

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

Date: July 7, 2009

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

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

Subject: Revised Terms for Great Street Gap Financing Loan

Recommendation: Approve revised loan terms for approved loan to Artspace Projects, Inc. or an affiliate or related entity, for \$425,000 in conformance with the terms described herein.

Previous Directives: (1) On June 2, 2009, the Minneapolis City Council approved a \$275,000 CDBG-R Grant to the Chicago Avenue Fire Arts Center. (2) On November 21, 2008, the Council (i) approved the sale of 3749 Chicago Avenue South to Artspace Projects, Inc. or an affiliate or related entity for \$510,000 in conformance with the terms described herein; (ii) increased the 2008 Revenue Budget for the Community Planning and Economic Development agency Fund 01SPH – Community Development (01SPH-8900900-348501) by \$510,000; (iii) approved a loan to Artspace Projects, Inc. or an affiliate or related entity, for an amount not to exceed \$425,000 in conformance with the terms described herein; and (iv) authorized the execution of necessary documents by and between the City and Artspace Project, Inc., consistent with recommendations provided herein.

Prepared by: Rebecca Parrell, Project Coordinator (673-5018)

Approved by: Charles T. Lutz, Deputy Director, CPED _____

Catherine A. Polasky, Director, Economic Policy and Development _____

Presenter in Committee: Rebecca Parrell

Financial Impact

- * Action is within the Business Plan
- * Increase speed of loan repayment

Community Impact

Neighborhood Notification: NA
Comprehensive Plan: NA
Zoning Code: NA
City Goals: NA
Sustainability Targets: NA
Living Wage/Business Subsidy Agreement: Exempt
Job Linkage: Yes

Background Information

In 2007, artists who reside in the area near 38th and Chicago founded the Chicago Avenue Fire Arts Center (CAFAC) with a mission to provide arts education in fine and industrial art forms that are produced by heat, spark, or flame. This includes sculptural welding, blacksmithing, jewelry-making, glassworking, foundry, electronics, and others.

The CAFAC founders identified the historic Nokomis Theater at 3749 Chicago Avenue South (long ago converted to an auto repair use) as an ideal location for their home when it was listed for sale in 2007. In January 2008, they secured a purchase agreement for \$510,000. When the organization was unable to secure financing to purchase the building on their own, they turned to the City of Minneapolis and Artspace Projects, Inc. (Artspace) for assistance in realizing their plans and the *38th St & Chicago Ave Corridor Framework/Small Area Plan*.

The City assumed CAFAC's purchase agreement on July 11, 2008 and acquired the property on August 5, 2008 for \$510,000. In November 2008, the Minneapolis City Council approved the sale of 3749 Chicago Avenue South to Artspace (for future lease to CAFAC) and approved a Great Streets Gap Loan to Artspace to help finance the acquisition and renovation of the property.

Revised Project Financing

When the City Council approved the land sale and Great Streets Gap Loan, Artspace proposed financing the project with three primary sources (i) up to \$510,000 in Bank Qualified Bank Direct tax-exempt revenue bonds (BQ bonds), (ii) up to \$425,000 in a Great Streets Gap Financing loan, and (iii) a \$75,000 City 2% commercial corridor loan. In the past seven months, financial lending has tightened further, and Artspace has been unable to secure BQ bonds. Last month the City Council approved a stimulus package CDBG-Recovery (CDBG-R) grant to increase project equity and move it forward.

With the addition of the CDBG-R grant, the first mortgage can change from \$425,000 in BQ bonds to a conventional \$150,000 bank loan. This reduces the debt service the project must support and makes room in the revised proforma for principal and interest payments on the Great Streets loan. The initial Great Streets Gap Financing loan terms were (i) four percent interest, (ii) two years payment deferral, (iii) eight years interest-only payments, and (iv) balloon payment at year ten. The interest rate and balloon payment at year ten remain the same in the proposed revised loan terms. The first two years of payment deferral would change to interest-only payments and the eight years of interest-only payments would change to principal and interest payments based on 30-year amortization. Providing Artspace and thus CAFAC with two years interest-only payments and amortizing the principal and interest payments over 30 years still allows flexibility for CAFAC to build their organization in a financially prudent manner.

REVISED Development Sources

Sources	Financing	Rate	Term	Annual Debt Service
First Mortgage (TCF)	\$ 150,000	7.5%	10	\$21,853
Great Streets Gap Loan *	\$ 425,000	4.0%	10	\$24,348
CPED 2% Loan	\$ 75,000	2.0%	10	\$8,281
CDBG-R Grant	\$ 275,000			
Great Streets Façade Improvement Matching Grant **	\$ 5,000			
Powderhorn Park Façade Improvement Matching Grant **	\$ 5,000			
Philanthropic Grants	\$ 29,500			
TOTAL DEVELOPMENT SOURCES	\$ 964,500			

* Interest-only payments years 1-2, principal and interest payments years 3-10 based on 30-year amortization, balloon payment at the end of year 10

** Based on availability