



BUSINESS COUNCIL
214 W. 15th Street
Cheyenne, WY 82002
Tel: (307) 777-2800 Fax: (307) 777-2838
www.wyomingbusiness.org

Memorandum

To: Wyoming Business Council Board of Directors
From: Josh Keefe
Subject: Challenge Loan Reporting Requirements
Date: September 14, 2017

1. **Past Due Report.** Challenge Loan Policy requires quarterly reporting of all loans 30 days or more past due.
 - There are no loans past due as of June 30, 2017
2. **Loan Loss Reserve Analysis.** Challenge Loan Policy requires a review of all loans that are delinquent (over 30 days past due) and a specific reserve will be allocated if the review warrants. There will be an additional unallocated reserve of one-half of one percent of the total portfolio balance.
 - Council staff recommends a reserve allocation of 10% for the combined balance of the Economic Emergency Loans (Seed Grower, Bean Grower and Beet Grower Loans). There is currently no reserve allocation as all loans have repaid as agreed (as of June 30, 2017).
 - The Wyoming Business Council did receive 23 applications from the Economic Disaster Declaration for Wyoming Sugar, resulting in a combined loan total of \$4,482,675. There is also potential for 67 additional loans relating to The Western Sugar Cooperative, resulting in a potential combined loan amount of \$5,396,750.
 - The unallocated reserve is more than adequate with a balance of \$107,492 while policy requires a minimum of \$5,375.
 - There are no identified credits that are not past due but could present collection problems in the future.
3. **Charge off balances.**
 - None to report.

Staff Recommendation: Staff recommends acceptance of this report.

DESIGNATION OF ECONOMIC DISASTER AREA



WYOMINGBUSINESS.ORG

Client: The Western Sugar Cooperative
Date: July 26, 2017
Purpose: Designation of Economic Disaster Area and authorizing staff to receive, analyze and approve direct loans with reporting to the WBC Board of Directors

Economic Disaster Loans. The Challenge Loan statute has a provision that allows a business or group of businesses to apply to the Wyoming Business Council (WBC) for an Economic Disaster declaration and subsequent direct loans to the affected businesses. The net available balance in the Challenge Loan Fund is \$13,367,199.

§ 9-12-301(a)(v) “Economic Disaster” means an event occurring in Wyoming that has an economic impact with total loss revenues to impacted businesses in a 12-calendar month period of at least \$4,000,000 or an economic impact with total lost revenues to impacted businesses in 4 or less counties in a 12-calendar month period of at least \$1,000,000. The business council may use good faith estimates of lost revenues to businesses in determining whether an event qualifies as an economic disaster. Calculation of lost revenues shall only include actual losses incurred and shall not include any future losses;

§ 9-12-304(c). Criteria for loans.

(c) Any business or group of businesses may apply to the council for designation of an area of this state as an area in which an economic disaster as defined is W.S. 9-12-301 (a) (v) has occurred. The council shall prescribe the form and contents of such applications. The council shall review each application and make a determination as soon as practicable as to whether an economic disaster area designation shall be made. The council may make loans to any business located within the designated economic disaster area that has lost revenue as a result of the economic disaster.

Western Sugar Cooperative Request. The WBC received a request for an Economic Disaster declaration from Western Sugar Cooperative (Western). Western is grower-owned and run as a cooperative. Western is owned by 850 different grower/grower entities in four states: Wyoming, Colorado, Nebraska, and Montana. Western operates in five Wyoming counties: Laramie, Platte, Goshen, Park, and Big Horn, with two of the company’s five plants located in Lovell and Torrington. Growers are paid based on a contractual agreement, tonnage delivered, the sugar content of the beets and the efficiency of the factory. The growers share in any loss (or gain) incurred during the processing of sugar beets. This has allowed Western to operate as a small processor in its respective communities and to add jobs toward the local economies, while allowing growers to have an additional crop in their rotations. During the fall 2016 beet harvest, approximately four inches of rain fell in the growers’ area for Western in northwest Wyoming, making the beets muddy. Western’s processing was difficult with muddy beets and many rocks, but manageable through mid-December. At that time, a sudden freeze occurred, and continued below-normal temperatures for two months froze the remaining beets in the pile. These two events created a reduction in the ability of the processing plant (Western) to extract sugar from the beets and created an additional factory expense, as explained in a letter from Western on July 17, 2017 by Rodney D. Perry, President & CEO. (Attachment 1).

Western estimates the total loss to growers this year exceeds \$5,000,000 based on tonnage and prices. Without the proposed Economic Disaster declaration, this loss would be equivalent to a direct job loss of 17 positions and an economic impact of \$6,881,720 per year based on the average, median income of Park and Big Horn Counties at \$37,401 per year. There would also be a loss of local and state tax revenues of \$50,680 (based on the WBC's economic impact modeling software – RPAS).

The WBC conducted an exhaustive search for other emergency financial aid. The WBC staff first contacted the United State Department of Agriculture (USDA) to explore the possibility of using federal funds to help the growers. USDA directed the WBC to the regional Farm Service Agency (FSA) office in Worland. FSA emergency relief funds are to be used for natural disasters, i.e. floods, fires, tornadoes, etc. Western's circumstances do not qualify as a natural disaster.

Past Economic Disaster Loans. The WBC has provided four rounds of funding for Economic Disaster loans since 2000:

- In 2000, 78 loans to alfalfa seed growers (\$3,941,758)
- In 2005, eight loans to bean growers (\$346,614)
- In 2007, 37 loans to beet growers (\$1,750,024)
- In 2017, 23 loans to beet growers (The 23 growers applied for \$4,482,675 in emergency loans by the May 15, 2017 deadline. The WBC Board originally obligated up to \$5,675,650 for loans to an estimated 38 growers. Not all growers applied. The average loan amount is: \$194,899)

The total for the three declarations, before 2017, has been 123 loans for \$6,038,396. Six loans were charged off amounting to \$84,201, with all six growers filing bankruptcy and going out of business. Interest income earned during the history of the program has been \$941,414; the corpus of the fund has not been decreased.

Process and Requirements. If the Board designates a disaster area, each beet producer will need to complete an application by September 15, 2017 and submit required financial information to the WBC. WBC staff will analyze each loan for sufficient collateral, cash flow and personal guarantees (if applicable). When the loan is made to an entity (Partnership, LLC, Corporation), it will require a personal guarantee from the owners/members of the company. The potential loans will be collateralized with a first-position UCC filing on the sugar beet crop. If additional collateral is required, the collateral shall be valued and follow the WBC loan policy (Attachment 2, pgs. 11-12). The maximum loan amount for each producer will not exceed that producer's percentage share of the total loss and the aggregate of all loans shall not exceed the calculated loss of \$5,396,750. The estimated average loan will be \$80,549; ranging from \$3,600 to \$355,600. Each loan will have a \$100 loan origination fee (third party fees included), be charged 3.5% per annum, have a maximum loan term of 10 years and be closed at the borrowers' local banks. The 10-year term allows the grower(s) to spread the impact of the loss over the life of the loan. Rather than recognizing all of the loss in one year, this would allow growers to not only fulfill loan covenants with banks, but also continue operating and potentially save their operation(s). Staff will issue loan proceeds in the form of a check to either the borrower (solely), or the borrower and their respective financial institution. The loans will be serviced by Markee Escrow Services.

Recommendation:

Staff recommends the Board of Directors declare the sugar beet growers in Big Horn and Park Counties producing and delivering beets to The Western Sugar Cooperative as an "Economic Disaster" area as defined in W.S. 9-12-301(a) (v) for a cumulative amount not to exceed \$5,396,750.

Staff further recommends the Board of Directors to authorize staff to receive, analyze, and close individual loans, with reports to the Board at subsequent meetings.

Respectfully Submitted,

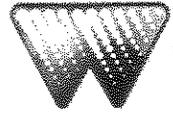
A handwritten signature in black ink, appearing to read 'J.S. Keefe', written in a cursive style.

Joshua S. Keefe

Economic Development Finance Manager

Attachments:

1. Correspondence letter from Rodney Perry, President & CEO of The Western Sugar Cooperative
2. WBC loan policy (Pages 6-8)



Western Sugar Cooperative
(Grower Owned)

7555 E. Hampden Ave., Suite 520
Denver, Colorado 80231
Telephone: (303) 830-3939

July 17, 2017

Dear Mr. Avery,

Thank you for the support in assisting our farmer owners of Western Sugar Cooperative regarding the Challenge Loan program after the recent economic disaster they experienced.

The Western Sugar Cooperative (WSC) was formed in 2002. Our 850 grower-owners proudly raise sugar beets in Wyoming, Colorado, Montana, and Nebraska. Processing facilities operated by the cooperative produce retail, food service, and food processor sugar in bulk, bags, and packets. The cooperative also markets sugar beet co-products of beet pulp, high-energy molasses and other feeds for livestock (www.westernsugar.com). We have over 90 growers in Wyoming raising sugar beets in 5 counties. We operate 2 out of 5 of our sugar beet plants in Wyoming; 1 in Lovell and the other in Torrington. Similar to Wyoming Sugar, our growers have a right to grow sugar beets as an owner and likewise they are obligated to grow sugar beets as an owner. Growers are paid for their crop under a contractual arrangement that is based upon the tonnage delivered, the sugar content of the beets and the efficiency of the factory. As owners, growers are responsible for any losses incurred in the processing of sugar beets. Knowing how important sugar beets are for our growers and in their rotation of crops, supporting them to stay growing sugar beets is critical. We are the major business activity in both Lovell and Torrington supporting the local economies through jobs, the services we buy, and the value created for the growers.

Specifically regarding the 2016 crop, harvested in September, October and November of 2016, weather related conditions made the sugar beet crop very difficult to process resulting in what we have deemed to be a disaster. Our initial average gross sugar beet payment estimate was \$45 per ton with adjustments for sugar content. However, due to the weather conditions that estimate has been lowered to \$36.37 per ton. In the Lovell area, the conditions tied to this economic loss started at the end of September when harvest began. The area received excessive rain with over 4 inches from September to mid-October. The excessive rain and cloudy cool days made it very difficult for our growers to harvest the beets. The beets ended up very muddy and full of rocks. This caused factory processing problems, slowing the plant and causing significant maintenance cost increases as we processed beets. Adding to the problems experienced, we saw significant cold temperatures, minus 10 degrees in December, continuing in January and February. These frozen beets jammed up our unloading system and further slowed processing. Our plant performance was significantly impacted as the beet supply was interrupted. We experienced slower processing, and less extraction of sugar, while experiencing higher fuel and processing input costs.

All of these above conditions combined to cause a significant economic hardship for our growers. Our best estimate of the grower loss in this area is in excess of \$5 million dollars. If you need anything, please let us know.

Sincerely,

Rodney Perry
President & CEO
Western Sugar Cooperative

Challenge Loan Policy

2.1 Purpose

To provide loan policies and procedures that are uniform and for quality control to ensure good, consistent service.

2.2 Scope

The Wyoming Business Council Board of Directors and any staff that has oversight of the Challenge loan portfolio or loan administration responsibilities. Please refer to the Wyoming Partnership Challenge Loan Program Rules and Regulations for detailed requirements and procedures.

2.3. Definitions

“Borrower” means the community development organization or a state development organization, which applies for, commits to, and is responsible for repayment of funds provided under this program;

“Business” means any existing enterprise which employs people within the state, provides services within the state, uses resources within the state or otherwise adds economic value to goods, services or resources within the state, and includes farm and ranch operations;

“Cash or cash equivalent” means liquid assets including savings, checking and money market accounts, certificates of deposit, stocks, bonds or cash value life insurance or other similar assets. Equity in real estate holdings and other fixed assets is not to be considered liquid assets;

“Commercial Lender” means commercial institutions that loan money, including banks, credit unions, mutual savings banks, savings and loan associations, stock savings banks, or trust companies.

“Community development organization” means a group of private citizens organized as a business entity authorized to do business in this state for the purpose of providing financing for new, existing, or expanding businesses and other economic or community development purposes in Wyoming, and which may take equity positions and shall take security positions in its borrowers’ businesses and appropriate personal guarantees from the owners thereof;

“Economic Disaster Loan(s)” means loans made to eligible businesses in an economic disaster area as defined by W.S. 9-12-301(a)(v), where such loans are funded by the Challenge Loan Program;

“Servicing agent” means the qualified entity contracted by the WBC to service the loans in the portfolio and to provide administrative services for the program;

“State development organization” means a corporation organized under W.S. 17-11-101 through 17-11-120 with the authority to provide financing for new, existing or expanding businesses, and to fulfill other economic or community development purposes throughout the state of Wyoming, and which may take equity positions and shall take security positions in its borrowers’ businesses and appropriate personal guarantees from the owners thereof;

“Main street loan participation” means a provision of financing by the WBC in which the WBC participates with a Commercial Lender that has made a loan to a business for building improvements to maintain the structure’s historical character; and

“Natural gas fueling infrastructure loan” means a loan issued by the WBC for the costs of the engineering, design, real property, equipment and labor necessary to install a functioning natural gas filling station to fuel motor vehicles, which operate on natural gas as a transportation fuel.

2.4 Loan Policy

The basic loan policy of the WBC will be to service the borrowing needs of entities that enhance the economic development of the State of Wyoming on a sound and prudent basis that is beneficial to the people of Wyoming.

The Board, in discharging its duty, will ensure that loans in the WBC's portfolio are made on a sound and collectable basis promoting economic development within statutory authorization.

2.5 Types of Loans

The types of loans and financing the WBC will provide to entities in promoting economic development are as follows:

(1) Commercial Loans

- a. Loans secured by a security interest in marketable equipment are to be amortized over a period not to exceed 120 months. The loan should not exceed 85% of value.
- b. Working capital loans secured by inventory and/or accounts receivable should be made to a borrower whose financial condition and income clearly indicate an ability to repay without resorting to liquidation of inventory and/or the accounts receivable securing the loan. The terms of these loans should not exceed one year and an aging schedule and inventory listing should be updated at least quarterly. The loan should not exceed 50% of the value of the eligible inventory and 60% of the value of the eligible accounts receivable. Eligible accounts receivable includes only those accounts that are not more than 60 days past due. Eligible inventory would exclude inventory that is not marketable or obsolete.

(2) Real Estate Loans

- a. Permanent real estate loans secured preferably by first mortgages on improved business or commercial properties. Real estate loans including any prior liens shall not exceed 85% of appraised value and loan maturity shall not exceed 240 months.
- b. Main Street Loan Participation: A provision of financing by the WBC in which the WBC participates with a Commercial Lender that has made a loan to a business, preferably located in the downtown area of a municipality, for building improvements to maintain the structure’s historical character.

(3) Economic Disaster Loans

Economic disaster loans will be granted only after an economic disaster has been declared, as defined by law and adopted rules.

- a. The WBC can only approve loans to applicants with a reasonable ability to repay the loan and other obligations from earnings. The terms of each loan are established in accordance with each borrower's ability to repay but shall not exceed 120 months.
- b. As required by law, the interest rate for each loan is based on the WBC's determination of whether each applicant has the ability to repay. Substantial economic injury is the inability of a business to meet its obligations as they mature and to pay its ordinary and necessary operating expenses.

(4) Natural gas fueling infrastructure loans

Natural gas fueling infrastructure loans are direct loans from the challenge loan program for natural gas fueling infrastructure.

- a. Funds must be used for the costs of the engineering, design, real property, equipment and labor necessary to install a functioning natural gas fueling station.
- b. Payment terms consist of no interest or principal payments due for the first two (2) years of the term loan. All deferred interest during the first two (2) years of the term loan shall accrue to the principal balance.
- c. Loans are to be amortized over a period not to exceed 240 months. Loans should not exceed 75% of the total costs of land, building and equipment or one million dollars (\$1,000,000), whichever is less.

(5) Future Investment or Loan Programs

Modifications will be made to the policy in this chapter as necessary to reflect changes made to existing state statute.

CREDIT MEMORANDUM



WYOMINGBUSINESS.ORG

Applicant: Wyoming Bank & Trust
Client: WYCO Recycling, LLC
1938 Wyatt Drive
Cheyenne, WY 82007
Date: July 26, 2017
Purpose: Fund Equipment Purchases for Creation of Single-Stream Recycling Facility

Proposal:

Wyoming Bank & Trust (WBT) requests the Wyoming Business Council (WBC) participate under the “Bridge Loan Participation” provision of the Wyoming Partnership Challenge Loan program to provide a term loan to WYCO Recycling, LLC. The proposed loan would be used to purchase equipment for a single-stream recycling service. The proposed loan would add seven employees to an existing staff of five. There will be a two month draw period for acquisition and installation of equipment. WBC’s participation will be 35% of the final project cost.

Total Project	\$ 425,000	
Total Loan	\$ 405,314	(not to exceed)
Bank Portion	\$ 263,455	
WBC Portion	\$ 141,859	(35% of the project)
Amount Refinanced	\$0	
Collateral	1st Lien Position on New & Current Equipment	
Collateral Value	\$476,840	
	\$305,480 – New Equipment	
	\$171,360 – Existing Equipment Appraisal	

*Advances on new equipment will not exceed 85% of the purchase price, as supported by invoices

Fees	\$1,418.59	(1%)
Interest Rate	4% Fixed for the First Five Years, Then Increase to Match to the Bank Note Thereafter; Blended Rate is 5.46%	
Loan to Value	85.0%	
Loan Term	6 Years (fully amortizing)	
Repayment	Monthly	
Guarantors	Brian T. Heuer	
	Charles L. Atchison	

Project:

WYCO Recycling was founded by Brian Heuer and Charley Atchison in July of 2015. WYCO then purchased the recycling assets and customer accounts from Magic City Enterprises located at 2600 Missile Drive. Both men have several years of experience in the recycle and waste industry, dating back to 1969 for Charley. Since their acquisition of Magic City Enterprises, approximately two years ago, the company has increased their recycling capacity from 150 tons per month to 900 tons per month.

The proposed project will help create a single stream processing facility. This facility will serve an area stretching from Fort Collins, CO in the south, to Billings, MT in the north, to North Platte, NE to the east and Rawlins, WY to the west. The facility will bring in recyclables from all these areas, combine them, process and ship them to markets on the west coast and overseas.

The City of Cheyenne has already signed a contract with WYCO Recycling, LLC for a three-year commitment, with the option for two, two-year renewable terms if both parties mutually agree to terms. The terms of the contract will save the City of Cheyenne \$30 per ton, in addition to saving on time, transportation, equipment, etc.

The net available balance in the Economic Development Fund is \$13,367,199.

Loan Proceeds will be used to fund some of the following equipment:

1. Sorting Screens
2. Conveyor Belts
3. Magnets
4. High-Capacity Baler

Cash Flow:

Based on the financials obtained from the borrower, WYCO Recycling, LLC exhibits the ability to service the proposed debt with a DSCR of 1.47 using the bank's payment amount. The cash flow will be stronger/better when the interest rate is blended with the WBC's portion of the loan and will improve the cash flow of the company.

Bank Risk Rating:

The loan is presented as a pass credit with Wyoming Bank & Trust, based on positive cash flow, sufficient collateral, and guarantor support.

Recommendation:

Staff recommends that the Board of Directors of the Wyoming Business Council approve the loan participation in the amount of \$141,859.00 (one hundred forty-one thousand eight hundred fifty-nine and 00/100 cents) as presented in this Credit Memorandum. This participation will be with Wyoming Bank & Trust in Cheyenne as the lead bank. The loan recipient will be WYCO Recycling, LLC.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'J.S. Keefe', written in a cursive style.

Joshua S. Keefe
Economic Development Finance Manager

Attachment 1

- **Applicable Statute**

Attachment 1

§ 9-12-304. **Criteria for loans.**

Any business may apply to the council for bridge financing as defined in W.S. 9-12-301(a) (vi). "Bridge financing" means a provision of financing for that portion of the total project cost which is calculated by subtracting from the total project cost the sum of ownership debt and equity. The Council shall not consider a proposal in which the bridge financing component exceeds thirty-five percent (35%) of the total project cost or one million dollars (1,000,000) whichever is less; and the business does not contribute more than fifteen percent (15%) of the total project cost. The financing is intended to be a participation with a commercial lender with the lender and state sharing a proportionate first lien position on all collateral. In the event of a default the lender will restructure, or proceed with the appropriate legal remedy with proceeds received to be shared proportionately with the state;