

October 21, 2003

Members of the Economic  
Development Committee  
Common Council  
City of Milwaukee  
Room 205 City Hall  
Milwaukee, WI 53202

RE: File 030793 –Wrought Washer, Inc.

Committee Members:

File 030793 approves a co-operation agreement between the Milwaukee Economic Development Corporation (MEDC) and the City of Milwaukee to provide financial assistance to a city of Milwaukee manufacturer, Wrought Washer, Inc. (“the Company”). The Company began operations in Milwaukee over 100 years ago, and manufactures metal washers and stampings. Under the agreement, MEDC would loan \$450,000 to the Company to assist in the \$900,000 cost of consolidating a facility from Pleasant Prairie into the Milwaukee facility. Of this \$450,000 MEDC loan amount, the City’s Development Fund would provide \$150,000, with MEDC supplying the remaining \$300,000. The City Development Fund is financed through City General Obligation borrowing.

Currently, the Company maintains its major manufacturing facility in the city of Milwaukee at 2100 S. Bay Street, and a second facility in the town of Pleasant Prairie. The Company leases the Pleasant Prairie facility, and owns the Milwaukee facility. There are 96 full time employees at the Milwaukee location and about 31 employees at Pleasant Prairie.

The Company intends to consolidate its manufacturing facilities at the Milwaukee location to reduce costs and remain competitive. If the consolidation goes according to plan, all 96 employees will remain at the Milwaukee plant with an estimated minimum of 25 positions transferred from Pleasant Prairie to Milwaukee. Only a minimum number of employees will remain at Pleasant Prairie for product distribution purposes. In addition to consolidation, the Company seeks to accomplish capital repairs to the Milwaukee facility to correct code violations.

The proposed financing for the Project involves an equal amount of private and City of Milwaukee financing as follows:

• Private Bank financing	\$300,000	
• Private Owner Equity	<u>\$150,000</u>	
Total Private Financing		\$450,000
• MEDC Loan participation	\$300,000	
• <b>City Loan participation</b>	<u><b>\$150,000</b></u>	
Total MEDC Loan		<u>\$450,000</u>
<b>TOTAL PROJECT FINANCING</b>		<b>\$900,000</b>

The MEDC loan is being proposed with a five-year term, five-year amortization at five percent per annum, with equal monthly payments.

**Is the Project Likely to be Successful?**

While it is difficult to determine the long-range success of the Company in such a competitive manufacturing market, the planned consolidation will no doubt improve the Company's cost structure and enhance its competitiveness. The consolidation would also maintain, and probably increase, employment at the Milwaukee location. With 96 full time manufacturing jobs in Milwaukee now and an additional 25 full time jobs potentially transferred to Milwaukee in early 2004, the city would benefit from the project.

The MEDC/City of Milwaukee financial assistance is being provided through a loan as opposed to a grant. It is very likely that the loan will be repaid. First, the term of the loan is limited to five years with a five percent annual interest rate. Second, loan repayment is supported by limited guarantees of two of the three Company owners, including the assignment of the proceeds of a life insurance policy of one of the owners in the loan amount of \$450,000. Third, the loan benefits from a \$225,000 "carve out" of accounts receivable financing. The MEDC Loan Committee has already reviewed and approved this proposed loan.

**Is the Proposed City Financial Assistance Required to Implement the Project?**

Based upon the available information, it is difficult to determine if the loan amount is required. The Company apparently retired over \$800,000 of outstanding debt last year, so it is conceivable that the Company could finance a greater portion of this Project with private financing. However, with the current tight lending market, additional private financing is not a certainty. **Given the direct jobs related benefits to Milwaukee, the favorable terms of the proposed loan, and the likelihood of full repayment to the City, we support the proposed loan.**

We do have two suggestions to further enhance the City's position with regard to the proposed loan:

1. The proposed loan is intended mainly to achieve a city employment objective. Therefore, the MEDC loan agreement with the Company should specify some minimal level of full time manufacturing employment to be maintained at the Milwaukee site for at least the next 8-10 years. This employment level commitment should presumably fall between the current 96 employees to the expected 127 employees.
2. The City is providing "gap" financing, that is, financing needed to complete the Project. As such, the City's \$150,000 should be drawn upon only after all other financing sources have been spent. Should the proposed Project cost less than \$900,000, the City should receive the benefit. MEDC has indicated that this is their normal method of funding loans.

Should you have any questions regarding this letter, please contact me or Michael Daun of my staff immediately.

Sincerely,

W. Martin Morics  
Comptroller