

May 12, 2020

Dear Citizens of Park Falls,

The City Council deliberated in closed session at the May 11th Council Meeting, in which the Council voted to authorize staff, attorneys, and consultants to *draft* a \$1 million “bridge loan” agreement between the City and the paper mill, and *bring back* the proposal to the City Council for consideration (a bridge loan is a short term financing tool that allows operation until long-term financing is secured, it is expected that long term financing will be secured within 2-3 months). I expect the due diligence required to adequately address all concerns by both parties to take at least a week to work through. The owner of the mill has agreed to key conditions: priority creditor position, personal guarantee, mortgage against equipment, match the City’s loan amount with at least \$1 million immediately, removal of all City obligations at time of long-term financing, and *most importantly to the residents of Park Falls, a guarantee for minimum water usage per quarter.*

Since the end of the “receivership” in November, that sold the paper mill to Park Falls Development, LLC, the mill’s new owner and management staff have been aggressively pursuing a path to reopen the paper mill, reorienting products towards packaging. After 7 long months, it appears a path forward has finally emerged to restart the pulp mill, bring a number of employees back, and to resume paper production shortly thereafter. Clients who purchase a valuable by-product from the mill, which represents a critical supply of income, have indicated that if financing is not found within weeks, they may permanently exit the market for this product. If that should happen, it would represent a permanent hurdle to overcome, for any future owner of the mill. Long-term financing is currently being procured in earnest, however, will not be available until at least July. This timeline, without financing from the City, seriously jeopardizes the prospects of the mill ever reopening.

The City water utility was significantly upgraded over a decade ago, in order to serve the paper mill. The debt and operation costs are amortized over a usage which includes the paper mill running. Since the cessation of operations of the mill, the water utility has been operating at a significant loss. Losses without the mill running are roughly \$200,000 to \$250,000 per year. Within 2 years, if the mill should **not** reopen, we project an increase in water rates between 25% and 50%. This would be an enormous burden on City residents, and hurt future prospects of attracting businesses to Park Falls. In the proposed loan agreement, the mill has agreed to a “take or pay” provision, which means they agree to be billed for a minimum usage of water each quarter, regardless of use. The minimum usage requirement is currently being reviewed by staff and consultants; I expect it to be eventually around 25 million gallons per quarter. This would ensure a stable financial future for our utility.

When a final agreement has been reached between staff and the mill, I will bring the agreement to the Council for final approval and deliberations via a “Special Meeting,” with a public hearing. This meeting will be at the Park Falls Public Library, (To Be Announced) and all will have the option to appear in person or comment by phone. In these very tough times, I am grateful the months of hard work by all appear to be paying off.

Sincerely,

Michael Bablick, Mayor