City of Madison Community Development Authority
Madison Capital Revolving Fund Report
TJ's Taylor's One Price Cleaning, Inc.
October 19, 2010

Project: TJ's Taylor's One Price Cleaners, Inc. ("Borrower") proposes the start-up of a dry-cleaning business that also provides a location, training apparatus and funding support for non-profit training and job placement for disadvantaged and developmentally-disabled persons. The MCRF loan would purchase machinery & equipment, furniture and fixtures, and fund tenant improvements to be installed in a leased facility at 4522 Verona Road.

Leased Rental Space:

TJ's Taylor's One Price Cleaners	4,500 SF
Madison Apprenticeship Program (MAP) & TJ's Support Brokerage	4,300 SF
Total Units	8,800 SF

Project Cost (Uses of Capital):

Land	$0	
Equipment	241,000	Includes $35,000 installation
Furniture, Fixtures	50,000	
Equipment Contingency	25,000	
Tenant Improvements	73,500	
Operating Reserves	100,000	
Soft Cost	92,200	Includes $40,000 soft cost contingency
Total Cost	$581,700	

Sources of Capital:

Equity	$43,700	
Grants:	198,000	
Loans:		Terms:
MCRF Loan	$121,440	$120,000 to borrower + $1,440 WHEDA guaranty fee, 5 yr note, 10 yr amort, prime +.25% floating, Interest-only in years 1 & 2 1st UCC on $220,000 MME, 80% WHEDA guaranty
MGE	30,000	1st UCC on $30,000 "green" MME
WI Dept of Commerce	100,000	7 yr. Note, 2% fixed, working capital loan
Family Investment (Near-equity)	90,000	Unsecured, subordinated
Total Loan Sources	340,000	
Total Sources	**$581,700**	
Less: Cost (Uses)	$581,700	

Analysis:

TJ's Taylor's One Price Cleaners, Inc. ("Borrower") is a for-profit Subchapter (s) corporation with non-profit subsidiaries (MAP and TJ's Support Brokerage). Borrower plans to operate a for-profit dry cleaning business that provides partial funding support (70% of net income after debt service) for the MAP and TJ's programs and utilizes the business as a training facility for disadvantaged and/or developmentally disabled persons in Dane County. Borrower is sub-leasing 4,500 SF of space from TJ's Support Brokerage. Tenant improvements to the leased facility will also benefit MAP and TJ's. The Borrower provides a well-organized business plan with detailed financial projections, although staff has no relative experience with this particular business model.

Worst-case financial projections assume flat, gross revenue of approximately $1.4 million beginning in 2012.

Projections also indicate distributions from net income, after debt service, to Vernon Taylor and Diana Shinall ("Owners") that are then donated to MAP and TJ's Support Brokerage. Borrower also distributes funds to the Owners to cover their income tax liability from the taxable portion of such charitable donations. The impact of these distributions creates a negative net worth that over time grows less negative between the years 2011-2015. Although a growing net worth (in this case, growing less negative) is a positive indicator, lending to a business with negative net worth is generally considered high-risk. A mitigating factor may be that that without such distributions to support non-profit activities, the Borrower's net worth would project a healthy range between 1.14 and 3.42. WHEDA requires a debt-to-worth ratio of a positive 4:1 or less for its loan guaranty program which will be important in providing collateral security for the MCRF loan. Although uncertain at this time, WHEDA staff has stated that it is more lenient for guaranty applications of less than $100,000, so it is possible that the City may be able to obtain a guaranty of $96,000 for this loan even with the Borrower demonstrating negative net worth. However, as a precaution, **staff recommends that a stipulation be added to the Term Sheet that no distributions to Owners shall occur until all debt service payments are made.**

Projections also assume Operating Reserves of $150,000 carry forward each year--$100,000 of which is provided by a private unnamed source. As the time of this writing, the source and terms, if any, are not finalized, but may include offering this investor an ownership stake in the Borrower. **Staff recommends that a stipulation be added to the Term Sheet that the ownership structure in Borrower shall not change without prior written notification to and consent of the City of Madison.**

Staff estimates that at best, machinery and equipment to be purchased may have a secondary market value of approximately $74,000 (about 33% of the $206,000 cost), thus making a loan guaranty a necessity in order to achieve the 90% loan to value required by the MCRF loan criteria (Loan to Value chart below). Borrower proposes that WHEDA may provide a guaranty for 80% of the MCRF loan (approximately $96,000). WHEDA requires that the City apply for such loan guaranty and staff has added $1,440 into the loan proceeds to pay for the WHEDA application fee. An annual WHEDA fee of .25% is also added into the MCRF interest rate. The impact of the WHEDA guaranty improves the loan's collateral security so that it falls within CDA guidelines. **Staff requests CDA and City authorization to apply for a WHEDA Small Business Loan Guaranty.**

Borrower makes use of several loan programs, including MGE for $30,000 of eco-efficient machinery (requiring a first lien by MGE), $100,000 of working capital from the WI Dept of Commerce as well as a subordinated private loan from family sources for $90,000. Staff was recently alerted that a portion of this family investment may be substituted by a subordinated loan from the Wisconsin Women's Business Initiative Corporation (WWBIC) and that perhaps an increased MCRF loan amount could fund the other portion of family investment. As stated earlier, WHEDA Guaranty requirements are more stringent for a guaranty above $100,000. Therefore, it is uncertain that an increased MCRF loan, requiring a guaranty in excess of $100,000 would receive WHEDA approval.

Borrower would commit $43,700 of cash equity to the project, constituting 7.5% of project cost, and has secured $198,000 in grants (34% of cost) from other City of Madison programs. As terms to the private $100,000 investment are unavailable, staff is unable to determine that it is equity.

<u>Ratios:</u>

Debt to Worth Industry Standard	4:1 or 5:1				
Borrower:					
Debt to Worth (w/ Distributions)	-1.32:1 in 2012				
Debt to Worth (w/o Distributions)	3.42:1 in 2012				
Debt Coverage Standard	1.2				
Debt Coverage – Borrower	Net Income*	394,920	311,486	347,400	345,665
*Net Income is net of loan interest paid.	Principal Pd.	44,873	46,341	47,933	49,562
	Debt Coverage	8.8	6.7	7.2	6.9
Loan to Value MCRF Standard	90%				

Loan to Value - Borrower	Estimated Cost	$206,000
	x Discount %	.66
	Discounted Value	$70,040
	WHEDA Guaranty (80%)	96,000
	Total Collateral Value	$166,040
	MCRF Loan	$121,440
	Loan to Value - Borrower	**73%**