



Request for City Council Committee Action from the Department of Community Planning and Economic Development - CPED

Date: December 11, 2007

To: Council Member Lisa Goodman, Chair, Community Development Committee

Referral to: Council Member Paul Ostrow, Chair, Ways and Means Committee

Subject: AINDC Great Streets Loan Request

Recommendation: Authorize \$1 million loan to AINDC for the Broadway Plaza project to assist with acquisition of 800 West Broadway. Amend the 2007 General Appropriation Resolution by increasing the appropriations in the Community Planning and Economic Development agency funds:

- a) CPR0 – IDS Data Service Center Fund (CPR0-890-8933) by \$409,000; and
- b) SPH0 – Community Development Fund (SPH0-890-8933) by \$591,000.

Previous Directives: On November 2, 2007, City council approved the Empowerment Zone Governance Board's recommendation to provide a \$300,000 grant to AINDC for predevelopment costs of the space at 718-800 West Broadway. On October 5, 2007, City Council recommended proper City officers be authorized to execute the following actions which will allow AINDC to leverage the strength of their Franklin Ave properties to support development activities in North Minneapolis: a.) restructure a 1981 Urban Development Action Grant (UDAG) loan to the ANDC in the original amount of \$550,000, restructured in 1993, to extend the term, reduce the interest rate and suspend interest accrual and payments for five years; b.) Subordinate loans AA940045 and BD00000022 to a Franklin Bank Line of Credit (the UDAG loan will not be subordinated and will remain in second position); c.) Amend loan documents removing the Franklin Business Center as security for City loan BD00000022 also secured by the Franklin Circles Shopping Center.

On July 11, 2006, City Council adopted the guidelines for the Capital Acquisition Revolving Fund. On April 27, 2007 City Council adopted revised Community Economic Development Fund (CEDF) program guidelines and the commercial corridor categorization based on an assessment of corridor economic health reported to target CEDF resources and reallocated Tax Increment Common Project, levy and Legacy fund from Commercial Corridor Revitalization Fund (CCRF) to CEDF/NEDF and divided the remaining balances, 2007 budget allocation and March 30, 2007 additional CDBG allocation roughly equally between the CEDF and NEDF programs.

Prepared by: Erik Hansen, Principal Project Coordinator, 673-5022
Andrea Petersen, Project Coordinator, 673-5106
Approved by: Charles T. Lutz, Deputy CPED Director _____
Presenters in Committee: Erik Hansen

Financial Impact

Action is within the Business Plan

Community Impact

Neighborhood Notification: Staff notified the Hawthorne neighborhood of the request.

City Goals: A safe place to call home – “Get Fit” and make healthy choices; Equal Access, Equal Opportunity, Equal Access; Lifelong learning second to none; Connected Communities

Sustainability Targets – N/A

Comprehensive Plan: 4.1 Minneapolis will encourage reinvestment along major urban corridors as a way of promoting growth in all neighborhoods, and 4.3 Minneapolis will improve its ability to accommodate automobile traffic and foster pedestrian movement, and expands the range of goods and services offered.

Zoning Code: C2 – Conditional

Living Wage/Business Subsidy Agreement

Yes_____ No_X____

Job Linkage

Yes_X__ No_____

Supporting Information

The American Indian Neighborhood Development Corporation (AINDC) submitted a request for \$1 million in Great Streets funding to assist with acquisition of 800 West Broadway (Ward 3, Hawthorne neighborhood) for redevelopment into a 24-hour YWCA. City staff recommends two sources for the loan: \$591,000 from the Legacy Fund revenue allocated to the Capital Acquisition Revolving Fund (CARF) and \$409,000 from Common Project funds allocated to the Great Streets program (formerly obligated through the Commercial Corridors Program) (see Sources and Uses of funds).

City Council approved the CARF guidelines in July 2006. CARF can be used by Multi-family Housing and Business Development sections of CPED or developers for acquisition of property for redevelopment along commercial and transit corridors and at commercial nodes designated in *The Minneapolis Plan*.

AINDC plans to redevelop the properties located at 718 and 800 West Broadway into a YWCA fitness center, parking ramp, and commercial space, collectively called the Broadway Plaza Project (Project). AINDC has a purchase agreement to purchase 800 West Broadway Avenue for \$3 million.

In addition to the proposed \$1 million Great Streets loan, AINDC has secured \$600,000 from the United States Department of Health and Human Services Office of Community Support and a \$500,000 Equity Equivalent loan from Wells Fargo. AINDC has applied for a \$500,000 Equity Equivalent loan from US Bank. AINDC reports that none of the

financing instruments needed for acquisition require a mortgage on the 800 West Broadway parcel.

The remaining \$400,000 is a proposed grant from the Hennepin County Transit Orient Development (TOD) program, which AINDC will to apply for in 2008. Until TOD funds are available, AINDC will finance the \$400,000 TOD grant gap with its own funds (cash proceeds from the sale of the Franklin Business Center). Based on discussions with County staff, it is unlikely that grant recipients will be able to apply TOD funds towards acquisition, however a decision has not been made and acquisition is an eligible expense in the current program.

Acquisition of the property will occur prior to the disbursement of the City's proposed loan. AINDC will do so with funds from a Wells Fargo bridge loan. The proposed City financing will take out this loan. AINDC reports that it would like to close in 2007 for financial reporting and grant management reasons. If City financing is not approved, the bridge loan will convert to a mortgage at terms to be determined.

After acquisition, AINDC will work on securing permanent financing for the total project. Total development cost is estimated at \$60 million. Construction on the project is anticipated to start in 2009 or once 50 percent of the total project budget is raised.

The Project has multiple public benefits. It will create an estimated 275 new jobs. Redevelopment of the property and activating the area will help decrease crime in the immediate neighborhood, improve the appearance of West Broadway, and strengthen potential market interest in the immediate area. Most importantly, the project will provide a destination anchor on West Broadway that will have positive economic impacts on adjacent businesses and residents.

The Project addresses the Minneapolis Great Streets program goal to revitalize and sustain commercial districts. The addition of a 24-hour YWCA provides another anchor on the Northside's largest commercial district. The scope of the Project and character of the Project's tenants will provide a catalyst to a commercial corridor that lags behind corridors within the City.

West Broadway is one of two "intervene" areas in the Minneapolis Great Streets program. Through the program's classification system, West Broadway exhibits many indicators of distress and blight. This avenue has high incidents of criminal activity, households with low incomes, and underused or boarded commercial real estate. It is the only commercial corridor designated as an intervention area (Cedar-Riverside Station Area is the other in the program).

AINDC is a 501(c)3 non-profit corporation with a proven history developing successful commercial real estate in challenged areas. AINDC's recent developments are along East Franklin Avenue, the organization's primary area of focus. These include Franklin Street Bakery, Ancient Traders Market, Franklin Circles Shopping Center, and Franklin Business Center.

AINDC's board expanded the mission of the organization to the City's Northside to focus on West Broadway commercial development. With its expanded mission, AINDC plans to apply its demonstrated model of transforming commercial areas into safe

healthy streets with this Project. When complete, the Project will address crime problem through an active 24-hour YWCA with a Minneapolis Police Safety Center, it will create enlivened public spaces, and it will expand the needed retail choices in an underserved area.

According to the McComb Group, Ltd study commissioned by the YWCA, the Project will serve an untapped market and the trade area around the Project exhibits many similarities to the demographics of the existing YWCA location in Downtown, Midtown, and Uptown. Strengthening the demographic findings are survey results of existing YWCA members where more than 1,800 live in the area that the Project will serve with a large proportion living on the Northside.

Financing Overview

AINDC requested a \$1 million loan from the Great Streets program for real estate development assistance to acquire 800 West Broadway Avenue. AINDC will purchase the property for \$3 million by the end of 2007. The \$1 million Great Streets Loan will consist of \$591,000 from the Legacy Fund revenues allocated to the Capital Acquisition Revolving Fund (CARF) and \$409,000 from Common Project funds allocated to the Great Streets program (formerly obligated through the Commercial Corridors Program). Since this loan comes in the pre-development phase and cash flow from operations is not expected until 2010, the City will recover a portion of funds raised from the capital campaign until cash flow is constant. The exact percentage of unrestricted capital campaign funds AINDC will pledge towards loan payments will be negotiated. To protect the City's investment, the loan will take the first collateral position on the real estate which has an appraised value of \$2.3 million. The CPED appraiser reviewed the submitted appraisal. Based on a capitalized income method of valuation he estimates the value of the building at \$1.6 million.

Proposed Loan Terms

Principal:	\$1 million
Source of funds:	\$591,000 CARF (Legacy Fund), \$409,000 Great Streets (Common Project funds)
Interest:	4.0 percent
Collateral:	1st position on real estate (800 West Broadway). Appraised value between \$1.6 million and \$2.3 million
Loan-to-value ratio:	43 to 62.5 percent
Repayment	
First-part (CARF Source): \$591,000	Payments tied to Project capital campaign. Interest accrues over 36-month period. Outstanding principal and capitalized interest due 1st day of 37th month. Monthly reporting of capital campaign required with payments due as funds collected. The City will receive a percentage of all unrestricted capital campaign funds received in months 1-36 (to be negotiated).
Second-part (Common Project Source): \$409,000	Interest accrues in first 36-months. Interest-only payments due monthly in years 4 through 6 (37th through 72nd month). Outstanding principal and capitalized interest due first day of 73rd month. The

	source of repayment is YWCA lease payments and the capital campaign. Repayments accelerated if project is deemed not to proceed or a default of terms on first-part of loan principal and interest.
Debt-coverage:	No cash flow from operation in pre-development phase 2008 to 2010. AINDC reports revenues from capital campaign during this time, the City will require a portion of all Project revenues to go toward repayment. In 2010 the YWCA (the sole tenant of 800 building) opens. Rent income will be the source of repayment in addition to the capital raised for the loans thereafter.

Sources and Uses

Source	With City and County participation	Without City and County participation
Great Streets Loan (Proposed)	\$1,000,000	
Wells Fargo Bridge Loan (Applied) – will turn to a mortgage if Great Streets Loan not approved		\$1,000,000
Wells Fargo Equity Equivalent Loan (Secured)	\$500,000	\$500,000
US Bank Equity Equivalent Loan (Applied)	\$500,000	\$500,000
HHS Office of Community Support Grant (Secured)	\$600,000	\$600,000
Hennepin County TOD Grant (proposed 2008 round)	\$400,000	
AINDC funds (Secure) – use until Hennepin County TOD funds available		\$400,000
Uses		
Acquisition (800 West Broadway Ave)	\$3,000,000	\$3,000,000

After discussion with Hennepin County staff, AINDC will need to competitively reapply for a 2006 TOD grant of \$400,000. Based on these discussions, it is unlikely that if AINDC is successful that it would be able to apply the funds to acquisition. AINDC will apply gains from the sale of its Franklin Business Center (est. \$640,000) to cover this gap, if TOD funds are unavailable.

This loan request is to secure a key parcel for the Broadway Plaza Project. Total development costs are estimated at \$60 million. A majority of these funds (est. \$40 million) will come from a capital campaign from corporate, foundation, and individual donors. The remainder is a mix of TIF, New Markets Tax Credits, and debt. After the preliminary analysis of the potential donors, Bentz Whaley Felssner (AINDC's capital campaign consultant) has determined that the goal for the project is achievable.

Repayment

The \$1 million Great Streets loan will be repaid when permanent sources are secured through its capital campaign. The City will structure the loan where AINDC's repayments will be tied to a portion of funds raised in its capital campaign. The borrower will be required to report on a monthly basis on the capital campaign progress. Regardless of payment progress, a balloon payment of \$591,000 plus capitalized interest will be due on the first day of the 37th month. Beginning in 2011, regular monthly interest payments will be due on the second half of the loan for another 36 months. The remaining principal and capitalized interest will be due on the first day of the 73rd month. If AINDC defaults on the first balloon payment, or any other loan term then the City will accelerate repayment of the second half of the loan.

Collateral

An appraisal dated March 10, 2006 by Orion Appraisals, Inc. states that the property has a fee simple market value of \$2,340,000 for the property. Based on a capitalized income method of valuation the CPED appraiser estimates the value of the building at \$1.6 million. The \$1 million Great Streets loan will be in first position to the other loans used to acquire the property. The loan to value ratio for the \$1 million Great Streets loan to the 800 West Broadway parcel between 43 and 62.5 percent.

Loan Covenants

The City will set construction and permanent hiring goals for the project for Northside residents.

The City will require an interest on the capital campaign to be available for debt service. The City will require AINDC to have a lease in good standing from the YWCA of Minneapolis for a full service fitness facility on the premises for the entirety of the loan (AINDC has shown evidence of such a lease signed in June 2007).

Risk Assessment

Strengths: The proposed loan has sufficient collateral to cover the debt in the worst case scenario (43% or 62.5% LVR). The project has committed anchor tenant (lease signed, partner on capital campaign). AINDC/YWCA has a market study that supports this location as a YWCA. National firm (Bentz Whaley Felssner) retained to manage capital campaign. Other tenants identified for commercial building on the adjacent property with letters of interest conditioned on the YWCA opening as the Project's anchor. AINDC has proven track record in challenged commercial areas.

Weaknesses: The project has no cash flow from operations in first 36 months. Capital campaign contributions must be unrestricted to cover loan payments. Project relies on \$40 million capital campaign for \$60 million total development cost. AINDC's largest project to date is \$6 million. All properties required for project scope not under control of AINDC. Without City approval, Wells Fargo bridge loan will convert to a mortgage with unknown terms.