

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

Date: June 10, 2008

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

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

Subject: North Branch Library Great Streets Loan Request

Recommendation: a) Authorize a \$350,000 loan to Emerge Community Development for the redevelopment of the historic North Branch Library at 1834 Emerson Avenue North from 2008 General Appropriation in fund 01400 - Community Block Development Grant (01400-8900320); and

b) Authorize the appropriate City staff to execute the loan agreement and any related documents.

Previous Directives: No previous directives for this project. On April 27, 2007, the City Council created the Great Streets program, which identifies the West Broadway commercial corridor as an area targeted for intervention, and directed staff to create an online application for gap financing for catalytic redevelopment projects on commercial corridors and nodes.

Prepared by: Erik Hansen, Principal Project Coordinator (612-673-5022)

Approved by: Catherine A. Polasky, Director of Econ. Dev. _____

Charles T. Lutz, Deputy Director _____

Presenters in Committee: Erik Hansen

Financial Impact

The CDBG monies for this loan are in the CPED budget.

Community Impact

Neighborhood Notification: Northside Residents Redevelopment Council reviewed the proposed loan on May 12, 2008 and supports it.

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: Use Complies with Current Zoning

Living Wage/Business Subsidy Agreement Yes_____ No_X____

Job Linkage Yes__X__ No_____

Supporting Information

Emerge Community Development (Emerge), a nonprofit corporation, submitted a request for \$500,000 in Great Streets funding to assist with acquisition of 1830 and 1834 Emerson Avenue North (Ward 5, Near North) for redevelopment into a community meeting place and technology center. Staff recommends a loan of \$350,000 from the Great Streets Program through CDBG funds to address this request.

Emerge plans to renovate the historic North Branch Library (built in 1894), located at 1834 Emerson Avenue North, and restore the building to its original purpose as a community gathering place and educational resource for the community (the "Project"). In addition to housing office and meeting spaces for the three nonprofit tenants, EmERGE (one of the tenants) will administer a Community Technology Center at the site. The adjacent property located at 1830 Emerson Avenue North, currently the site of a single family residential house, is required for parking and will be acquired by EmERGE. EmERGE has a purchase agreement to purchase 1834 Emerson Avenue North for \$635,000 and to purchase 1830 Emerson Avenue North for \$195,000.

In addition to the proposed Great Streets loan, EmERGE has a \$1.5 million loan commitment from City County Federal Credit Union (Credit Union). The remaining development costs are provided through equity derived from a combination of historic tax credits (\$500,000), fund raising (\$1.5 million), and government grants (\$300,000 Hennepin County TOD - application submitted). The total development costs are estimated at \$3,946,024 with \$2,061,341 (52%) in the form of equity and \$1,884,683 (48%) in the form of debt.

The Project has multiple public benefits. It will create an estimated 40 new permanent jobs, including 24-40 additional construction jobs, and increase the property tax base. The Community Technology Center, operated in partnership with Minneapolis Community Technical College, will provide new educational, vocational and computer access to the Northside, an area of the city substantially underserved by community computer access. The Project also restores an historic landmark through an historically and architecturally compatible use. The building's original purpose, as a community library, was to provide neighborhood residents, many of whom were new immigrants, with access to information and opportunities. This preservation re-establishes that use in its modern form as a community technology center. This redevelopment, coupled with the recent redevelopment of 1101 West Broadway, which is across the street from the Project site, strengthens potential market interest in the immediate area.

Emerge was created as a 501(c)(3) nonprofit corporation spun-off from Pillsbury United Communities in 1995. Its corporate mission is to enhance the social and economic status of disenfranchised people. In addition to administering 18 separate programs in furtherance of that goal, EmERGE was successful as a developer in the recent redevelopment of 1100 West Broadway.

Financing Overview

Emerge has requested a \$350,000 from the Great Streets program as gap funding to acquire the two parcels – (Parcel One) at 1834 Emerson Avenue North and (Parcel Two) at 1830 Emerson Avenue North - and to renovate the historic library building located on Parcel One and provide parking (20 spaces) on Parcel Two. Emerge has purchase agreements to acquire the two parcels from the two respective fee owners: Parcel One for \$635,000 and Parcel Two for \$195,000. The proposed loan will use Community Development Block Grant funds within the Great Streets program.

The total development costs are estimated at \$3,946,024 where \$2,061,341 (52%) is in the form of Equity through tax credits, fund raising, and government grants and \$1,884,683 (48%) is in the form of debt. City County Federal Credit Union has made a \$1.5 million loan commitment for the Project, subject to obtaining a first mortgage on Parcels One and Two. To protect the City's investment, the loan will be secured through a mortgage on both properties subordinate only to the first mortgage lender.

Proposed Loan Terms

Principal:	\$350,000
Source of funds:	CDBG
Collateral:	Mortgage on real estate subordinate to first loan (on Parcels One & Two). Appraisals pending.
Loan-to-value- ratio (of all debt):	Not to exceed 100%
Repayment	
\$350,000	Repaid over 20 yrs. @ 4.0 percent interest; interest payments only during years 1-5. Principal and interest over years 6-20.

Sources and Uses

<i>Sources</i>	
<u>Developer Equity</u>	
Emerge Equity	\$1,259,657
Historic Tax Credit Equity	<u>501,684</u>
Total Developer Equity	\$1,761,341
<u>Contributions</u>	
Hennepin County TOD (application submitted)	<u>300,000</u>
<u>Debt</u>	
City/County Federal Credit Union	\$1,534,683
City Great Streets Loan (Proposed)	350,000
Total Debt	\$1,884,683
Totals	\$3,946,024
<i>Uses</i>	
1. LAND ACQUISITION	
Adjacent property + move	225,000
Library	635,000
Demolition & excavation	125,000
Subtotal Land Acquisition	\$ 985,000
2. CONSTRUCTION	
Commercial Building	1,556,180
Commercial Build-out	560,352
Surface Parking	140,000
Total Construction	2,256,532
Contingency	112,827
Subtotal Construction	\$ 2,369,359
3. FEES & HOLDING COSTS	
Survey/Soils	7,000
Architect + reimbursables	225,653

Developer Legal	30,000
Development Consultant	32,000
Zoning Fees - HTC fees	3,000
Appraisal	2,500
Insurance	10,000
Title & Recording	12,000
Marketing	13,000
Real Estate Taxes & holding costs	7,600
Other:	
Subtotal Fees & Holding Costs	\$ 342,753
4. FINANCING COSTS	
Construction Loan Fee	23,118
Bank Legal	10,000
Interest during construction	57,794
Construction Inspection	8,000
Initial Operating Reserve	50,000
Subtotal Financing Costs	\$ 148,912
5. DEVELOPER FEE	
Developer Fee	100,000
Subtotal Developer Fee	\$ 100,000
TOTAL PROJECT BUDGET	\$ 3,946,024

Repayment

The \$350,000 Great Streets loan will be repaid over a 20 year term with interest accruing at four percent per annum. Repayment will be interest only from months 1 to 60 and principal and interest months 61 to 240. The loan will have a straight line amortization schedule based on a 180 months term for the principal and interest repayment portion of the loan.

Collateral

The \$350,000 Great Streets loan will be secured by a mortgage on the real estate (Parcels One and Two), subordinate only to the first mortgage lender. The loan-to-value ratio for the \$350,000 Great Streets loan to the 1830 and 1834 Emerson Avenue North parcels will not exceed 100 percent. Appraisals are currently pending.

Loan Covenants

Staff recommends as a condition for closing the loan, that developer produce for City inspection, letters of commitment, or the equivalent thereof, from prospective tenants for each of the three subdivided areas of the building.

Risk Assessment

Strengths: Emerge is a committed developer to the area. It has two committed long-term tenants for the property (Pillsbury United Communities and Emerge). The rental rates for the property reflect true market rents. There is private capital committed from City County Federal Credit Union at \$1.5 million. The developer's cash flow pro forma reflects a reasonable reserve amount, and the debt coverage ratio exceeds 1.5 in all years for both loans. Projects costs are reasonable for a building of this size, and Emerge has previously demonstrated (at 1101 West Broadway) its ability to raise \$1.5 million through a capital campaign. The Project adds a much-needed community resource - the community technology center – to the Near North Neighborhood.

Weaknesses: A significant portion of Emerge's equity is based on a capital campaign for which, at present, there are no committed donors. Emerge has an exemplary history as a service provider, but not as a developer, although it was successful in developing the property across the street from Parcels One and Two (at 1101 West Broadway). There currently is no identified tenant for the first floor space.

PRO FORMA CASH FLOW			Year	1	2	3	4	5	6	7	8	9	10
3/12/2008													
		Rent /											
RENTAL INCOME	sq. ft.	sq.ft.											
		14											
PUC	4,155	\$ 14.00	\$ 58,170										
main floor tenant	2,881	\$ 14.00	\$ 40,340										
Emerge Community Tech Center	5,432	\$ 14.00	\$ 76,048										
Storage	465	\$ 4.00	\$ 1,861	\$ 176,419									
			Increase	\$ 14	\$ 14.28	\$ 14.57	\$ 14.86	\$ 15.15	\$ 15.46	\$ 15.77	\$ 16.08	\$ 16.40	\$ 16.73
Total Gross Income	12,934	2%	\$ 176,419	\$ 179,947	\$ 183,546	\$ 187,217	\$ 190,962	\$ 194,781	\$ 198,676	\$ 202,650	\$ 206,703	\$ 210,837	
Vacancy		10%	\$ (17,642)	\$ (17,995)	\$ (18,355)	\$ (18,722)	\$ (19,096)	\$ (19,478)	\$ (19,868)	\$ (20,265)	\$ (20,670)	\$ (21,084)	
Total Collected Rental Income			\$ 158,777	\$ 161,953	\$ 165,192	\$ 168,496	\$ 171,865	\$ 175,303	\$ 178,809	\$ 182,385	\$ 186,033	\$ 189,753	
CAM Charges & R.E. Taxes			\$ 44,590	\$ 90,187	\$ 92,363	\$ 94,594	\$ 96,880	\$ 99,225	\$ 101,628	\$ 104,092	\$ 106,618	\$ 109,209	
less vacancy charges			\$ (2,675)	\$ (5,411)	\$ (5,542)	\$ (5,676)	\$ (5,813)	\$ (5,953)	\$ (6,098)	\$ (6,246)	\$ (6,397)	\$ (6,553)	
Total Effective Gross Income			\$ 200,692	\$ 246,729	\$ 252,013	\$ 257,414	\$ 262,933	\$ 268,574	\$ 274,339	\$ 280,232	\$ 286,254	\$ 292,409	
OPERATING EXPENSES			Increase										
R.E. Taxes (EMV = \$1,250,000)		2%	\$ 8,454	\$ 52,967	\$ 54,026	\$ 55,107	\$ 56,209	\$ 57,333	\$ 58,480	\$ 59,649	\$ 60,842	\$ 62,059	
Common Utilities (heat, water)													
Grounds Maintenance & Snow													
Repairs													
Total CAM	9,034	\$ 4.00	3%	\$ 36,136	\$ 37,220	\$ 38,337	\$ 39,487	\$ 40,671	\$ 41,892	\$ 43,148	\$ 44,443	\$ 45,776	\$ 47,149
Total Reimbursements				\$ 44,590	\$ 90,187	\$ 92,363	\$ 94,594	\$ 96,880	\$ 99,225	\$ 101,628	\$ 104,092	\$ 106,618	\$ 109,209
Replacement Reserve	9,034	\$ 0.50	3%	\$ 4,517	\$ 4,653	\$ 4,792	\$ 4,936	\$ 5,084	\$ 5,236	\$ 5,394	\$ 5,555	\$ 5,722	\$ 5,894
Total Operating Expenses				\$ 49,107	\$ 94,840	\$ 97,155	\$ 99,529	\$ 101,964	\$ 104,461	\$ 107,022	\$ 109,648	\$ 112,340	\$ 115,102
Net Operating Income				\$ 151,585	\$ 151,889	\$ 154,858	\$ 157,884	\$ 160,969	\$ 164,113	\$ 167,318	\$ 170,584	\$ 173,914	\$ 177,307
Debt Service	7.00%	30 yrs		\$ 122,519	\$ 122,519	\$ 122,519	\$ 122,519	\$ 122,519	\$ 122,519	\$ 122,519	\$ 122,519	\$ 122,519	\$ 122,519
Cash Flow before Distribution				\$ 29,066	\$ 29,370	\$ 32,339	\$ 35,365	\$ 38,450	\$ 41,594	\$ 44,799	\$ 48,065	\$ 51,395	\$ 54,788
CPED Debt Service - 4%, \$350,000	0.04	15	\$ 350,000	\$ 14,000	\$ 14,000	\$ 14,000	\$ 14,000	\$ 14,000	\$ 31,479	\$ 31,479	\$ 31,479	\$ 31,479	\$ 31,479
Cash Flow for Distribution				\$ 15,066	\$ 15,370	\$ 18,339	\$ 21,365	\$ 24,450	\$ 10,114	\$ 13,319	\$ 16,586	\$ 19,915	\$ 23,309
Return to tax credit investor	2%			\$ 10,034	\$ 10,034	\$ 10,034	\$ 10,034	\$ 10,034					
Asset Management Fee				\$ 1,000	\$ 1,500	\$ 4,000	\$ 4,000	\$ 4,000	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500
Subtotal- Cash Flow				\$ 4,032	\$ 3,836	\$ 4,305	\$ 7,331	\$ 10,416	\$ 2,614	\$ 5,819	\$ 9,086	\$ 12,415	\$ 15,809
Investor return	10%							\$ 40,000					
Withdrawal from Reserve								\$ 16,656					
Net Cash Flow				\$ 4,032	\$ 3,836	\$ 4,305	\$ 7,331	\$ (12,928)	\$ 2,614	\$ 5,819	\$ 9,086	\$ 12,415	\$ 15,809
Reserve Balance - interest rate	3.00%		\$ 50,000	\$ 54,931	\$ 53,045	\$ 51,407	\$ 49,327	\$ 44,113	\$ 35,609	\$ 29,592	\$ 20,141	\$ 7,090	\$ (9,733)
				\$ 3,431	\$ 3,135	\$ 3,516	\$ 6,500	\$ 9,541	\$ 6,878	\$ 10,038	\$ 13,258	\$ 16,540	
				\$ 51,500	\$ 49,910	\$ 47,891	\$ 42,828	\$ 34,572	\$ 28,731	\$ 19,555	\$ 6,884	\$ (9,450)	\$ (9,733)
Debt Service Coverage				1.11	1.11	1.13	1.16	1.18	1.07	1.09	1.11	1.13	1.15