



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

**Date:** August 20, 2013

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

**Subject:** Emerge Career and Technology Center Economic Development Administration Grant applications and City CDBG-funded Great Streets Loan

**Recommendation:** a) authorize increasing the principal of a City Council-approved, CDBG Great Streets \$350,000 loan to \$500,000 (funds provided through existing fund balance – 01400 CDBG) to Emerge Community Development for the creation of the publicly accessible computer and technology center within the Emerge Career and Technology Center at 1834 Emerson Ave. N.;

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

c) Authorize appropriate staff to execute applications, grant agreements, and associated documents as a co-applicant with Emerge Community Development to the United States Economic Development Administration for a \$2.7 million grant for the redevelopment of the Emerge Career and Technology Center at 1834 Emerson Ave. N.

**Previous Directives:** On June 10, 2008 the City Council authorized a \$350,000 loan to Emerge Community Development for the redevelopment of the historic North Branch Library at 1834 Emerson Avenue North and authorized the appropriate City staff to execute the loan agreement and any related documents.

### Department Information

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

### Reviews

- Civil Rights Approval Approval   Y   Date   2008 (current)

### Financial Impact

- Action is within the Business Plan
- Funds are available in the CPED budget

### Community Impact

Neighborhood Notification: Northside Residents Redevelopment Council reviewed the original loan on May 12, 2008.

City Goals: Jobs and Economic Vitality and Many People, One Minneapolis

Sustainability Targets – N/A

Comprehensive Plan: 4.3.4 Electronically link schools, libraries and community centers into telecommunications and information infrastructure. 4.6.2 Create vocational and occupational training for job seekers in collaboration with corporate partners and educational institutions.

Zoning Code: Use Complies with current zoning

Living Wage/Business Subsidy Agreement Yes\_\_\_\_\_ No\_X\_\_\_\_

Job Linkage Yes\_\_X\_\_ No\_\_\_\_\_

### **Supporting Information**

In 2008, the City Council authorized a \$350,000 CDBG-funded loan to Emerge Community Development (Emerge) for the rehabilitation of the historic former North Minneapolis Branch library at 1830 Emerson Ave. N. for a public career and technology center. The loan closing was predicated on full project financing, which has been elusive during the recession. Emerge has requested a \$150,000 increase of the loan principal from the City and has asked the City to become a co-applicant to a \$2.7 million United States Economic Development Administration (EDA) grant. The EDA has committed to providing this significant grant to the project, provided that the City becomes a co-applicant. These two sources will bridge the remaining gap in the permanent sources of funds for the project allowing Emerge to move to full construction of the center in 2013 and open in 2014.

Emerge Career and Technology Center is the full renovation of an 1894 former library building into a publicly-accessible computer and job-training center. Emerge, a high performing job-readiness training and placement service provider in the City's Employment and Training Program, will operate the facility and expects to serve more than 1,000 North Minneapolis residents annually. The center will link together computer skills and customized training programs including:

- Public access computer lab, staffed, with programs and assistance available to teach basic computer literacy, master common programs such as Word and skills such as resume writing and email access, plus a portfolio of more advanced programs tailored to fit specific occupational needs. Target users are neighborhood residents from school age through seniors;
- Financial Literacy Center – continues and expands financial counseling and financial literacy seminars to assist individuals to budget, improve credit, purchase homes, and start small businesses;
- Customized Job Training – expanding the work Emerge does with regional employers, using the large conference room and three technology equipped classrooms;
- Youth career training;
- Career assessment, job readiness and placement services;
- NEON entrepreneurship training and classes from a variety of regional educational institutions.

The center is an important component to the expansion of the Emerge's workforce training system that targets a community with high unemployment, some North Minneapolis census tracts have unemployment rates as high as 24-percent. Emerge is a high-performing provider of these services and its services address the region's employment disparities gap. Almost 90-percent of Emerge's clients are people of color (70-percent African American, 19-percent Hispanic/Latino, American Indian and/or Asian) and 65-percent of its staff are people of color. Emerge's other programs address job-readiness training and placement

service for adult ex-offenders, new Americans, MFIP participants, homeless African American fathers and North Minneapolis at-risk youth ages 14-21. Emerge is a partner in the larger employment training system in North Minneapolis working as a vendor for Minneapolis Employment and Training Program, and Hennepin County. Emerge works with a number of North Minneapolis residents not currently served at the North Minneapolis DEED Workforce Center because these people are not eligibly unemployed. Emerge partners with more than 40 organizations and serves over 3,000 clients annually.

The programs Emerge will offer in the center, and those required by the EDA, will target job training and placements into industry sectors that offer stable living-wage employment. These sectors include advanced manufacturing, biotechnology, energy, construction and property management, financial services, hospitality, and transportation. Emerge has placed more than 600 people into similar jobs over the past 3 years, and demonstrates 2,600 placements overall in the same period (see table below).

**Job Placement by Industry: Jan 2010- June 2013**

<b>Targeted Sectors</b>	
Construction	44
Financial Services	42
Hospitality	109
Manufacturing	84
Other Green Jobs (non-manufacturing)	22
Property Maintenance	290
Transportation	104
<b>All other placements</b>	
Automotive	7
Clerical	184
Education/Social Services	213
Food-Related	268
Healthcare	184
Light Industrial (i.e. warehouse)	539
Other Not Listed	320
Retail	197
<b>Total Job Placement:</b>	<b>2,607</b>

Changes in source of funds in the project since 2008

The funding sources for the project have changed since the 2008 City Council authorization of the CDBG-funded loan (see table below). Both changes in commitments to expected source of funds and additional costs to construction caused delays in the project. Project costs rose by \$2.5 million to a total of \$6.5 million. This increase in costs covers additional requirements related to historic renovation standards and additional federal contractor bidding requirements for the EDA grant. Due to delay and economic pressure from the recession, Emerge was not successful in securing an expected \$1.5 million loan from City-County Federal Credit Union, and the EDA will not allow the use of the expected \$500,000 in federal Historic Tax credits.

To cover the increases in the costs and lost financing sources, Emerge has successfully secured \$5.5 million in grants toward the project. These grants include a \$2.7 million grant from the EDA, \$2.1 million in grants from 21 foundations and philanthropic sources, a

\$410,000 Hennepin County TOD grant, and a \$232,000 grant from the Minnesota Historical Society. Emerge proposes borrowing a total of \$900,000 in loans for the project (\$500,000 from the City CDBG-sourced loan, and \$400,000 from Hennepin County's TOD program).

**Sources**

	<b>2008</b>
Emerge Equity*	\$1,259,657
Historic Tax Credit Equity	501,684
Hennepin County TOD Grant	300,000
City-County Fed. Credit Union Loan	1,534,683
City CDBG-funded Great Sts. Loan	350,000
<b>Total</b>	<b>\$3,946,024</b>
*Equity derived from fundraising in 2008.	

	<b>2013</b>
Emerge Equity	\$97,254
EDA Grant	2,722,479
Private Grants (21 sources)	2,139,500
Hennepin County TOD Grant	410,000
MN Historical Society Grant	232,000
Hennepin County TOD Loan	400,000
City CDBG-funded Great Sts. Loan	500,000
<b>Total</b>	<b>6,501,233</b>

City's CDBG-funded Great Streets Loan

The City's CDBG-sourced loan was an early commitment for the project. The City's loan requires Emerge to secure all sources prior to the loan's closing and disbursement of funds. The City's original loan commitment would pay for the publicly-available computer and technology lab of this multi-use building and the requested increase in the City's loan would pay only for increases in the costs to the publicly accessible lab. Staff recommends the same loan terms previously proposed and authorized (see table below). The increase in the principal would increase debt service requirements. Emerge has provided an updated pro forma that shows the project would generate necessary cash flow to cover debt obligations through rent revenue. The pro forma (see last page of report) has 1.3 debt-service-coverage ratio for all debt in the first five years of the loan (during the interest-only period) and at least a 1.9 debt-service-coverage ratio after year six (during the principal and interest repayment period). The Great Streets program would have \$1.3 million remaining in the appropriated CDBG funds available for catalytic real estate development projects after this commitment.

**Proposed Loan Terms**

Principal:	\$500,000 (Increase of \$150,000)
Source of funds:	CDBG (as approved previously by City Council)
Collateral:	Subordinate second mortgage on real estate (as approved previously by City Council)
Loan-to-value- ratio (of all debt):	Not to exceed 100% (as approved previously by City Council)
<b>Repayment</b>	
\$500,000	Repaid over 20 yrs. @ 4.0 percent interest; Starting upon completion of the project, interest payments only during years 1-5. Principal and interest over years 6-20. (as approved previously by City Council)

Economic Development Administration Grant

Emerge initially received a \$1.1 million grant from the EDA in 2011, which the EDA increased to \$2.7 million in 2013. The increase in the EDA grant covers the remaining gap in sources associated with federal bidding requirements and to replace Historic Tax Credits. The EDA requires hard-cost, blind, open bidding that increased the costs to construction.

Emerge bid the project in September 2012 and received two responses, choosing Watson-Forsberg as the general contractor. The EDA will not allow the use of federal Historic Tax Credits for this project, choosing to replace that source with the increase in the grant.

The EDA has required the City become a co-applicant with Emerge as a condition of increasing the grant to \$2.7 million. According to the Intergovernmental Relations Department and the City's Federal lobbyist, both of which have participated in the grant increase negotiations, the EDA typically requires the local unit of government to become a co-applicant in grants of this size. As a co-applicant the City is an equivalent recipient of the grant and responsible for the obligations of performance on the grant terms with Emerge. The EDA wants a local partner that can oversee that the project is completed, the programs are run in accordance with the grant terms, and that is available to assist the EDA with remedies to cure any default in the event that the project fails. While signing on as a co-applicant exposes the City to some risk, staff have evaluated these risks (analyzed below) and recommends that the City take responsible measures to mitigate the risks and agree to become the co-applicant to facilitate the competition of this project as an important community asset.

#### EDA Grant Risk Assessment

If the City becomes a co-applicant to the EDA grant, the EDA will look to the City to help solve any default under the grant. Rather, it would be taking on the obligation to work with Emerge to ensure that it manages the grant appropriately. The EDA will take a first mortgage on the property and recoup the value of the grant-funded improvements through foreclosure. Possible reasons for default would be failure to complete the rehabilitation of the building, failure to meet EDA grant requirements, or failure to maintain operations of the center for 20 years. As a co-applicant, the City would not be guaranteeing the \$2.7 million grant. In the event that the project fails and if the City is unsuccessful working with the EDA and Emerge to cure the default, the EDA's only security is the property. Based on the review of the project financials, the construction plans, and the past performance and financial health of Emerge Community Development, staff have confidence to proceed given the assessed risks.

The first and most substantial risk to the project meeting the EDA grant terms is the completion of the rehabilitation of the project. A CPED Construction Specialist has reviewed the construction plans and met with the development's architect. Based on this review, he determined that the plans are complete, with enough detail to anticipate extraordinary issues associated with an historic renovation. The State Historic Preservation Office and EDA officials have reviewed and approved the plans. Emerge has bid the project through a competitive, open process under EDA and City Civil Rights oversight and approval. Emerge owns the property needed for the project and the plans are currently under review for a building permit with Construction Code Services.

To protect against the risks associated with construction, staff proposes the following measures. First, Emerge will have to purchase a performance and payment bond to benefit the City that covers all costs associated with completion of the project to the satisfaction of the City. Second, all funds needed for the development must be closed simultaneously into an escrow account with an agreed to title company. Funds will be let through periodic draws from this escrow account to the general contractor. All draws will be subject to City approval prior to release of funds. A CPED Construction Specialist will participate in construction meetings and monitor project progress.

The second risk to the project meeting the EDA grant term is the failure to meet the job placement goals. Emerge expects to place 438 people into jobs over the first 10 years of the grant term. These placements are broken into 30 placements in the second year, 40 in the third, and 46 placements per year from the fourth year through the tenth year. Staff believe Emerge will meet these goals based on prior performance. Between 2010 through June 2013, Emerge placed 591 people in similar jobs averaging about 169 per year. In the

event that job-placement targets are not met, the EDA does not have the authority to impose sanctions on the City. The EDA's security is its mortgage on the property. However, the City will require annual reporting on grant-associated placements to monitor progress.

The third risk to the project meeting the EDA grant terms is the continued operations of the center. The grant requires 20 years of continuous operations of the center by the grantee. While the City has a network of the service providers operating in facilities similar to this center, the City does not provide this direct service and the City, as grant co-applicant does not own the property and therefore could not step in and operate a direct service program in the event that Emerge were to cease operations. In the event that the Emerge would not continue to operate, the City would have an obligation to work with the EDA to find a new operator. The financial health and responsible fiscal management of Emerge is imperative to mitigating this risk. Finance Department Accounting and Grant Management staff has reviewed audited financial statements of Emerge from 2007 to 2012 and did not identify any structural or trending issues with the organization. Emerge has a stable source of operating support and revenue from multiple sources and has no organizational debt. Minneapolis Employment and Training Program staff rate Emerge as a high-performer in delivering job training and placement services. Funding for these services are becoming more competitive throughout the City and will require monitoring. As a condition to the City signing onto the EDA grant, staff recommends requiring Emerge to produce annual audited financial statements for City review during the 20-year grant term.

## Emerge Career & Technology Center Renovation of the North Branch Library, Minneapolis

### Pro Forma Cash Flow

		Year:									
		1	2	3	4	5	6	7	8	9	10
Total Gross Income (Net Rent)	2%	\$ 99,432	\$ 99,432	\$ 101,421	\$ 103,449	\$ 105,518	\$ 107,628	\$ 109,781	\$ 111,977	\$ 114,216	\$ 116,500
Vacancy	2%	\$ (1,989)	\$ (1,989)	\$ (2,028)	\$ (2,069)	\$ (2,110)	\$ (2,153)	\$ (2,196)	\$ (2,240)	\$ (2,284)	\$ (2,330)
Conference Room Rental	2%	\$ 10,000	\$ 10,000	\$ 10,200	\$ 10,404	\$ 10,612	\$ 10,824	\$ 11,041	\$ 11,262	\$ 11,487	\$ 11,717
<b>Total Collected Rental Income</b>		<b>\$ 107,443</b>	<b>\$ 107,443</b>	<b>\$ 109,592</b>	<b>\$ 111,784</b>	<b>\$ 114,020</b>	<b>\$ 116,300</b>	<b>\$ 118,626</b>	<b>\$ 120,999</b>	<b>\$ 123,419</b>	<b>\$ 125,887</b>
CAM Charges & R.E. Taxes		\$ 73,713	\$ 99,983	\$ 102,587	\$ 105,261	\$ 108,007	\$ 110,828	\$ 113,724	\$ 116,699	\$ 119,755	\$ 122,893
less vacancy charges	2%	\$ (1,474)	\$ (2,000)	\$ (2,052)	\$ (2,105)	\$ (2,160)	\$ (2,217)	\$ (2,274)	\$ (2,334)	\$ (2,395)	\$ (2,458)
<b>Total Effective Gross Income</b>		<b>\$ 179,682</b>	<b>\$ 205,427</b>	<b>\$ 210,127</b>	<b>\$ 214,940</b>	<b>\$ 219,867</b>	<b>\$ 224,911</b>	<b>\$ 230,076</b>	<b>\$ 235,364</b>	<b>\$ 240,778</b>	<b>\$ 246,322</b>
<b>OPERATING EXPENSES</b>											
R.E.Taxes	2%	\$ 15,050	\$ 39,561	\$ 40,352	\$ 41,159	\$ 41,982	\$ 42,822	\$ 43,678	\$ 44,552	\$ 45,443	\$ 46,351
CAM (utilities,maint.)	3%	\$ 58,663	\$ 60,422	\$ 62,235	\$ 64,102	\$ 66,025	\$ 68,006	\$ 70,046	\$ 72,148	\$ 74,312	\$ 76,541
<b>Total Reimbursements</b>		<b>\$ 73,713</b>	<b>\$ 99,983</b>	<b>\$ 102,587</b>	<b>\$ 105,261</b>	<b>\$ 108,007</b>	<b>\$ 110,828</b>	<b>\$ 113,724</b>	<b>\$ 116,699</b>	<b>\$ 119,755</b>	<b>\$ 122,893</b>
Replacement Reserve	0%	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000
<b>Total Operating Expenses</b>		<b>\$ 91,713</b>	<b>\$ 117,983</b>	<b>\$ 120,587</b>	<b>\$ 123,261</b>	<b>\$ 126,007</b>	<b>\$ 128,828</b>	<b>\$ 131,724</b>	<b>\$ 134,699</b>	<b>\$ 137,755</b>	<b>\$ 140,893</b>
<b>Net Operating Income</b>		<b>\$ 87,969</b>	<b>\$ 87,444</b>	<b>\$ 89,540</b>	<b>\$ 91,679</b>	<b>\$ 93,860</b>	<b>\$ 96,084</b>	<b>\$ 98,352</b>	<b>\$ 100,665</b>	<b>\$ 103,024</b>	<b>\$ 105,429</b>
Debt Service- CPED loan		\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 38,286	\$ 44,381	\$ 44,381	\$ 44,381	\$ 44,381
Debt Service - TOD loan		\$ 37,762	\$ 46,349	\$ 46,349	\$ 46,349	\$ 46,349	\$ 11,587				
Debt Service Ratio - CPED Loan		4.4	4.4	4.5	4.6	4.7	2.5	2.2	2.3	2.3	2.4
Debt Service Ratio - two loans		1.5	1.3	1.3	1.4	1.4	1.9	2.2	2.3	2.3	2.4
<b>Cash Flow for Distribution</b>		<b>\$ 30,207</b>	<b>\$ 21,095</b>	<b>\$ 23,191</b>	<b>\$ 25,330</b>	<b>\$ 27,510</b>	<b>\$ 46,210</b>	<b>\$ 53,970</b>	<b>\$ 56,283</b>	<b>\$ 58,642</b>	<b>\$ 61,048</b>
Emerge asset Management Fee		\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
<b>Net Cash Flow</b>		<b>\$ 25,207</b>	<b>\$ 16,095</b>	<b>\$ 18,191</b>	<b>\$ 20,330</b>	<b>\$ 22,510</b>	<b>\$ 41,210</b>	<b>\$ 48,970</b>	<b>\$ 51,283</b>	<b>\$ 53,642</b>	<b>\$ 56,048</b>

**Emerge Career & Technology Center**  
**Renovation of the North Branch Library, Minneapolis**  
**Pro Forma Cash Flow**

		11	12	13	14	15	16	17	18	19	20
	<i>Increase</i>										
Total Gross Income (Net Rent)	2%	\$ 118,830	\$ 118,830	\$ 121,207	\$ 123,631	\$ 126,104	\$ 128,626	\$ 131,198	\$ 133,822	\$ 136,499	\$ 139,229
Vacancy	2%	\$ (2,377)	\$ (2,377)	\$ (2,424)	\$ (2,473)	\$ (2,522)	\$ (2,573)	\$ (2,624)	\$ (2,676)	\$ (2,730)	\$ (2,785)
Conference Room Rental	2%	\$ 11,951	\$ 12,190	\$ 12,434	\$ 12,682	\$ 12,936	\$ 13,195	\$ 13,459	\$ 13,728	\$ 14,002	\$ 14,282
<b>Total Collected Rental Income</b>		<b>\$ 128,405</b>	<b>\$ 128,644</b>	<b>\$ 131,217</b>	<b>\$ 133,841</b>	<b>\$ 136,518</b>	<b>\$ 139,248</b>	<b>\$ 142,033</b>	<b>\$ 144,874</b>	<b>\$ 147,771</b>	<b>\$ 150,727</b>
CAM Charges & R.E. Taxes		\$ 126,116	\$ 129,427	\$ 132,827	\$ 136,320	\$ 139,908	\$ 143,594	\$ 147,379	\$ 151,268	\$ 155,263	\$ 159,367
less vacancy charges	2%	\$ (2,522)	\$ (2,589)	\$ (2,657)	\$ (2,726)	\$ (2,798)	\$ (2,872)	\$ (2,948)	\$ (3,025)	\$ (3,105)	\$ (3,187)
<b>Total Effective Gross Income</b>		<b>\$ 251,998</b>	<b>\$ 255,482</b>	<b>\$ 261,387</b>	<b>\$ 267,435</b>	<b>\$ 273,628</b>	<b>\$ 279,970</b>	<b>\$ 286,465</b>	<b>\$ 293,117</b>	<b>\$ 299,929</b>	<b>\$ 306,907</b>
<b>OPERATING EXPENSES</b>											
R.E.Taxes	2%	\$ 47,278	\$ 48,224	\$ 49,189	\$ 50,172	\$ 51,176	\$ 52,199	\$ 53,243	\$ 54,308	\$ 55,394	\$ 56,502
CAM (utilities,maint.)	3%	\$ 78,838	\$ 81,203	\$ 83,639	\$ 86,148	\$ 88,732	\$ 91,394	\$ 94,136	\$ 96,960	\$ 99,869	\$ 102,865
<b>Total Reimbursements</b>		<b>\$ 126,116</b>	<b>\$ 129,427</b>	<b>\$ 132,827</b>	<b>\$ 136,320</b>	<b>\$ 139,908</b>	<b>\$ 143,594</b>	<b>\$ 147,379</b>	<b>\$ 151,268</b>	<b>\$ 155,263</b>	<b>\$ 159,367</b>
Replacement Reserve	0%	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000
<b>Total Operating Expenses</b>		<b>\$ 156,116</b>	<b>\$ 159,427</b>	<b>\$ 162,827</b>	<b>\$ 166,320</b>	<b>\$ 169,908</b>	<b>\$ 173,594</b>	<b>\$ 177,379</b>	<b>\$ 181,268</b>	<b>\$ 185,263</b>	<b>\$ 189,367</b>
<b>Net Operating Income</b>		<b>\$ 95,882</b>	<b>\$ 96,055</b>	<b>\$ 98,560</b>	<b>\$ 101,115</b>	<b>\$ 103,720</b>	<b>\$ 106,376</b>	<b>\$ 109,086</b>	<b>\$ 111,848</b>	<b>\$ 114,666</b>	<b>\$ 117,539</b>
	<i>principal</i>										
Debt Service- CPED loan	500,000	\$ 44,381	\$ 44,381	\$ 44,381	\$ 44,381	\$ 44,381	\$ 44,381	\$ 44,381	\$ 44,381	\$ 44,381	\$ 44,381
Debt Service - TOD loan	400,000										
Debt Service Ratio		2.2	2.2	2.2	2.3	2.3	2.4	2.5	2.5	2.6	2.6
<b>Cash Flow for Distribution</b>		<b>\$ 51,501</b>	<b>\$ 51,674</b>	<b>\$ 54,179</b>	<b>\$ 56,733</b>	<b>\$ 59,338</b>	<b>\$ 61,995</b>	<b>\$ 64,704</b>	<b>\$ 67,467</b>	<b>\$ 70,285</b>	<b>\$ 73,158</b>
Emerge asset Management Fee		\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500
<b>Net Cash Flow</b>		<b>\$ 44,001</b>	<b>\$ 44,174</b>	<b>\$ 46,679</b>	<b>\$ 49,233</b>	<b>\$ 51,838</b>	<b>\$ 54,495</b>	<b>\$ 57,204</b>	<b>\$ 59,967</b>	<b>\$ 62,785</b>	<b>\$ 65,658</b>