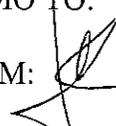


Community Planning & Economic Development

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June 19, 2008

MEMO TO: David Fey, Interim Administrator, Minneapolis Empowerment Zone
FROM:  Jack Kryst, Chair, Development Finance Committee
SUBJECT: Development Finance Committee Comments on Empowerment Zone
Loan Applications

On June 19, 2008, the Minneapolis Development Finance Committee reviewed at your request the financial capacity of applicants and the overall financial viability of 10 proposals for the use of Empowerment Zone loan funds

A compilation of the Committee's informal comments is attached.

Thank you for providing the opportunity for the Committee to participate in the review of the loan applications. We hope that you find the comments useful as you continue your evaluation of the proposals.

cc: Maria Conley

Minneapolis Development Finance Committee
Comments on Empowerment Zone Applications

General Comments

- Some applicants did not provide financial statements, making it difficult to determine financial capacity of applicant.
- Some applicants did not provide operating pro formas, making it difficult to determine the financial viability of the proposal.
- Three of the West Broadway-area projects propose a total of almost 90,000 square feet of new small-shop retail space; the committee questions if there is a market for that much space.
 - Staff may want to do a windshield survey of West Broadway to determine the current amount of vacant retail space.
 - The possibility exists for four publicly assisted projects on West Broadway to be competing for the same few tenants.
- Several projects require significant capital fundraising; is there enough capacity in the charitable-giving community to support all these projects?
- More than one of the West Broadway projects will eventually have to succeed to make a difference in the area; they should explore joint or coordinated fundraising.

L1 AccessAbility, Inc. – \$250,000 for renovation and expansion of 360 Hoover Street

Strengths:

- Balance sheet looks strong
- Good debt ratio
- Appears to be good program operator
- Seen by CPED as excellent candidate for Bank Qualified bond program

Weaknesses:

- Long-term revenues declined
- There is no information on how they will serve an additional 150 people annually
- The Committee notes that the feasibility study recommends a \$4 million fundraising goal, but the project has set a \$5 million goal
- They are net users of cash in their existing operation
- They are very dependent on fundraising but the record to date is not encouraging

Suggestions:

- Find out why revenues declined
- Determine if they need the \$250,000 EZ loan, since they're fundraising
- They should provide evidence that they can get more funding from the County and State
- If contributions are the source of repayment of the loan, consider a shorter loan term than 20 years
- May want to require that other funding sources be in place before the loan is awarded

L2 The Ackerberg Group – \$400,000 for renovation of Delisi’s building

Weaknesses:

- Financial statements were not included
- They still need equity, and the source isn’t apparent
- Hard to determine strength of developer’s commitment to project without financial statements; it’s hard to see why they’re doing this
- May be proposing too much retail space
- Nine percent cap rate may be too generous
- There’s no room for error in the pro forma
- Will need long lease-up period
- Demand for office space is not strong in the area

Suggestions:

- First mortgage and EZ loan should not exceed 100 percent of appraised value
- Consider project without retail space, or phased project with retail built after success of other larger projects such as the YWCA

L3 Catalyst Community Partners – \$500,000 for development of 2220 West Broadway

Weaknesses:

- Relationship with Ackerberg proposal (L2) not clear; can’t tell if there are other partners in addition to Ackerberg
- Bank that will provide primary financing isn’t identified
- Questions about source of equity and whether rental rate is renewable

Suggestions:

- Need more information about source of equity and timing of money coming in to the project
- The committee notes that a bank will likely require pre-leasing as a condition of lending
- Test the market before awarding loan funds

L4 Emerge Community Development – \$500,000 for renovation of North Branch Library

Noted:

- Comparing this application to the June 5 report to the Development Finance Committee on the same project, there is a reduction in developer equity

Weaknesses:

- It’s not clear where operating funds are coming from; if they receive EZ funds for the facility, how will they operate it?
- There is no financial statement; can’t see their cash flow or sources for new programs
- There is no operating pro forma
- It’s a limited-purpose building that will be hard to sell; this will affect the appraised value
- Very dependent on fundraising
- It will cost a lot to operate this building; sustainability is a big question
- There is a lot of space in the building that will not generate income
- If the building had to be sold, it would have to be gutted to be usable for another purpose

L5 Great Neighborhoods! Development Corporation – \$500,000 for Broadway Plaza

Strengths:

- YWCA's participation in project

Weaknesses:

- The applicant is proposing a huge amount of retail space (44,000 square feet)
- This project is much larger than any other undertaken by the developer
- There is no operating pro forma, prospect list, leasing plan or financial statements
- Hard to determine financial structure
- It appears there will be six loans; can't determine which loan is in first place – will banks be willing to be in subordinate position?
- Project still has a long way to go to put together funding

Suggestions/Comments:

- Lender will require pre-leasing; a strategy should perhaps be to build the YWCA and not the office building
- There's no speculative office building going on right now

L6 Neighborhood Development Center – \$250,000 for business expansion loan program

Comments:

- The interest on Midtown Global Market distorts their consolidated statement; they should show income stream and balance sheets for the various companies

Weaknesses:

- More than half of revenue is from foundation grants
- Don't cash flow after debt service; equity probably not as much as appears
- Financial statements probably make them look in a better position than they are; they are not very strong financially
- Couldn't function without grants because projects don't cash flow
- From statements provided, the loan collection rate seems weak.

Suggestions:

- Ask for current financial statements; statements provided are a year and a half old
- Set up EZ assistance as a grant; it will probably work out that way anyway

L7 Neighborhood Development Center – \$250,000 for Midtown Global Market

- (See Comments, Weaknesses, and Suggestions listed for L6 above)

Weaknesses:

- It's not clear how \$125,000 for improvements and build-outs will be used; would be helpful to know what will be used for physical improvements

L8 North End Hardware – \$100,000 for business expansion

Strengths:

- Strong balance sheet; only \$23,000 in debt
- Modest profit
- Well-capitalized
- Long-standing business
- One of the best deals in the group
- The business anchors a critical intersection
- Requesting a relatively small loan; shows prudence

Weaknesses:

- Question whether there are enough earnings to repay the loan

L9 Plymouth Christian Youth Center – \$500,000 for Capri Theater

Weaknesses:

- Huge project for a youth organization
- Question organization's capacity to carry out a project on this scale
- Theater operations won't pay costs
- Dependent on huge donations; much of last year's revenue was from contributions
- No partner
- Fundraising has tripled, but still a long way to go; will take a long time to reach \$9.1 million goal; went after easy money first (from own Board)
- Amount budgeted for environmental remediation is too low (although State will reimburse a large portion)
- Can't tell if first mortgage is secured

Suggestion:

- Wait until fundraising goals have been met before EZ money awarded

L10 Seward Redesign – \$350,000 for Bystrom Bros. site

Weaknesses:

- If can't immediately sell land parcels, won't be able to service debt
- Not clear if they have the capital to carry land costs
- Lots of unanswered questions