



# City of Grand Island

Tuesday, December 19, 2006

Council Session

## Item G21

**#2006-370 - Approving Amendment to CDBG Grant #93-ED-018**

Staff Contact: Joni Kuzma

# Council Agenda Memo

**From:** Joni Kuzma, Community Development

**Council Meeting:** December 19, 2004

**Subject:** Amendment to Nova-Tech grant #93-ED-018

**Item #'s:** G-21

**Presenter(s):** Joni Kuzma, Development Grants Specialist

## Background

In 1993, Nova-Tech, Inc. received a 5% Community Development Block Grant as a loan of \$340,500 for working capital. The core activity of the company is sterile filtration of fluids in an FDA in-vitro device and drug registered facility. The company was founded in 1988. Nova-Tech was to have paid back the loan in 25 installments following a \$17,000 initial interest payment. City records show an outstanding principal balance of \$192,704.77; an outstanding interest amount of \$18,742.52 (\$211,447.29 total); amount repaid \$147,295.23. *No payment has been made since 9/7/04.*

On Feb. 20, 1995, the repayment schedule was restructured and approved by Council. A second repayment restructure was presented to Council in July 1997. The council passed a resolution that forgave all interest prior to September 1997 and restructured the payments over a 7-year period. In 1997, Nova-Tech received a windfall payment of \$565,000 from the cancellation of a contract with Auto Immune. At that time, the City chose not to take any percentage of that windfall and allowed Nova-Tech to reinvest all of those funds into the business.

In August 2006, an investor in Nova-Tech obtained a default judgment against Nova-Tech, Inc. and Gloria J. Thesenvitz. The investor accepted a single cash payment offer. The effort to procure enough cash to pay this judgment prompted Ms. Thesenvitz to come to the City to again restructure the CDBG debt. The judgment and settlement have been reviewed by Community Development, the Finance Director and the Community Development Advisory Committee.

Job Creation: The original job creation requirement as stated in the CDBG contract was to create 16 full time Equivalent positions. Of these positions 51% or 9FTE's were to be held by low- moderate-income people according to Section 8 HUD Guidelines.

Nova-Tech's employment:

	<u>2005</u>	<u>2006</u>
	16 FTE's	18 FTE's
	1 ¾ time employee	1 ¾ time
	2 Part Time employees	2 Part Time
	<u>1 Student Intern</u>	<u>1 Student Intern</u>
Total	20	23

It appears that Nova-Tech met the job creation requirement as outlined in the original agreement. The positions were maintained for a period of 1 year after August 2005.

### **Discussion**

The goal of the original CDBG grant to Nova-Tech for working capital has been met and the company is seeing a profit. However, they have been in default on the CDBG loan since September 1994. Based on the financial information provided to Community Development by Nova-Tech, Community Development staff and the Community Development Advisory Committee make the following recommendation for action in regard to the outstanding loan.

“It is the recommendation of Community Development that the City forgive all interest accrued to date (about \$18,000) and assigns 0% interest to the outstanding principal. Nova-Tech will be given the option to pay a lump sum payment of \$50,000 to the City of Grand Island by January 15, 2008. If payment is received by that date, the \$340,000 lien will be removed from the business and released. If payment is NOT received by that date, the original lien of \$340,000 will still be valid and repayment of the unpaid balance will begin February 1, 2008 at 5% interest.”

Staff feels that this solution benefits both parties and the community. CDBG funds are in danger of large cuts at the federal level. Reuse funds collected from loan payments on Economic Development loans are important to continued economic development. Most recently, \$75,000 of reuse funds were awarded to Standard Iron for building construction and \$150,000 to Case New Holland for the purchase of equipment.

The Department of Economic Development (DED) has been contacted regarding the City's options for negotiating the lien on Nova-Tech. DED indicated that since the Memorandum of Understanding and repayment of the lien are an agreement between the City and Nova-Tech, the City can amend the agreement as appropriate.

### **ALTERNATIVES**

It appears that the Council has the following alternatives concerning the issue at hand. The Council may:

1. Approve the Amendment to the Memorandum of Understanding for CDBG grant 93-ED-018

2. Deny the Amendment to the Memorandum of Understanding for CDBG grant 93-ED-018
3. Postpone the issue to a later date.

### **Recommendation**

City Administration recommends that the Council approve the Amendment to the Memorandum of Understanding for CDBG grant 93-ED-018

### **Sample Motion**

Motion to approve the Amendment to the Memorandum of Understanding for CDBG grant 93-ED-018.

**AMENDMENT**  
**to**  
**Memorandum of Understanding**  
**CDBG NO. 93-ED-018**

WHEREAS, the City of Grand Island and Nova-Tech, Inc. entered into a Memorandum of Understanding, DCBG no. 93-ED-018, on or about February 14, 1994; and

WHEREAS, the parties have agreed to restructure the repayment provisions of the loan set forth in said Memorandum of Understanding,

Now, therefore, it is hereby mutually agreed by and between the City of Grand Island, Nebraska, and Nova-Tech, Inc. that section **“A. LOAN”**, subsection **“Interest Rate and Loan Terms”** be amended to read as follows:

**Interest Rate and Loan Terms:** The interest rate on the CDBG will be fixed at 5.0 percent 0 percent and all interest accrued through December 19, 2006 be forgiven. No interest shall accrue from this date until January 15, 2008. The following loan terms shall be added to the agreement:

Nova Tech, Incorporated will have until January 15, 2008 to pay the City of Grand Island the amount of \$50,000.00. Once payment has been received in full, the City will release the obligation of the previous loan agreement with Nova Tech, Inc. The payment must be made in full and will not be accepted in smaller increments.

If the City of Grand Island does not receive a payment of \$50,000.00 by January 15, 2008, Nova Tech, Inc. must resume payment on the entire amount due on the original note at 5.0% interest.

All other terms and conditions of the aforesaid Memorandum of Understanding shall be and remain in full force and effect. The parties agree to properly execute and deliver any further and additional documents as may be required to fully implement this Agreement.

Dated:

CITY OF GRAND ISLAND, NEBRASKA,  
a Municipal Corporation

Attest

\_\_\_\_\_  
RaNae Edwards, City Clerk

By: \_\_\_\_\_  
Margaret Hornady, Mayor

NOVA-TECH, INC., a Corporation

By: \_\_\_\_\_  
Gloria J. Thesenvitz, President

RESOLUTION 2006-370

WHEREAS, in 1993 Nova-Tech, Inc., was the recipient of a 5% Community Development Block Grant in the amount of \$340,500 at 5% interest for working capital; and

WHEREAS, the City of Grand Island and Nova-Tech, Inc., entered into Memorandum of Understanding CDBG No. 93-ED-018, on or about February 14, 1994, wherein Nova-Tech, Inc., agreed to repay the loan in 25 installments following a \$17,000.00 initial interest payment; and

WHEREAS, the City of Grand Island and Nova-Tech, Inc, have agreed to restructure the repayment provisions of the loan set forth in the Memorandum of Understanding, wherein interest accrued to date shall be forgiven, a 0% interest rate assigned to the negotiated account, Nova-Tech, Inc., shall pay \$50,000.00 to the City of Grand Island on or before January 15, 2008; and

WHEREAS, the proposed Amendment to Memorandum of Understanding, CDBG No. 93-ED-018 has been reviewed and approved by the Interim City Attorney.

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE CITY OF GRAND ISLAND, NEBRASKA, that the Amendment to Memorandum of Understanding, CDBG No. 93-ED-018 between the City of Grand Island and Nova-Tech, Inc., for a restructure of repayment provisions is hereby approved; and the Mayor is hereby authorized and directed to execute such Amendment to Memorandum of Understanding on behalf of the City of Grand Island.

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE CITY OF GRAND ISLAND, NEBRASKA, that

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Adopted by the City Council of the City of Grand Island, Nebraska, December 19, 2006.

\_\_\_\_\_  
Margaret Hornady, Mayor

Attest:

\_\_\_\_\_  
RaNae Edwards, City Clerk

Approved as to Form    ☐ \_\_\_\_\_  
December 15, 2006     ☐ City Attorney