



# Request for City Council Committee Action from the Finance & Property Services Department and the Department of Community Planning and Economic Development

**Date:** June 23, 2015

**To:** Council Member Lisa Goodman, Chair, Community Development & Regulatory Services Committee

**Referral to:** Council Member John Quincy, Chair, Ways & Means Committee

**Subject:** Restructuring of City Loan to Landmark 201 West Broadway Project

## Recommendation

Finance and CPED staff recommend that the \$350,000 City loan to the Landmark 201 West Broadway Project be restructured based on the revised terms and conditions contained in this report.

## Previous Directives

In April 2007 the City Council approved a \$350,000 Commercial Corridor Revitalization Loan to the Landmark 201 West Broadway Project from available Common Project (TIF) funds. On February 8, 2013 the City Finance Officer approved placing the defaulted loan in forbearance, and required Landmark 201 West Broadway, LLC to make monthly payments of at least \$500. On October 28, 2013 CPED staff recommended that the Finance Officer remove the forbearance and authorize staff to pursue collection actions on the outstanding loan principal and unpaid accrued interest – no action taken. On August 15, 2014 the City Council authorized the City Attorney to take foreclosure or other legal actions necessary to collect on the loan.

## Department Information

Prepared by: Mark Winkelhake, Manager, Development Finance, 612-673-5105

Approved by: Kevin Carpenter, Chief Financial Officer \_\_\_\_\_

Craig Taylor, CPED Executive Director \_\_\_\_\_

Presenter in Committee: Mark Winkelhake

## Reviews

- Development Finance Committee Approval: X Date: June 18, 2015

### Financial Impact

- Finance and CPED staff believe that by restructuring the City loan to the project, it provides the Borrower and the Guarantor the opportunity to return to financial strength, and increases the likelihood that a significant portion of the City's loan to the project will be repaid.

### Supporting Information

In 2008 the City originated a \$350,000 loan to Landmark 201 West Broadway, LLC to help finance the acquisition and rehabilitation of a one-story building (formerly Irv's Bar) located at 201 West Broadway. The rehabbed building contains a total of 4,600 sq. ft. of leasable office space on the main and basement levels. Master Civil & Construction Engineering, Inc. ("MCCE") was the original developer, and after construction was complete the company moved its headquarters into the building. In 2010 Master Properties Minnesota, LLC ("MPM") was formed and MCCE ceased operations. MPM currently occupies the entire building, along with its affiliates.

Total development costs of the project were financed, in part, by a first mortgage loan from Bridgewater Bank (\$493K), and the City's second mortgage loan (\$350K). The terms of the original City loan were as follows:

Borrower:	Landmark 201 West Broadway, LLC
Loan amount:	\$350,000
Interest rate:	4.0%
Payment frequency:	Monthly
Term:	10 years
	Four (4) years interest only, and then
	Six (6) years P & I payments (based on a 20 year amortization)
Payments due:	\$1,167 per month - 1 <sup>st</sup> 48 months (beginning July 1, 2008)
	\$2,120 per month - next 72 months (beginning July 1, 2012)
	All outstanding principal and accrued interest due at maturity
Maturity date:	Balloon due on June 1, 2018
Collateral:	2 <sup>nd</sup> mortgage
Guarantor:	Master Properties Minnesota, LLC (added in 2010)

The Borrower made 13 monthly interest-only payments from 7/1/08 through 7/1/09, and then stopped making loan payments due to financial difficulties that MCCE was experiencing during the early years of the Great Recession. In December of 2010 the loan was officially placed in default status. In 2010-2012 no loan payments were made, property taxes became delinquent, and a second floor was not constructed on the building as required by the redevelopment agreement.

In March 2013 the City Finance Officer authorized placing the loan in forbearance, and the loan was modified to require \$500 monthly forbearance payments. By placing the loan in forbearance the City preserved its rights and remedies under the loan agreements (including foreclosure and other legal actions). The Borrower has made all of the required \$500 monthly payments on the loan since April 1, 2013.

In August of 2014 the City Council authorized the City Attorney to take foreclosure or other legal actions necessary to collect on the loan.

## Financial Review

In early 2015 Finance staff reviewed the 2013 and 2014 unaudited financial statements of Landmark 201 West Broadway, LLC, and Master Properties Minnesota, LLC. Based on this review, Finance staff has concluded that because both entities are currently in financial distress, foreclosure or other legal action to collect on the loan is not advisable at this time. It is unlikely that such action(s) would result in any significant net proceeds to the City after accounting for the costs of litigation.

As of July 1, 2015 the outstanding balance on the City loan will be \$420,000, which consists of \$350,000 in outstanding principal and \$70,000 in unpaid accrued interest (assuming all forbearance payments are applied against accrued interest on the loan). The Borrower has also entered into a confession of judgement with Hennepin County to pay all delinquent property taxes on the property. As of May 14, 2015 the outstanding balance on the Bridgewater loan was \$310,597.

Over the last several months, Finance and CPED staff have been in discussions with the Principal and CEO of Master Properties Minnesota, LLC. He believes that the financial health of MPM will be improving in coming months and years, and he has expressed confidence in his ability to meet all of the staff recommended revised terms and conditions described below.

## Recommended Revised Terms and Conditions

Although the future financial health of the Borrower and MPM remains uncertain, staff is recommending that the loan be restructured based on the following revised terms and conditions:

- 1) Loan amount = \$420,000 (as of 7/1/15)
- 2) Interest rate = 0%
- 3) Payment frequency = monthly  
(on the first day of each month, beginning 8/1/15)
- 4) Term = 60 months (5 years)
- 5) First year monthly payments = \$3,000 (8/1/15 – 7/1/16)
- 6) Second year monthly payments = \$4,000 (8/1/16 – 7/1/17)
- 7) Third year monthly payments = \$5,000 (8/1/17 – 7/1/18)
- 8) Fourth year monthly payments = \$6,000 (8/1/18 – 7/1/19)
- 9) Fifth year monthly payments = \$6,000 (8/1/19 – 7/1/20)
- 10) The loan can be prepaid, in whole or in part, at any time during the five-year term of the loan.
- 11) If all scheduled monthly payments are made in a timely manner, then the outstanding loan balance at the end of the fifth year (\$132,000) will be forgiven.
- 12) If at any time prior to the end of the fifth year the outstanding loan balance is prepaid down to \$132,000 or less, then the remaining outstanding loan balance will be forgiven.
- 13) If a scheduled monthly payment is not received by the 10<sup>th</sup> day of the month, then the entire outstanding loan balance is immediately due to the City, and no portion of the loan will be forgiven. This term signifies that this is the final restructuring of the loan.

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Additionally, the requirement for the Borrower to build a second floor on the building would be eliminated, and all of the forbearance payments would be applied against accrued interest on the loan.

The two-year extension of the loan term (from 6/1/18 to 7/1/20), the reduction in the loan interest rate (from 4.0% to 0.0%), the potential loan forgiveness (\$132,000), and the graduated loan payments during years 1-4 are all designed to give the Borrower/MPM the opportunity to return to financial health and payback a significant portion of what it owes the City.

A Restructured City Loan Repayment Schedule is attached to this report. The City retains the right to take foreclosure or other legal actions necessary to collect on the loan, if the Borrower fails to comply with these revised terms and conditions.