



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

Date: May 15, 2012

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

Referral to: Council Member Betsy Hodges, Chair, Ways and Means Committee

Subject: Amend Guidelines of Previous Capital Acquisition Loan Program to Real Estate Acquisition Loan Program as part of the City's small business assistance programs.

Recommendation:

- 1) Amend the 2012 allocation in Fund 01SED by reallocating \$75,000 from the Alternative Financing Loan Program (MSED006) and \$75,000 from Homegrown Business Development Center (MSED016) to a new allocation of \$150,000 for "Real Estate Acquisition Loan Program" (MSED005).
- 2) Amend the guidelines of the Capital Acquisition Loan Program and re-title the program the Real Estate Acquisition Loan Program (REP).
- 3) Authorize the Finance Office to appropriate all loan repayments to the new fund for the provision of additional REP loans.
- 4) Approve the attached resolution delegating authority to the Director of CPED or his designee to make and execute Lender Agreements consistent with the Real Estate Acquisition Loan Program as permitted by City Charter.

Previous Directives:

The original Capital Acquisition Loan Program was established by City Council action in 1998 to finance the acquisition and rehabilitation of small commercial and industrial properties by owner-occupants. The program was amended in 2003 and 2004.

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

Catherine A. Polasky, Director, Economic Development _____

Presenters in Committee: Nila McDonald

Funding Source and Appropriation

Language Reviewed by Development Finance: _____

Reviews

- Permanent Review Committee (PRC): Approval N.A.

Financial Impact

- Other financial impact: REP Loans will leverage private lender dollars and encourage private ownership and improvement of real estate by businesses that will provide jobs and increase the tax base.

Community Impact

- Neighborhood Notification: All Neighborhood Groups were sent an informational notice of proposed guideline changes on April 16, 2012. All programs are City-wide small business loan programs.
- City Goals: Assistance to small businesses aids in building community vitality and in creating the environment that maximizes economic development opportunities in Minneapolis.
- Comprehensive Plan: Loans funded through the Program will be in compliance with the City's Comprehensive Plan.
- Zoning Code: The proposed projects must be in compliance with the City's Zoning Code.

Supporting Information

In 1998 the MCDA Board of Commissioners approved the program guidelines for the Capital Acquisition Loan Program (CAL) which enables small business owners to purchase and rehabilitate small commercial and industrial properties in the City of Minneapolis.

The CAL Program was a partnership with the Community Reinvestment Fund (CRF). A primary lender would provide 50% of the project funds, CRF would fund 40% and the business owner would provide 10% in the form of equity. The City provided security for the CRF portion. CRF would then package the loans and sell them on the secondary market. In 2008, with the real estate market decline and with changes in the ability to raise capital in the secondary markets, it became more difficult for CRF to sell these loans and the last CAL loan in partnership with CRF was closed in 2010. For the 12 years that the program was up and running, 106 projects were financed throughout the City utilizing over \$29 million of private funding from local banks and CRF, creating 150 new jobs and retaining over 500 jobs in the City of Minneapolis.

The absence of a City program to enable small business owners to purchase and improve commercial buildings in the City has left a gap in The City's Business Finance tool box and has resulted in some promising business opportunities being unable to move forward in the City.

In order to once again offer this type of real estate financing to local businesses it has become necessary to re-structure the previous program and create a new partnership with the Metropolitan Consortium of Community Developers (MCCD).

The amended guidelines reflect the few minor changes:

- 1) The name of the program is being re-titled the Real Estate Acquisition Loan Program (REP).
- 2) The real estate loans will typically be structured as 50% primary lender, 40% MCCD, 5% City and 5% in borrower equity.
- 3) The City will directly fund the 5% up to \$40,000. This will be structured as a loan and will be repaid at market rate for the term of the loan, not to exceed 10 years. The City will be in a shared 2nd position with MCCD.

- 4) The loan will be secured by a mortgage for the benefit of the private lender and the secondary mortgage lender, with the private lender having priority for repayment.
- 5) The City will no longer provide security for the secondary mortgage lender loan.

Since 2010 we have been unable to actively market this program. We look forward to once again working with local lenders and community organizations to assist in providing financing for the acquisition of real estate to small businesses in Minneapolis

Delegating authority to make and execute Lender Agreements consistent with Real Estate Acquisition Loan Program Guidelines

Now, Therefore, Be It Resolved by The City Council of The City of Minneapolis:

Pursuant to City Charter, Chapter 4, Section 25, authority is delegated by the City Council to the Director of the Department of Community Planning and Economic Development (CPED) or his designee, the Manager of Business Finance for CPED to make and execute Lender Agreements not to exceed the City Council authorized appropriation for the Real Estate Acquisition Loan Program guidelines and for a maximum term of ten (10) years.