----------------------------|---|
| <b>Fund Criteria:</b>       | <b>Job Creation:</b> <input checked="" type="checkbox"/> <b>Job Retention:</b> <input type="checkbox"/> <b>Target Industry:</b> <input checked="" type="checkbox"/> <b>MWBE:</b> <input type="checkbox"/> |
| <b>Eligibility:</b>         | <b>Bank Declination:</b> <input type="checkbox"/> <b>Financing Gap:</b> <input checked="" type="checkbox"/> <b>Target Area:</b> <input checked="" type="checkbox"/>                                       |
| <b>Recommended By:</b>      | Gerald Manhard and Daryl Spulecki   |
| <b>Loan Committee Vote:</b> | <b>Approved:</b> <input type="checkbox"/> <b>Declined:</b> <input type="checkbox"/>   |
| <b>Date:</b>                | <b>Signatures:</b>  |

## **I. Background:**

Johnsons Taphouse Inc. is a New York State Limited Liability Company formed in October 2021 and it has been verified that it is authorized to do business in New York State. The company is 100% owned by Robert Johnson who is a veteran of the local restaurant industry owning the successful restaurant Pegs Place at 4046 Lake Shore Blvd. Hamburg for the past 20 years (see pages 11 and 12 for Pegs Place financials).

Johnsons Taphouse will be a startup full-service brewery and that will be open from 11am to 11pm daily and offer customers a separate and unique experience to the current Pegs Place operation. The restaurant/brewery will offer appetizers, burgers, steaks, seafood, and specialty pizza as well as a large craft beer selection from Steelbound Brewery. Steelbound Brewery has grown from \$1.5M in gross sales to \$3M in 2021.

Mr. Johnson formed RJP Holdings, Inc in October 2021 to purchase the property adjacent to Pegs Place at 4040 Lake Shore Rd. Hamburg. A new facility will be built here to house Johnsons Taphouse Inc. Mr. Johnson has entered into a franchise agreement with Steelbound Brewery and Distilling to develop the brewery. The new facility will be a two-story building with 5,400 sf of space on each floor, as well as a full basement consisting of another 5,400 sf. The basement will be used for the storage of inventory and Brewhouse. The Brewhouse will consist of a 5-barrel brewing system supplies to brew and keg the beer. The first floor will be used for kitchen and food preparation (2,000 sf), distilling area (1,700 sf) bathrooms and dining hall seating area that will also be able to convert to private event space with seating for 120 people. There will be a bar that seats 18 people and a second bar that overlooks the brewing operation will seat 24 people. The 2<sup>nd</sup> floor will include additional food preparation area, bathrooms, a 12-person bar and additional seating for 140 people. There will be an exterior patio that seats 65 people and a VIP private room that can seat 35 people with an incredible view of the lake. The rooftop will also include a patio bar that will allow people to have a drink and enjoy the view.

The location is just off Rt. 5 on Lakeshore Drive in Hamburg where over 40,000 motorists pass each day. The location is a prime corridor into Hamburg marketplace and is ripe for this type of venue with no other location of this kind and scale within a 10-mile radius, and none of which have a waterfront view and rooftop access.

## **II. Project Description:**

Johnsons Taphouse, Inc. has applied for \$600,000 RDC business loan. The loan proceeds are to be used to purchase FF&E, specifically \$300,000 for brewery and distilling equipment and \$300,000 for kitchen equipment and furniture. The total project cost is \$6,000,000. Evans Bank and Pursuit will finance everything up to 90% LTV during construction, based on the appraisal. Evans Bank will provide a \$1,250,000 commercial mortgage, SBA/Pursuit Lending will provide a \$1,800,000 commercial mortgage and Pursuit Lending will provide a \$1,000,000 commercial mortgage, all totaling \$4,050,000 in commercial mortgage financing. The RDC will provide a \$600,000 term loan for equipment and the owners, Mr. Johnson and Ms. Greene, will be providing equity of \$1,350,000 in equity.

The Hamburg IDA has approved tax incentives for the project totaling \$557,170.

## **III. Company Management:**

Robert P. Johnson is the majority owner/operator (80.1%) of R. Johnson Inc. DBA Pegs Place Restaurant since 2003. Mr. Johnson manages all aspects of Pegs Place including accounting, human resources, menu development, and customer service. He has over 20 years' experience in the food service industry, managing well over 40 individuals daily with very little employee turnover. Mr. Johnson has a BA in Business Administration with a concentration in accounting and a MBA with a concentration in marketing from St.

Bonaventure University. He is also an active volunteer coach for soccer and basketball.

Jennifer L. Greene will own 19.9% of the business and will primarily be a silent owner/investor in the project. She will not have any involvement in the day-to-day operation of the business and has invested \$700,000 into the project. Most of these funds will be used to help purchase FF&E for the “restaurant” portion of the business.

#### **IV. Market Analysis:**

The craft beer market in the U.S continues to grow, and it is estimated it will reach \$93 billion by Market research conducted by Brandessence projects the industry will be growing at 12.35% a year. According to the research in the U.S alone there are almost 9,000 breweries. Brandessence also states that there is a growing demand for “localization in beer manufacturing” as being a key driver for growth of the industry.

The craft beer scene in Western New York has grown extensively. According to Visit Buffalo Niagara there are over 40 breweries in the Buffalo Niagara region that have helped grow the local economy. It is estimated over \$4.3 billion has been invested in the craft brewing industry in New York State. The Brewers Association estimates the breweries in Erie County accounted for roughly \$195 million of this investment. The RDC had 6 craft brewers in its loan portfolio, all which have had increasing sales and net income year after year. Three (3) of the loans have paid in full and the three (3) active loans are all being paid as agreed.

#### **V. Job Creation:**

- The loan will enable the business to create 20 full time positions ranging from \$40k-\$65k annually and 40 part time positions.
- Construction of the facility is also projected to employ 40 temporary construction/trade workers.

#### **VI. Strengths and Weaknesses:**

##### **Strengths:**

- Experience of the owner/operator in running a successful restaurant.
- Location of the company is a visible and high traffic area with lake views.
- There are no other brewery/restaurants along the Lake Erie corridor from Buffalo to Dunkirk.
- The guarantor has excellent personal credit and a net worth.
- Projected cash flow appears to be reasonable when compared to similar projects and should be sufficient to service all debt.
- The brewery industry continues to grow both locally in Erie County and nationally.

##### **Weaknesses:**

- The risks associated with a startup restaurant.
- Covid concerns
- Possibility of staffing issues
- Competition from a growing field of breweries

**VII. Recommendation:**

Based on the above case analysis and the weaknesses listed, it is recommended the \$600,000 RDC Term Loan be approved.

**Loan Amount:** \$600,000  
**Interest Rate:** 4%  
**Loan Amortization:** 120 months  
**Loan Term:** 120 months  
**Monthly P & I payment:** \$6,074.71

**Security/Collateral:**

- 1st purchase money lien on equipment being purchased with RDC proceeds
- 3<sup>rd</sup> lien on all business assets (subordinate to Evans Bank, SBA/Pursuit)
- The unlimited personal guaranty of Robert Johnson.
- Corporate guaranty of RJP Holdings, Inc. (R/E holding company)

**Loan Conditions:**

- Annually, receipt of financial statements and/or Federal Tax Returns containing all schedules within 120 days of Year End.
- Annually, receipt of personal Federal Tax Returns with all schedules for each guarantor(s) within 120 days of Year End.
- Receipt of annual Personal Financial Statements for all guarantor(s).
- Annual receipt of employment survey.
- Annual site visit by RDC staff.
- Closing costs to be paid by the borrower.

**SUPPLEMENTAL INFORMATION**

**RDC Loan Eligibility:**

- The company is an eligible NAICS sector 722511 under the RDC Loan Administration Plan.
- The project will enable the business to create 20 FT and 40 PT jobs.
- The business is located in the RDC's target area.





**RDC Loan Analysis**

|                         |                                     |                       |                   |                            |            |
|-------------------------|-------------------------------------|-----------------------|-------------------|----------------------------|------------|
| <b>Borrower:</b>        | Upstate Steel (Entity to be formed) | <b>Structure:</b>     | LLC               | <b>Year Established:</b>   | 2022       |
| <b>Address:</b>         | 3360 Walden Ave.                    | <b>City:</b>          | Depew             | <b>Zip:</b>                | 14043      |
| <b>Website:</b>         | upstatesteel.com & upstaterebar.com | <b>NAICS:</b>         | 332312            | <b>SIC:</b>                | 3499       |
| <b>Loan Amount:</b>     | \$750,000                           | <b>Interest Rate:</b> | 4%                | <b>Term:</b>               | 120 months |
| <b>Monthly Payment:</b> | \$7,593.39                          | <b>Contact Name:</b>  | Steve Rizzo (CFO) | <b>Site Visit:</b>         | 6/29/22    |
| <b>Purpose:</b>         | Business acquisition                | <b>Jobs Existing:</b> | 26                | <b>Jobs to be retained</b> | 26         |

**SOURCES AND USES**

| <b>Sources:</b>                | <b>Amount</b>      | <b>% Of Project</b> |
|--------------------------------|--------------------|---------------------|
| RDC Loan                       | \$750,000          | 16%                 |
| Bank On Buffalo TL             | \$1,410,000        | 30%                 |
| Bank On Buffalo MTG            | \$1,105,000        | 24%                 |
| Bank On Buffalo LOC            | \$650,000          | 14%                 |
| Equity                         | \$735,000          | 16%                 |
| <b>Total Sources</b>           | <b>\$4,650,000</b> | <b>100%</b>         |
| <b>Uses:</b>                   |                    |                     |
|                                | <b>Amount</b>      | <b>% Of Project</b> |
| RDC Loan – Acquisition         | \$750,000          | 16%                 |
| Bank On Buffalo TL-Acquisition | \$1,410,000        | 30%                 |
| Bank On Buffalo – MTG          | \$1,105,000        | 24%                 |
| Bank On Buffalo – LOC          | \$650,000          | 14%                 |
| Equity                         | \$735,000          | 16%                 |
| <b>Total Uses</b>              | <b>\$4,650,000</b> | <b>100%</b>         |
| <b>Dollars Leveraged:</b>      | <b>\$3,900,000</b> | <b>84 %</b>         |

**COLLATERAL AND SECURITY**

|                    |  |
|--------------------|--|
| <b>Collateral:</b> | 2nd lien position on ABA behind Bank on Buffalo  |
| <b>Guarantors:</b> | The unlimited personal guarantees of Jon Chmielowiec, Lauren Chmielowiec, and Steve Rizzo; corporate guaranty of R/E holding company to be formed (if created) |

**SUPPLEMENTAL INFORMATION**

|                             |  |
|-----------------------------|--|
| <b>Fund Criteria:</b>       | <b>Job Creation:</b> <input type="checkbox"/> <b>Job Retention</b> <input checked="" type="checkbox"/> <b>Target Industry:</b> <input checked="" type="checkbox"/> <b>MWBE:</b> <input type="checkbox"/> |
| <b>Eligibility:</b>         | <b>Bank Declination:</b> <input type="checkbox"/> <b>Financing Gap:</b> <input checked="" type="checkbox"/> <b>Target Area:</b> <input checked="" type="checkbox"/>                                      |
| <b>Recommended By:</b>      | Gerald Manhard and Daryl Spulecki  |
|                             | <b>Approved:</b> <input type="checkbox"/> <b>Declined:</b> <input type="checkbox"/>  |
| <b>Loan Committee Vote:</b> |  |

## **I. Background:**

*Scranton's Thruway Builder Supply* (hereinafter "Builders Supply and entity to be formed) provides a complete line of masonry supplies, site work accessories, various construction materials, landscaping tools, decorative concrete, and stone products. The company is located at 3360 Walden Avenue, Depew, NY, employs 26 FT people, and will be equally owned (33.3% each) by siblings Jon and Lauren Chmielowicz and Steven Rizzo. The current owner of Builders Supply is Votorantim Cimentos (hereinafter "VCNA"), a multinational corporation headquartered in Brazil. VCNA'S start was in the cement and concrete industry and has been focusing on acquiring and growing its market share in the cement and concrete space in North America. They recently acquired United Materials in 2019 (previous owner of Builders Supply), St. Mary's Cement Inc. and McInnis Cement in 2021. When VCNA acquired United Materials in 2019, including Builders Supply, VCNA was clearly focused on its aggregates and cement divisions, making it known that they did not have a vested interest in the builder's supply division, which they planned to divest and sell off.

Some of the more detailed products Builders Supply offers is:

- Ready mixed concrete division- United Materials offers all of our commercial and residential customers a consistent quality ready-mix product.
- Building Materials Division-Complete line of brick, masonry supplies, site work accessories, natural stone products, cultured stone veneers, landscaping tools, retaining walls, and decorative concrete tools and accessories.
- Aggregates Division-Fine aggregate items come in various gradations including mason sand, filter bed sand, ice control sand and concrete sand.

Builders Supply customer base is diversified and consists of approximately 1,000 customers. The end user of the products is divided equally between residential and commercial concerns, helping to reduce any sales concentration and economic risk.

Some of the projects they were a supplier for are:

- Niagara Power Project
- Dunn Tire Warehouse
- SouthPark High School
- Mercy Fights new hanger

### ***Background on related companies owned by same ownership:***

*Upstate Steel Inc. and Upstate Rebar* were founded in 1992 and 1996, respectively, and are a second-generation family-owned businesses that are under common ownership and management. Headquartered in Blasdell, NY and Lancaster, NY, both Company's customer bases are diversified and located primarily throughout NYS and Pennsylvania.

- Upstate Steel's operation involves fabricating and distributing steel. Primarily, they cut, bend, machine, roll and weld to job specifications. They also sell "service center" steel components.
- Upstate Rebar buys and sells rebar which is stocked for sale in bulk by sizes most used in construction, but also customizes rebar by bending and cutting it to the specifications of the job.

Products and Services offered by both companies include Rebar; structural angles; threaded rods; standard beams; wide flange beams; hot and cold rolled rounds, squares, and flats; structural channels; galvanized sheets, train track rails; steel grading; steel pipes; catwalk grading; diamond plate; and hot rolled sheets.

Originally founded by their parents Upstate Steel and Upstate Rebar are owned by siblings Jon and Lauren Chmielowiec, each owing in 50%. Steven Rizzo is presently the CFO of both companies and was formerly employed by Unite Material to assist with the oversight of the Builder Supply division.

When Jon and Lauren assumed operations of both companies from their parents, they were looking for opportunities to diversify their business and expand customer base. Many of their Upstate Steel and Upstate Rebar customers are industrial and general contractors with needs for builder supply equipment and products at their jobsites in addition to their core materials they provide. The acquisition of Builder Supply would complement their current business offerings.

## **II. Project Description:**

This request is to provide financing for the acquisition of Builder Supply, a division of VCNA. The assets being purchased will consist of the commercial property located at 3360 Walden Ave, Lancaster NY; Twenty-six (26) Full time employees (5 of which are members of the Teamsters union), inventory, FF&E, and receivables. Our borrower, an entity to be formed, will be owned by Johnathon and Lauren Chmielowiec, the owners of Upstate Steel and Upstate Rebar; and Steven Rizzo who is the Chief Financial Officer for Upstate Steel and Upstate Rebar. Steve also worked at United Materials in their corporate finance department as their controller and was aware that VCNA was planning Builders Supply. Each will own 33.3% of the newly formed entity.

The borrower has signed a LOI with the seller to acquire all the business assets for \$4,000,000. Per the LOI, the borrower must provide evidence of Bank on Buffalo's commitment letter, as well as the RDC commitment letter within 60 days of signing the LOI. Bank on Buffalo is providing a total of \$2,515,000 in funding; the RDC will provide \$750,000 in acquisition funding; and the borrower will be contributing \$735,000 in equity towards the acquisition. Bank on Buffalo will also provide the new entity a \$650,000 Line of Credit for working capital. The total project cost will be \$4,650,000. The RDC term loan will leverage \$3,900,000 of private investment.

Acquiring a mature operation as Builders Supply will allow the Chmielowiec's to expand their market share and customer base to their existing clients as both business lines will complement each other. The Chmielowiec's have the management and administrative infrastructures in place from their existing companies to support the acquisition including accounting, finance, purchasing, and human resources departments. Builders Supply will not be a subsidiary of Upstate Steel or Upstate Rebar, but instead a separate legal entity under common ownership and management. Steve Rizzo is well acquainted with the new acquisition's employees, customer accounts, supplier and vendor relationships, and overall operations as a former employee.

VCNA has received numerous offers from businesses outside of Erie County that involved the relocation of the business assets and employees of Builders Supply. If one of the other offers to purchase the business is accepted, all or some of the 26 full-time jobs could be permanently lost and the operation closed or operated at reduced capacity.



**III. Job Creation:**

- The RDC loan will enable the business to retain its 26 full time positions in Erie County, eliminate the risk of the jobs leaving the area, prevent business closure, and will allow the business to grow and potentially create 5 jobs over the next 3 years. Five employees from the company are part of the Teamsters CWA local 449.

**IV. Strengths and Weaknesses:**

**Strengths:**

- Historically, Strong company with stable operations
- Buyers have extensive experience in the industry limiting the execution risk
- Both Projected cash flow and historical cash flow (except for 2020) is sufficient to service the proposed debt service
- Good personal credit and net worth of the guarantors.
- Financing package will ensure the business stays in Erie County and retains 26 jobs
- The RDC loan is leveraging \$3.9M in private investment
- Revenue is evenly split between commercial and residential markets helping to reduce the risk of concentrated sales.

**Weaknesses:**

- Risk associated with the new ownership's ability to continue to successfully manage the company
- Economic risks associated with a recession, supply chain issues and overall industry downturn.
- Collateral shortfall – subordinate lien position to Bank on Buffalo

**V. Recommendation:**

Based on the above case analysis and the strengths listed, it is recommended the \$750,000 RDC Term Loan be approved on the following terms:

**Loan Amount:** \$750,000  
**Interest Rate:** 4%  
**Loan Amortization:** 120 Months  
**Loan Term:** 120 months  
**Monthly P & I payment:** \$7,593.39

**Security/Collateral:**

- Unlimited personal guarantees of Jonathan K. Chmielowiec, Lauren J. Chmielowiec, and Steven Rizzo
- Unlimited guarantee of the Real Estate Holding Company (if established)
- 2<sup>nd</sup> lien position on ABA behind Bank on Buffalo.

**Loan Conditions:**

- Annually, receipt of financial statements and/or Federal Tax Returns containing all schedules within 120 days of Year End.
- Annually, receipt of personal Federal Tax Returns with all schedules for each guarantor(s) within 120 days of Year End.
- Receipt of annual Personal Financial Statements for all guarantor(s).
- Annual receipt of employment survey.
- Annual site visit by RDC staff.
- Closing costs to be paid by the borrower.

**SUPPLEMENTAL INFORMATION**

**RDC Loan Eligibility:**

- The company is an eligible NAICS sector 332312 under the RDC Loan Administration Plan.
- The project will enable the business to retain its 26 FTE jobs.
- The business is located in Erie County.

