



## Legislation Text

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**File #:** 17-0210R, **Version:** 1

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RESOLUTION AUTHORIZING A TWELFTH AMENDMENT TO THE MINNESOTA INVESTMENT FUND LOAN AGREEMENT AND A TWELFTH PROMISSORY NOTE MODIFICATION AGREEMENT WITH NORTHSTAR MACHINE & TOOL CO., INC., D/B/A NORTHSTAR AEROSPACE, AND A FIRST AMENDMENT TO THE INTERCREDITOR AGREEMENT WITH REPUBLIC BANK, DULUTH 1200 FUND, INC. AND NORTHLAND FOUNDATION.

### CITY PROPOSAL:

RESOLVED, that the proper city officials are hereby authorized to enter into a twelfth amendment to the Minnesota Investment Fund (MIF) loan agreement, substantially in the form of the attached Exhibit A and a twelfth promissory note modification agreement, substantially in the form of the attached Exhibit B, with Northstar Machine and Tool Co., Inc., d/b/a Northstar Aerospace.

FURTHER RESOLVED, that the proper city officials are hereby authorized to enter into a first amendment to the intercreditor agreement, substantially in the form of the attached Exhibit C, with Republic Bank, Duluth 1200 Fund, Inc., and Northland Foundation.

STATEMENT OF PURPOSE: This resolution authorizes a Twelfth Amendment to the 2007 Minnesota Investment Fund ("MIF") Loan Agreement and a Twelfth Note Modification Agreement, both with Northstar Aerospace ("Northstar"), and a First Amendment to the Intercreditor Agreement between Republic Bank ("Bank"), City of Duluth ("City"), Duluth 1200 Fund, Inc. ("1200 Fund") and Northland Foundation ("Northland").

The City secured a \$500,000 MIF grant from the Minnesota Department of Employment and Economic Development ("DEED") in 2007 on behalf of Northstar. The City used those funds to make a \$500,000 loan to Northstar to assist with its expansion and the creation of 50 new jobs. In addition to the City's loan, both the Bank and 1200 Fund made loans to Northstar in the same amount; the City, Bank and 1200 Fund entered into an Intercreditor Agreement at that time.

The City's Loan Agreement and Note were first amended in January 2009 in response to the impact of the 2008 Recession to the aviation industry. The Loan Agreement and Note were subsequently amended nine additional times, at six-month intervals. The terms of such amendments included extending the period of the Compliance Date and reducing the payment amounts. In April 2015, Council approved the 11th Amendment and extended the term for a three-year period based upon the positive turnaround that Northstar had demonstrated in the previous nine months. At that time, it was anticipated that Northstar would be in a position to retire its loan balance at the end of that term (April 2018) with a balloon payment.

Unfortunately, Northstar did not continue to operate on a positive trajectory of growth to service its outstanding debt this last year. Over the course of the last few months, a secured creditors group comprised of the Bank, the City/DEED, the 1200 Fund and Northland Foundation have come together to work proactively with Northstar in hopes of identifying a course of action that will allow the company to continue to operate and retain the existing 38 jobs it currently has on payroll, while also

pursuing opportunities for restructuring its outstanding debt which may include a potential business sale.

This resolution would approve the Twelfth Loan Agreement Amendment as it relates to the DEED originated MIF Loan, a related Twelfth Note Modification, and the First Intercreditor Agreement Amendment with the secured creditors group. Altogether, these documents enable the secured creditors to continue to work with Northstar for an additional 12-24 months on the creation and execution of a business specific debt restructuring plan. Staff recommends Council approval.