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

Date: May 18, 2004

To: Council Member Lisa Goodman, Community Development Cmte
Council Member Barbara Johnson, Ways and Means/Budget Cmte

Prepared by: John Harrington, Phone 612-673-5018
Presenter in Committee: John Harrington, Project Coordinator

Approved by: Chuck Lutz, Deputy CPED Director
Jack Kryst, Director, Development Finance

Subject: Antiques Minnesota / 1508 E. Lake Street — Public Hearing on TIF; CEDF Loan

RECOMMENDATIONS: 1) approve the attached City Council Resolution adopting the Antiques Minnesota / 1508 E. Lake Street Tax Increment Finance Plan and Modification No. 1 to the Lake and Bloomington Redevelopment Plan; 2) approve the proposed redevelopment contract business terms as described in this report; 3) approve the attached City Council Resolution authorizing the issuance of a Limited Revenue Pay-As-You-Go Tax Increment Financing Note to NDC REDI, LLC in a principal amount not to exceed $408,000; 4) allocate CEDF CDBG funds from Fund FBG0-2201 to the Antiques Minnesota / 1508 E. Lake Street project in the amount of $250,000; and 5) authorize appropriate City officials to execute a redevelopment contract with NDC REDI, LLC, an affiliate of Neighborhood Development Corporation, based on the terms contained in this report, and all other necessary documents related to the above recommended actions.

Previous Directives: In October 2003, the MCDA Board authorized filing an application with the Metro Council for Tax Base Revitalization funding to remediate asbestos and lead paint in the building. On April 2, 2004, the City Council authorized staff to continue analysis of the 1508 E. Lake St. proposal; negotiate terms and conditions of a redevelopment contract with Neighborhood Development Center; prepare a redevelopment plan modification and tax increment financing plan for the 1508 E. Lake St. development within the Lake and Bloomington project area.

Financial Impact (Check those that apply)

__ No financial impact - or - Action is within current department budget.
(If checked, go directly to Background/Supporting Information)
___ Action requires an appropriation increase to the Capital Budget
___ Action requires an appropriation increase to the Operating Budget
___ Action provides increased revenue for appropriation increase
___ Action requires use of contingency or reserves
_X_ Other financial impact (Explain):
___Request provided to the Budget Office when provided to the Committee Coordinator

The available CEDF allocation of $1,308,235, Fund FBG0 2201 will be reduced by $250,000, leaving an unreserved balance of $1,058,235 available for other projects.

Community Impact (Summarize below)

Ward: 6

Neighborhood Notification: Both the Midtown Phillips and the Powderhorn Park neighborhood organizations received required notifications regarding public hearing on the proposed TIF plan. The TIF plan description referred to the proposed Commercial Corridor / CEDF loan financing.

City Goals: Create an environment that maximizes economic development opportunities within Minneapolis by focusing on the City's physical and human assets.

Comprehensive Plan: The proposed TIF plan, redevelopment plan modification and the related redevelopment were reviewed by the City Planning Commission and found consistent with several of the goals in the Comprehensive Plan, including but not limited to: 4.3 Minneapolis will support development in Commercial Corridors where it enhances the street's character, improves its ability to accommodate automobile traffic and foster pedestrian movement, and expands the range of goods and services offered.

Zoning Code: The property is zoned C2, neighborhood commercial corridor, which allows the uses proposed.

Living Wage/Job Linkage: The Neighborhood Development Center, as property manager, will be participating in the job linkage program and requesting the building's tenants to participate.

Background/Supporting Information

The Neighborhood Development Center through its affiliate NDC REDI, LLC (NDC) has proposed rehabilitation of the "Antiques Minnesota" building, a three story plus basement, 40,000 square foot commercial building and associated parking lot. The building has been vacant since 1998 and its uncontrolled parking lot has been a major source of concern for neighborhood residents and businesses. NDC acquired the building in December 2003 with a bridge loan from the Minneapolis Empowerment Zone. The community's goals for the project are to restore the building, bring vitality to the street front, enhance the area's burgeoning Latino business district, and create opportunities for further arts and cultural programming in the neighborhood.

NDC's development concept responds to those goals by restoring the building's street level entrances and windows and leasing the first floor of the building to 3-4 established retail businesses complementary to the surrounding area's retail mix. Heart of the Beast Theater Company (HOBT) will lease the entire third floor, enabling HOBT to expand its programming and make the adjacent Avalon Theater more broadly available for use by other performing arts organizations. NDC proposes to lease the building's second floor and basement as office space to organizations that complement the building's other users and surrounding neighborhood.

The development team that NDC has assembled for this project consists of:

Developer:	Neighborhood Development Center / NDC REDI, LLC
Development Partner:	Heart of the Beast Theater
Ground Floor Leasing (retail)/ Limited Partner:	Latino Economic Development Corporation (LEDC)
Marketing:	Cooperative Mercado Central
Owners Representative:	Development Representation Associates
Architect:	Collaborative Design Group
Attorney:	Winthrop & Weinstein
Property Management:	Neighborhood Development Center

Financing Overview

This report specifically addresses two of the requested public sources of financing, a $250,000 Commercial Corridor / Commercial Economic Development Fund (CEDF) Loan using Community Development Block Grant (CDBG) funding as its source, and a tax increment financing pay-go note of $408,000, based on an Estimated Market Value of $1.5 million upon completion, a 2% interest rate, and an estimated 18 years of increment.

The project was initially selected as a successful applicant for public financial support as a result of a Commercial Corridors Request for Proposals effort conducted during the summer and early autumn of 2003. This process also resulted in the selection of this project for an Empowerment Zone loan of $250,000 on terms and conditions similar to those proposed for the CEDF loan. The CEDF Loan is summarized in the table immediately below. The repayment schedule has been structured to accommodate both the constraints associated with the use of New Market Tax Credits and to be supportable by the project's anticipated cash flow (see Attachment B) while maintaining a reasonable Debt Coverage Ratio (DCR).

CEDF Loan Amount	$250,000.00
Annual Interest Rate	3.0%
Loan Closing Date (est.)	07/01/04
Loan Term (months)	240
First Interest Only Payment	02/01/07
First P & I Payment	08/01/11
Amortization Term (months)	240
Monthly P & I Payment	$1,386.49
Annual Debt Service (P & I)	$16,637.93
Balloon on 07/01/24	$106,319.00

The Use of CEDF/CBDG

To qualify for the use of CEDF/CBDG a project must be an eligible activity that is not on the list of ineligible activities and meets one of the three national objectives. Following these guidelines the Antiques Minnesota Building project qualifies for the CEDF/CDBG fund for site assembly under the activities which aid in the prevention or elimination of slums or blight provision (24 CFR 570.208(b)). Further, the project does not benefit government operations or political activities so it is not rendered ineligible. Finally, the project meets the objective as an activity that benefits low- and moderate-income persons since the surrounding area is in a federally designated Empowerment Zone and the surrounding area has at least 51 percent of the population at low- or moderate-income earners.

Detailed sources and uses of funds:

Sources

	Amount	% TDC
Debt		
Wells Fargo Senior Loan (approved)	$600,000	15%
Partners for the Common Good (First Junior Loan)	250,000	6%
Minneapolis Empowerment Zone (approved)	250,000	6%
Tax Increment Financing note (pending – Northwest Area Foundation [NAF])	408,000	10%
NDC REDI Mortgage (approved)	300,000	7%
CEDF Loan (preliminary approval)	250,000	6%
Equity & Grants		
Wells CDC NMTC/HTC Equity Investment	1,604,855	39%
HOBT (Equity, NEA Grant, approved)	10,000	0%
Midtown Phillips NRP Grant (approved)	132,990	3%
Pohlad Foundation (approved)	100,000	2%
Met Council TRBD Fund (approved)	232,000	6%
Total Sources	**$4,137,845**	**100%**

Uses

Estimated Hard Costs	
Acquisition	$1,350,000
Sitework	53,000
Hazmat Abatement	222,810
Construction Costs (including new roof)	1,741,140
Tenant Finishes	50,000
Construction Contingency (5%)	90,000
Estimated Hard Costs Subtotal	**$3,506,950**
Estimated Soft Costs	
Architect and Engineer	$71,003
1 Year Prepaid R. E. Taxes (2005)	20,000
Insurance: Blder's Risk & Liability	24,000
Survey and Appraisal	9,000
Phase I and II Environmental	8,328
Developer Fee (4.75% of hard costs)	120,000
Owner's Representative Fee	38,000
Origination Fees (LISC, WF, EZ)	165,469
Legal fees (NDC & WF)	45,000
Construction Loan Interest	45,000
Operating Costs During Construction	28,000
Marketing Costs	2,000
Starting Replacement Reserve	20,000
Starting Operating Reserve	20,000
Internal & External Signage	15,095
Estimated Soft Costs Subtotal	**$630,895**
Total Uses	**$4,137,845**

Public-to-Private Financing

The public sector will provide an estimated 31 percent of total permanent financing. Every $1 of public funding leverages $2.23 of private funds.

Private Sources	**Amount**	**Percent**
Wells Fargo First Mortgage (approved)	$600,000	15%
Wells CDC NMTC/HTC Equity Investment	1,604,855	39%
PCG Second Mortgage (approved)	250,000	6%
Pohlad Foundation (approved)	100,000	2%
NDC REDI Mortgage (approved)	300,000	7%
Total Private Sources	$2,854,855	69%
Public Sources		
HOBT (Equity, NEA Grant, approved)	$10,000	0%
Midtown Phillips NRP Grant (approved)	132,990	3%
Minneapolis Empowerment Zone (approved)	250,000	6%
TIF Financing Stream from NAF (pending)	408,000	10%
Met Council TRBD Fund (approved)	232,000	6%
Commercial Corridor Fund (approved)	250,000	6%
	$1,282,990	31%
Total Sources of Financing	$4,137,845	100%

Business Terms include, but are not limited to the following:

- The developer will rehabilitate and renovate the building at 1508 E. Lake Street and the parking lot at 2933 – 15th Avenue S. in accordance with plans and specifications to be provided to the City.
- The City will provide TIF assistance in the form of a pay-as-you-go note in an amount not to exceed $408,000. The annual interest rate on the note will be 2% and it is expected the note will be paid off after approximately 18 years of increment collection.
- The CEDF Loan will be structured as a non-recourse loan.
- The NDC Asset Management Fee of approximately $3,600 per annum will not be collected until and unless all operating expenses and debt service are paid and a 1.1 DCR is maintained.
- NDC will provide quarterly operating and financial reports on the management of the asset, in addition to an annual financial summary and a copy of its annual audited financial statement.
- Collateral will be a pledge of Community Development Entity (see Attachment B) distributions subordinate to the Wells Fargo Loan. Due to the nature of the New Markets Tax Credits equity investment

requirements, the real property involved in this project will not be able to be used to secure the loan.

- At the end of the seven year NMTC equity investment, when major refinancing for project is undertaken, the City will require, as a condition of resubordination that its remaining outstanding debt be secured by a (subordinated) mortgage. For the first seven years of the project, the City's collateral on the CEDF loan will be a subordinated assignment of CDE distributions.
- One-third of the outstanding balance on the NRP loan to be forgiven in the 61st, 121st, and 180th month after closing, based on a right of first refusal by the HOBT to continue to lease space in the project.

Risk Assessment — Strengths, weaknesses, and risks.

Strengths

The project has strong financial and other support from Wells Fargo, the primary lender, the City of Minneapolis, the neighborhood, and other stakeholders. The development team is experienced and qualified. East Lake Street has been undergoing a continuing commercial revitalization for the past several years. The Latino population in Minneapolis (and the metro area) has shown significant growth during the past decade plus. Under the financial assumptions used, the cash flow projections show the project's ability to meet a debt coverage ratio of 1.1. Expenses include funding operating (including debt service) and replacement reserves. The project is more than 80% pre-leased.

Weaknesses and Risks

Use of New Market Tax Credits is a relatively untried financing mechanism requiring a complicated financial structure. The NMTC structure precludes use of conventional collateralization and will require significant refinancing at the end of year seven. Additional funding will also need to be raised at that time to buy out the equity investor.

Analysis indicates that the refinancing should be able to be accomplished based on future cash flow (see Attachment B) and should be able to be accomplished with the maintenance of a reasonable debt coverage ratios. Strong, continuing property management capabilities are likely to be necessitated by the mixed use nature of the development concept.

Attachments

Attachment A, Cash Flow Pro Forma
Attachment B, New Markets Tax Credits Diagram and Description

Adopting the Antiques Minnesota/1508 E Lake Street Tax Increment Finance (TIF) Plan, and Modification No 1 to the Lake and Bloomington Redevelopment Plan

RESOLVED BY THE CITY COUNCIL OF THE CITY OF MINNEAPOLIS:

Section 1. Recitals

1.1 Pursuant to Laws of Minnesota 2003, Chapter 127, Article 12, Sections 31-34, and Minneapolis Code of Ordinances, Chapter 415, the City of Minneapolis (the "City"), acting by and through its department of Community Planning and Economic Development, has been granted the authority to propose and implement city development districts, housing and redevelopment projects and tax increment financing districts, all pursuant to Minnesota Statutes, Sections 469.001 through 469.134, and 469.174 through 469.179, as amended, and other laws enumerated therein (collectively, the "Project Laws").

1.2 That by Resolution 2002R-209 duly adopted on June 21, 2002, the City adopted the Lake and Bloomington Redevelopment Plan, which plan described the boundary of the project area (the "Project Area"), establishment of objectives for the redevelopment of the Project Area, designation of property that may be acquired, identification of land uses, a budget for public redevelopment costs, and the establishment and preservation of the right of the City to create one or more redevelopment TIF districts within the Project Area, all pursuant to the Project Laws.

1.3 It has been proposed and the City has prepared, and this Council has investigated the facts with respect to, a proposed new Antiques Minnesota/1508 E. Lake Street TIF Plan, and a proposed Modification No 1 to the Lake and Bloomington Redevelopment Plan, ("collectively, the Plans"). The Plans modify the existing Lake and Bloomington Redevelopment Plan to designate property to be included within the boundaries of the proposed TIF district, identify a budget for expenditures, reflect project activities and costs, and establish a redevelopment TIF District, all pursuant to and in accordance with the Project Laws.

1.4 The City has performed all actions required by law to be performed prior to the adoption of the Plans, including, but not limited to, a review of the proposed Plans by the affected neighborhood groups and the City Planning Commission, transmittal of the proposed Plans to the Hennepin County Board of Commissioners and the School Board of Special School District No 1 for their review and comment, and the holding of a public hearing after published and mailed notice as required by law.

1.5 The Antiques Minnesota/1508 E. Lake Street TIF District (the "TIF District") is being established within and under the authority of the Project Area.

1.6 The Council hereby determines that it is necessary and in the best interests of the City at this time to approve the Plans to reflect project activities and costs in the Project Area and TIF District.

Section 2. Findings for the Adoption of the Plans

2.1 The Council hereby finds, determines and declares that the Antiques Minnesota/1508 E. Lake Street TIF District is a redevelopment district pursuant to Minnesota Statutes, Section 469.174, Subdivision 10 (a). The proposed district is located within the Lake and Bloomington Redevelopment Project Area, in accordance with the provisions of Minnesota Statutes Sections 469.001 through 469.047.

2.2 The Council further finds, determines and declares that the use of tax increment financing is deemed necessary as the proposed development would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future and that the increased market value of the site that could reasonably be expected to occur without the use of tax increment financing would be less than the increase in the market value estimated to result from the proposed development after subtracting the present value of the projected tax increments for the maximum duration of the district permitted by the TIF plan. Because it is the opinion of the City of Minneapolis that the proposed Project to be financed, in part, by this TIF District would not occur solely through private investment at this time, the City projects that the estimated market value of the site without the use of tax increment would remain at its present level. The calculations necessary to pass this test are contained in the TIF Plan on page 12. As shown, the public redevelopment activity, expenditures, and market values associated with the redevelopment that is proposed in this plan results in a series of calculations and figures that clearly pass the market value test. It is therefore the opinion of the City of Minneapolis that the development in this TIF District could not occur solely through private investment within the foreseeable future.

2.3 The Council hereby finds, determines and declares that the Plans will afford maximum opportunity, consistent with the sound needs of the City as a whole, for the redevelopment of the project by private enterprise, as the proposed redevelopment removes blight and blighting influences, will facilitate the redevelopment of a long vacant and blighted building, restore retail space on the first floor of the building, and will create needed retail opportunities for neighborhood based businesses and will strengthen the surrounding Latino retail district. Further, the project will also help anchor the Heart of the Beast Theater, a long-time neighborhood cultural institution.

2.4 The Council further finds, determines and declares that the Plans conform to the general plan for the development or redevelopment of the City as a whole. The project reflects a number of key Minneapolis Plan policies related to the support of arts organizations and renovation and reuse of commercial properties on commercial corridors. Written comments of the Planning Commission with respect to the Plans were issued, are incorporated herein by reference, and are on file in the office of the City Clerk.

2.5 The Council further finds, determines and declares that the entire fiscal disparity contribution required of the City for development occurring within this district be taken from outside the Antiques Minnesota/1508 E. Lake Street TIF District. The election provided in the Minnesota Statutes Section 469.177, Subdivision 3, paragraph (a) is elected.

2.6 The Council further finds, determines and declares that the property to be included in the TIF district consists of two parcels and adjoining alleys: a vacant commercial structure, a paved parking lot and two adjoining alleys. The site analysis included an interior inspection conducted in February 2004 and it was found that the conditions therein do not meet the standards required for safe, sanitary, human occupancy. The structure is in poor condition and does not meet Uniform Building, Energy and Minneapolis Housing Maintenance Codes and Ordinances. The building has sustained water damage in the basement of the building and general neglect. The structure lacks fire suppression systems, sprinklers, alarms and/or fireboxes. There is evidence that the systems have been altered, disassembled, and possible portions scrapped and sold. The property does not meet the current Uniform Building Code, State of Minnesota Energy Code, State of Minnesota Fire Code, or the Accessibility Code. The property has been tested and does contain both lead-based paint and asbestos. Interior inspection revealed the presence of settlement cracks, spalling and deteriorated bricks, missing rails and bumpers on loading docks, HVAC systems are outdated and inoperable, illegal and outdated plumbing systems which require replacement, illegal outdated electrical, exposed wires and inoperable fixtures, leaking roof, obsolete, inoperable, elevators in violation of the 1996 Elevator Code, structure lacks adequate foundation insulation, wall insulation and roof insulation required of all commercial properties, lacks fire protection, handicapped accessible parking, accessible routes, contains evidence of graffiti, and the structure has been poorly maintained over the years and is creating a possible health and safety hazard due to lack of normal maintenance, hygiene, and shows evidence of vandalism, infestation and increased police incident reports. The parking lot and retaining walls are deteriorated and in need of repair or replacement and offers no handicap parking or accessible routes for businesses and is underused. The lot is in deteriorated condition, contains potholes, cracks and damaged bituminous paving. It is therefore found that the parcels are blighted and substandard to a degree requiring substantial renovation and exhibits deficiencies in other categories such as lacking essential utilities (heat, light, ventilation), fire protection, and contains asbestos and lead containing materials, and basic energy conservation code requirements under statutory criteria.

2.7 The Council further finds, determines and declares that it is necessary and in the best interests of the City at this time to approve the Plans.

2.8 The Council hereby finds, determines and declares that the objectives and actions authorized by the Plans are consistent with the undertaking of a redevelopment project area and redevelopment TIF district, all pursuant to and in accordance with the Laws.

Section 3. Approval of the Plans; Creation of TIF District

3.1 Based upon the findings set forth in Section 2, the Antiques Minnesota/1508 E. Lake Street TIF Plan, and Modification No 1 to the Lake and Bloomington Redevelopment Plan presented to the Council on this date are hereby approved and shall be placed on file in the office of the City Clerk.

Section 4. Implementation of the Plans

4.1 The officers and staff of the City and the City's consultants and counsel, are authorized and directed to proceed with the implementation of the Plans, and for this purpose to negotiate, draft, prepare and present to this Council for its consideration, as appropriate, all further modifications, resolutions, documents and contracts necessary for this purpose.

Authorizing the issuance of a tax increment revenue note in substantially the form recited herein in a principal amount not exceeding $408,000 in connection with the Antiques Minnesota/1508 E. Lake Street Project.

Whereas, pursuant to Laws of Minnesota 2003, Chapter 127, Article 12, Sections 31-34, and Minneapolis Code of Ordinances, Chapter 415, the City of Minneapolis (the “City”), acting by and through its Department of Community Planning and Economic Development, has been granted the authority to propose and implement city development districts, housing and redevelopment projects and tax increment financing districts, transact business and exercise its powers, all pursuant to Minnesota Statutes, Sections 469.001 through 469.134, and 469.174 through 469.179, as amended, and other laws enumerated therein (collectively, the “Project Laws”).

Whereas, in furtherance of the objectives of the Project Laws, the City has undertaken a program for commercial revitalization, historic preservation, and the clearance and reconstruction or rehabilitation of blighted, deteriorated, deteriorating, vacant, unused, underused or inappropriately used, areas of the City, and in this connection the City has adopted the Lake and Bloomington Redevelopment Plan, as modified (the “Plan”), which plan, describes the boundaries and objectives for redevelopment of the project area (“Project Area”); and

Whereas, in furtherance of the Plan, the City is engaged in carrying out a redevelopment project known as the Antiques Minnesota/1508 E. Lake Street Redevelopment Project (hereinafter referred to as the “Project”) through a Redevelopment Contract to be entered into by and between the City and the Developer (the “Redevelopment Contract”); and

Whereas, pursuant to the Project Laws (the "Tax Increment Act"), the City has approved the Antiques Minnesota/1508 E. Lake Street Tax Increment Financing Plan dated April 16, 2004 for the Project; and

Whereas, pursuant to the Tax Increment Act, and specifically Section 469.178, subd. 4, the City is authorized to issue its tax increment revenue notes to finance the public redevelopment costs of the Project; and

Whereas, the City proposes to issue a taxable tax increment revenue note pursuant to the Redevelopment Contract to NDC REDI, LLC (the "Developer"), which includes a development plan and commitment by the Developer to cause the development of certain real property located in the Project into approximately a three-story plus basement 40,000 square foot commercial building and related site and public improvements;

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

1. That it is desirable that the City issue a tax increment revenue note (the "Note") in substantially the following form:

[Form of Note]

UNITED STATES OF AMERICA
STATE OF MINNESOTA
COUNTY OF HENNEPIN
CITY OF MINNEAPOLIS

TAXABLE TAX INCREMENT LIMITED REVENUE NOTE
(Antiques Minnesota/1508 E. Lake Street)

The City of Minneapolis (the "City"), hereby acknowledges itself to be obligated and, for value received, promises to pay to the order of NDC REDI, LLC, a Minnesota limited liability company (the "Developer"), solely from the source, to the extent and in the manner hereinafter provided, the principal amount of this Note, being Four Hundred Eight Thousand and No/100 Dollars ($408,000.00) or such lesser amount as may equal the Certified Public Redevelopment Costs, with interest at the Note Rate, in the installments specified in this Note, on the Payment Dates.

Capitalized terms not defined elsewhere in this Note shall have the meanings below:

"Available Tax Increment" means the Tax Increment received by the City during the period preceding each Payment Date, less (i) the amount of Tax Increment, if any, which the City must pay to the school district, the county and the state pursuant to *Minnesota Statutes*, Sections 469.177, Subds. 9, 10, and 11; 469.176, Subd. 4h; and 469.175, Subd. 1a, as the same may be amended from time to time; and (ii) actual administrative costs of the City in an amount not to exceed 10% of the Tax Increment.

"**Certificate of Approved Public Redevelopment Costs"** means a certificate in substantially the form attached to the Contract, by which the City certifies the Public Redevelopment Costs pursuant to the terms of the Contract.

"Contract" means that certain Redevelopment Contract by and between the City and the Developer dated ____________, 2004.

"District" means the Antiques Minnesota/1508 E. Lake Street Tax Increment Financing District within the Project.

"Maturity Date" means the earlier of (i) February 1 of the year following the final year of Tax Increment collection from the District; and (ii) the date when the principal and interest amount of this Note has been paid in full.

"Minimum Improvements" means rehabilitation of a three-story plus basement 40,000 square foot commercial building and related parking and improvements as described in the Contract.

"Note Rate" means two percent (2%) annual interest.

"Payment Date" means August 1 of the year of first increment collection from the District and each August 1 and February 1 thereafter until the Maturity Date.

"Project" means the Antiques Minnesota/1508 E. Lake Street Redevelopment Project on the Property.

"Property" means the real property legally described in the attached **Exhibit A**, which is located within the Project upon which the Minimum Improvements are to be constructed.

"Public Redevelopment Costs" means actual Public Redevelopment Costs as defined in the Contract, not in excess of $408,000 related to the Minimum Improvements and which are approved by the City pursuant to the Contract.

"Tax Increment" means that portion of the property taxes generated by the Property and Minimum Improvements, that is actually remitted to the City as tax increment under the Tax Increment Act.

"Tax Increment Act" means *Minnesota Statutes*, Section 469.174-469.179, as amended, or any successor statutes applicable to the District.

On each Payment Date, the City shall pay the Developer an installment equal to the lesser of (i) the Available Tax Increment or (ii) the amount necessary to pay the accrued unpaid interest and the unpaid principal amount of this Note in full. In the event the Developer is in default with respect to the provisions of the Contract, the City may suspend payment on this Note until the default is cured or the Contract and the City's obligations under this Note are terminated. To the extent that on any Payment Date there is insufficient Available Tax Increment to make a scheduled payment, such failure to make a scheduled payment shall not constitute a default under this Note. If the Minimum Improvements' owner fails to pay all or a portion of the property taxes due and owing on the Minimum Improvements, then upon such failure to pay, no interest as required by the Note shall accrue on an amount equal to the amount of the Available

Tax Increment that would have been paid to the City had such property tax amounts been paid.

Interest shall accrue on the initial principal amount of this Note from the later of (i) June 1, 2005 and (ii) the date of issue of the Certificate of Approved Public Redevelopment Costs. Each payment under this Note, whether a scheduled payment or any other payment, shall be applied first to current interest, then to accrued unpaid interest and then to the unpaid principal amount of this Note.

On the Maturity Date, this Note shall be deemed paid in full and the City shall have no further obligation under this Note even if the aggregate of the Available Tax Increment that has actually been paid to the Developer on the Payment Dates is less than the full principal and interest amount of this Note. The obligation of the City to make any scheduled payment shall terminate if and to the extent that the full principal and interest amount of this Note has been paid in full. This Note may be prepaid in full or in part at any time without penalty.

Each payment on this Note is payable in any coin or currency of the United States of America which on the date of such payment is legal tender for public and private debts and shall be made by wire transfer, check or draft made payable to the Developer and mailed to the Developer at ________________________________, or such other address as the Developer shall provide in writing to the City's notice address as set forth in the Contract.

The Note is a special and limited obligation and not a general obligation of the City, which has been issued by the City pursuant to and in full conformity with the Constitution and laws of the State of Minnesota, including *Minnesota Statutes*, Section 469.178, subdivision 4, to aid in financing a "project", as therein defined, of the City consisting generally of defraying certain public redevelopment costs incurred by the Developer within and for the benefit of the Project.

THE NOTE IS NOT A DEBT OF THE STATE OF MINNESOTA (THE "STATE"), OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE CITY OF MINNEAPOLIS, MINNESOTA, EXCEPT THAT THE CITY SHALL BE OBLIGATED TO MAKE PAYMENTS FROM AVAILABLE TAX INCREMENT AS SET FORTH HEREIN, AND NEITHER THE STATE NOR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE CITY, SHALL BE LIABLE ON THE NOTE, EXCEPT FOR THE CITY'S OBLIGATION TO MAKE PAYMENTS FROM AVAILABLE TAX INCREMENT AS SET FORTH HEREIN, NOR SHALL THE NOTE BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN AVAILABLE TAX INCREMENT AS SET FORTH HEREIN.

This Note shall not be transferred to any person, unless the City has been provided with an opinion of counsel acceptable to the City that such transfer is exempt from registration and official statement delivery requirements of federal and applicable state securities law and an investment letter reasonably acceptable to the City.

This Note shall not be payable from or constitute a charge upon any funds of the City, and the City shall not be subject to any liability hereon or be deemed to have obligated itself to pay hereon from any funds except the Available Tax Increment, and then only to the extent and in the manner herein specified.

The Developer shall never have or be deemed to have the right to compel any exercise of any taxing power of the City or of any other public body, and neither the City nor any person executing or registering this Note shall be liable personally hereon by reason of the issuance of registration thereof or otherwise.

IT IS HEREBY CERTIFIED AND RECITED that all acts, conditions and things required by the Constitution and the laws of the State of Minnesota to be done, to have happened, and to be performed precedent to and in the issuance of this Note have been done, have happened, and have been performed in regular and due form, time, and manner as required by law; that this Note is issued pursuant to the Tax Increment Act; and that this Note together with all other indebtedness of the City outstanding on the date hereof and on the date of its actual issuance and delivery, does not cause the indebtedness of the City to exceed any constitutional or statutory limitation thereon.

IN WITNESS WHEREOF, the City of Minneapolis, by action of its City Council, has caused this Note to be executed by the manual signature of its Finance Officer, and has caused this Note to be dated ________________, 2004.

CITY OF MINNEAPOLIS

By ______________________________________
Patrick Born
Its Finance Officer

Approved as to form:

____
Assistant City Attorney

EXHIBIT A TO NOTE

Description of the Property

To Be Determined

2. Be It Further Resolved that the form of the Note is hereby approved and shall be executed by the Finance Officer in substantially the form on file, with such changes therein not inconsistent with law as the Finance Officer may approve, which approval shall be conclusively evidenced by the execution thereof.

3. Be It Further Resolved that all actions of the members, employees and staff of the City and the Minneapolis Community Development Agency heretofore taken in furtherance of the issuance of the Note are hereby approved, ratified and confirmed.

4. Be It Further Resolved that the sale of said Note to the Developer is hereby approved, and the Note is hereby directed to be sold to the Developer, upon the terms and conditions set forth in the Redevelopment Contract.

5. Be It Further Resolved that the Finance Officer is hereby authorized and directed to execute such other documents, agreements and certificates as may be required in connection with the Note.

6. Be It Further Resolved that no provision, covenant or agreement contained in the aforementioned documents, the Note or in any other document related to the Note, and no obligation therein or herein imposed upon the City or the breach thereof, shall constitute or give rise to any pecuniary liability of the City or any charge upon its general credit or taxing powers. In making the agreements, provisions, covenants and representations set forth in such documents, the City has not obligated itself to pay or remit any funds or revenues, other than funds and revenues derived from the tax increment revenues which are to be applied to the payment of the Note, as provided therein and in the Redevelopment Contract. The Note shall not constitute a charge, lien or encumbrance, legal or equitable upon any property or funds of the City except that revenue and proceeds pledged to the payment thereof, nor shall the City be subject to any liability thereon. The holders of the Note shall never have the right to compel any exercise of the taxing power of the City to pay the outstanding principal on the Note or the interest thereon, or to enforce payment hereon against any property of the City. The Note shall not constitute a debt of the City within the meaning of any constitutional or statutory limitation.

7. Be It Further Resolved that the Note, when executed and delivered, shall contain a recital that it is issued pursuant to the Tax Increment Act, and such recital shall be conclusive evidence of the validity of the Note and the regularity of the issuance thereof, and that all acts, conditions and things required by the laws of the State of Minnesota relating to the adoption of this resolution, to the issuance of the Note and to the execution of the aforementioned documents to happen, exist and be performed precedent to and in the enactment of this resolution, and precedent to issuance of the Note and precedent to the execution of the aforementioned documents have happened, exist and have been performed as so required by law.

Be It Further Resolved that this resolution shall be in full force and effect from and after its passage.

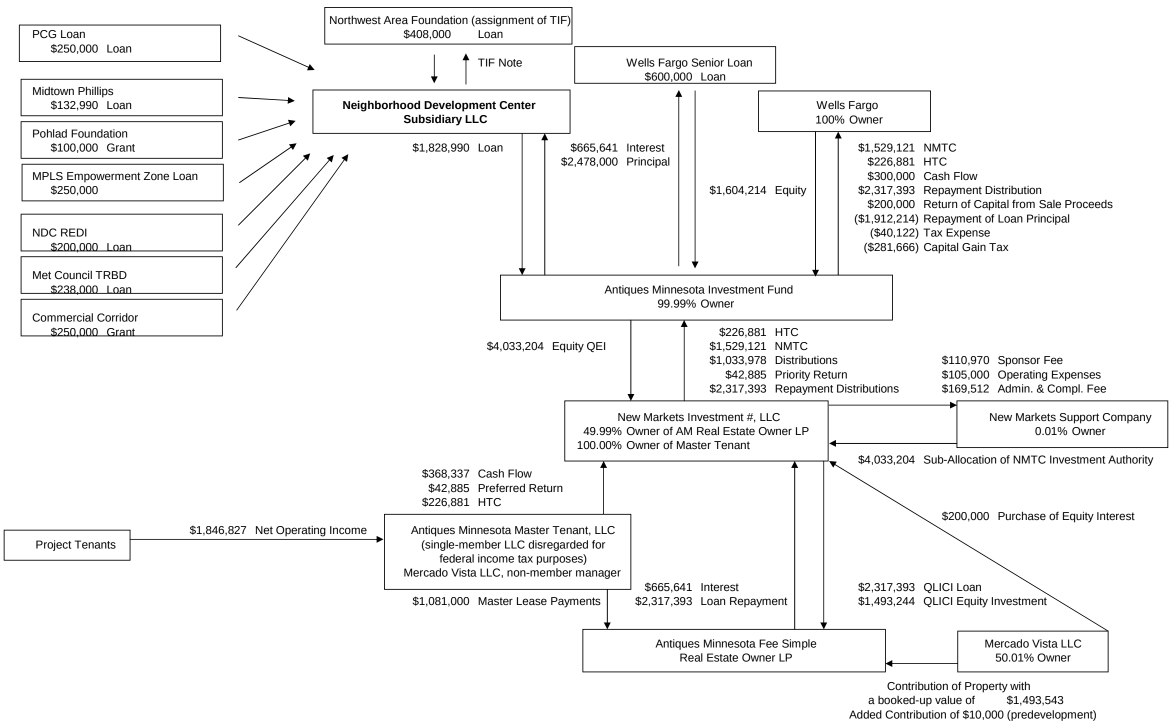
Pro Forma Cash Flow
Attachment A

21-Apr-04 **"Antiques Minnesota Reuse" - 1508 East Lake Street Building**

Assumptions: *Rent increase* 2.50% *Expense Increase* 3.50%
Vacancy 10.00% (20% in Year One)

	Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Operating Income																					
First Floor - Lake Street		129,170	132,400	135,710	139,102	142,580	146,144	149,798	153,543	157,382	161,316	165,349	169,483	173,720	178,063	182,514	187,077	191,754	196,548	201,462	206,498
Second Floor		110,102	112,855	115,676	118,568	121,532	124,571	127,685	130,877	134,149	137,503	140,940	144,464	148,075	151,777	155,572	159,461	163,447	167,533	171,722	176,015
Third Floor		65,000	66,625	68,291	69,998	71,748	73,542	75,380	77,265	79,196	81,176	83,205	85,286	87,418	89,603	91,843	94,139	96,493	98,905	101,378	103,912
Basement		53,670	55,011	56,387	57,796	59,241	60,722	62,240	63,796	65,391	67,026	68,702	70,419	72,180	73,984	75,834	77,730	79,673	81,665	83,706	85,799
Vacancy and other losses		(71,588)	(36,689)	(37,606)	(38,546)	(39,510)	(40,498)	(41,510)	(42,548)	(43,612)	(44,702)	(45,820)	(46,965)	(48,139)	(49,343)	(50,576)	(51,841)	(53,137)	(54,465)	(55,827)	(57,222)
Effective Gross Income		286,354	330,202	338,457	346,918	355,591	364,481	373,593	382,933	392,506	402,319	412,377	422,686	433,253	444,085	455,187	466,566	478,231	490,186	502,441	515,002
Operating Expenses																					
Total Expenses (excl debt service)		178,054	184,286	190,736	197,412	204,321	211,472	218,874	186,169	192,685	199,429	206,409	213,634	221,111	228,850	236,859	245,150	253,730	262,610	271,802	281,315
Reserves		4,000	4,140	4,285	4,435	4,590	4,751	4,917	5,089	5,267	5,452	5,642	5,840	6,044	6,256	6,475	6,701	6,936	7,179	7,430	7,690
Total Operating Expense		182,054	188,426	195,021	201,846	208,911	216,223	223,791	191,258	197,953	204,881	212,052	219,474	227,155	235,106	243,334	251,851	260,666	269,789	279,232	289,005
Net Operating Income		**104,300**	**141,776**	**143,436**	**145,072**	**146,680**	**148,258**	**149,802**	**191,674**	**194,554**	**197,438**	**200,325**	**203,213**	**206,098**	**208,979**	**211,852**	**214,715**	**217,565**	**220,397**	**223,209**	**225,997**
Other income:																					
TIF subsidy		26	18,824	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712
Debt service:																					
TIF loan debt service to NAF		26	18,824	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712
Less Primary Debt Service		69,306	69,306	69,306	69,306	69,306	69,306	69,306	**149,542**	**149,542**	**149,542**	**149,542**	**149,542**	**149,542**	**149,542**	**149,542**	**149,542**	**149,542**	**149,542**	**149,542**	**149,542**
Less Commercial Corridor Debt		-	-	7,500	7,500	7,500	7,500	7,500	16,638	16,638	16,638	16,638	16,638	16,638	16,638	16,638	16,638	16,638	16,638	16,638	16,638
Less EZ Debt				10,981	10,981	10,981	10,981	10,981													
Less REDI Debt Service		-	-	19,966	19,966	19,966	19,966	19,966	-	-	-	-	-	-	-	-	-	-	-	-	-
Less NDC Asset Management Fee		3,562	3,562	3,562	3,562	3,562	3,562	3,562	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600
Before Tax Cash Flow		**31,431**	**68,907**	**32,121**	**33,756**	**35,365**	**36,943**	**38,487**	**21,894**	**24,774**	**27,658**	**30,545**	**33,433**	**36,318**	**39,199**	**42,073**	**44,936**	**47,785**	**50,618**	**53,430**	**56,217**
Net Cash		31,431	68,907	32,121	33,756	35,365	36,943	38,487	21,894	24,774	27,658	30,545	33,433	36,318	39,199	42,073	44,936	47,785	50,618	53,430	56,217
TOTAL DCR		**1.43**	**1.75**	**1.23**	**1.24**	**1.25**	**1.26**	**1.27**	**1.11**	**1.12**	**1.14**	**1.15**	**1.17**	**1.18**	**1.20**	**1.21**	**1.23**	**1.24**	**1.26**	**1.27**	**1.28**
City of Mpls DCR		1.50	1.82	1.48	1.49	1.51	1.52	1.53	1.13	1.15	1.16	1.18	1.19	1.20	1.22	1.23	1.25	1.26	1.28	1.29	1.31
Cumulative Cash Flow																					
Beginning Balance		20,000	52,460	123,794	159,033	196,645	236,650	279,065	323,903	352,713	385,037	420,949	460,524	503,836	550,957	601,960	656,913	715,886	778,944	846,153	917,574
Deposits		31,431	68,907	32,121	33,756	35,365	36,943	38,487	21,894	24,774	27,658	30,545	33,433	36,318	39,199	42,073	44,936	47,785	50,618	53,430	56,217
Interest	2.0%	1,029	2,427	3,118	3,856	4,640	5,472	6,351	6,916	7,550	8,254	9,030	9,879	10,803	11,803	12,881	14,037	15,273	16,591	17,992	19,476
Withdrawl for payment of dev fee loan		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Withdrawal for distributions	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Ending Balance		**52,460**	**123,794**	**159,033**	**196,645**	**236,650**	**279,065**	**323,903**	352,713	385,037	420,949	460,524	503,836	550,957	601,960	656,913	715,886	778,944	846,153	917,574	993,268
Cumulative Replacement Reserves																					
Beginning Balance		20,000	24,240	18,664	23,178	27,889	17,804	22,780	27,974	20,894	26,423	7,193	(12,035)	(31,255)	(50,460)	(69,642)	(88,794)	(107,907)	(126,974)	(145,986)	(164,932)
Deposits		4,000	4,140	4,285	4,435	4,590	4,751	4,917	5,089	5,267	5,452	5,642	5,840	6,044	6,256	6,475	6,701	6,936	7,179	7,430	7,690
Interest	2.0%	240	284	229	276	325	226	277	331	262	319	128	(62)	(252)	(442)	(632)	(821)	(1,010)	(1,198)	(1,386)	(1,572)
Withdrawals		0	(10,000)	0	0	(15,000)	0	0	(12,500)	0	(25,000)	(24,999)	(24,998)	(24,997)	(24,996)	(24,995)	(24,994)	(24,993)	(24,992)	(24,991)	(24,990)
Ending Balance		24,240	18,664	23,178	27,889	17,804	22,780	27,974	20,894	26,423	7,193	(12,035)	(31,255)	(50,460)	(69,642)	(88,794)	(107,907)	(126,974)	(145,986)	(164,932)	(183,805)
0																					
Net Operating Income		104,300	141,776	143,436	145,072	146,680	148,258	149,802	191,674	194,554	197,438	200,325	203,213	206,098	208,979	211,852	214,715	217,565	220,397	223,209	225,997
Less Interest Expense		(38,555)	(37,542)	(57,675)	(55,998)	(54,227)	(52,358)	(50,383)	(115,200)	(115,200)	(115,200)	(115,200)	(115,200)	(115,200)	(115,200)	(115,200)	(115,200)	(115,200)	(115,200)	(115,200)	(9,192)
Less Interest Expense of NDC loans		(3,562)	(3,562)	(3,562)	(3,562)	(3,562)	(3,562)	(3,562)	(3,600)	(3,600)	(3,600)	(3,600)	(3,600)	(3,600)	(3,600)	(3,600)	(3,600)	(3,600)	(3,600)	(3,600)	(3,600)
Plus COD income	EZ loan	-	-	-	-	-	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Plus TIF subsidy		26	18,824	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712	28,712
Less TIF interest		13	4,127	8,109	7,744	7,323	6,893	6,455	6,007	5,551	5,085	4,610	4,126	3,632	3,128	2,614	2,089	1,554	1,008	731	168
Less prepaid property taxes		(20,000)	-	-	-	-	-	-	-	-	-	1	2	3	4	5	6	7	8	9	10
Add back reserve deposits		4,000	4,140	4,285	4,435	4,590	4,751	4,917	5,089	5,267	5,452	5,642	5,840	6,044	6,256	6,475	6,701	6,936	7,179	7,430	7,690
Less expenses paid out of reserves		-	(5,000)	-	-	(7,500)	-	-	(6,250)	-	(12,500)	(12,500)	(12,499)	(12,499)	(12,498)	(12,498)	(12,497)	(12,497)	(12,496)	(12,496)	(12,495)
Plus interest income		1,269	2,711	3,348	4,132	4,965	5,697	6,628	7,247	7,811	8,573	9,158	9,817	10,551	11,361	12,249	13,216	14,264	15,393	16,606	17,903
Less NMTC interest	90.00%	(28,288)	(62,016)	(28,909)	(30,381)	(31,828)	(33,248)	(34,638)	(19,705)	(22,296)	(24,892)	(27,491)	(30,090)	(32,687)	(35,279)	(37,865)	(40,442)	(43,007)	(45,556)	(48,087)	(50,596)
Less Depreciation		(92,367)	(92,367)	(92,367)	(92,367)	(92,367)	(92,367)	(92,367)	(92,367)	(92,367)	(92,367)	0	0	0	0	0	0	0	0	0	0
Less Amortization		(22,075)	(22,075)	(22,075)	(22,075)	(22,075)	(5,516)	(5,516)	(5,516)	(5,516)	(5,516)	0	0	0	0	0	0	0	0	0	0
Taxable Income (Loss)		(95,240)	(50,984)	(16,698)	(14,288)	(19,289)	92,260	10,047	(3,909)	2,916	(8,816)	89,658	90,321	91,055	91,863	92,744	93,701	94,734	95,845	97,315	204,598
Before Tax Operating Cash Flow		0	0	0	0	0	0	0													
Less Taxes (Savings)	35.00%	(33,334)	(17,845)	(5,844)	(5,001)	(6,751)	32,291	3,517													
Plus NMTCs/HTCs		502,796	206,892	206,892	248,271	248,271	248,271	248,271													
Proceeds from Sale								500,000													
Exit tax								(281,683)													
After Tax Cash Flow		536,130	224,737	212,737	253,272	255,022	215,980	463,071	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Years	7																				
Reinvestment Rate	4.00%	1,861,109																			
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Current After Tax Cash Flows	($1,604,855)	536,130	224,737	212,737	253,272	255,022	215,980	463,071	0	0	0	0	0	0	0	0	0	0	0	0	0
Future Value of Cash Flows at Yr 10:		705,511	295,738	279,947	333,288	335,592	284,215	609,370	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash on Cash Return	$1,604,855	**33.41%**	**14.00%**	**13.26%**	**15.78%**	**15.89%**	**13.46%**	**28.85%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**

ANTIQUES MINNESOTA HTC / NMTC DIAGRAM



Investment Fund Antiques Minnesota Investment Partnership		
Investor Member:	Wells Fargo	
	Investment Amount:	$1,609,355
	Ownership Interest:	99.99%
Managing Member:	Wells Fargo?	
	Ownership Interest:	0.01%
Investment Fund Lender:	Neighborhood Development Center	
	Amount:	2,236,990
	Rate:	
	Amort. Sched. (months):	
	Term (months):	

Community Development Entity New Markets Investment #3, LLC		
Investor Member:	Antiques Minnesota Investment Partnership	
	Investment Amount (QEI):	3,846,345
	Ownership Interest:	99.99%
Managing Member:	New Markets Support Company	
	Ownership Interest:	0.01%
Investments (QLICIs):	Equity	
	Amount:	$1,499,355
	Loan	
	Amount:	2,236,990
	Rate:	3.70%
	Amort. Sched. (months):	interest only
	Term (months):	84

Master Tenant Antiques Minnesota Master Tenant, LLC		
Investor Member:	New Markets Investment #3, LLC	
	Investment Amount:	25,000
	Ownership Interest:	100.00%
Non-Member Manager:	Mercado Vista LLC	

Real Estate Property Owner / QALICB Antiques Minnesota Fee Simple Real Estate Owner LP		
Majority Managing Member:	Mercado Vista LLC	
	Investment Amount:	1,493,543
	Ownership Interest:	50.01%
Minority, Non-Managing Member:	Antiques Minnesota Master Tenant, LLC	
	Investment Amount:	1,493,244
	Ownership Interest:	49.99%

INVESTMENT FUND (OR INVESTMENT PARTNERSHIP)

Function

Accumulates capital to make a Qualified Equity Investment of cash in the CDE, which generates NMTCs as well as other economic and tax benefits from the CDE's investments.

Parties

Investor Member (or Limited Partner)

Role: Provides capital in exchange for an ownership interest that entitles it to NMTCs (and, in some cases, historic rehabilitation and other tax credits.) Depending upon the extent to which the Investment Fund leverages borrowed funds, the Investor Member's returns may arise to a greater extent from tax credits and to a lesser extent from investment economics such as project cash flow and the refinancing of project debt.

Managing Member (or General Partner)

Role: Manages the day-to-day operation of the Investment Fund, which primarily involves fund management and accounting services, including:

- receiving payments from the CDE
- making payments on Investment Fund debt
- distributing funds to the Investor Member

Investment Fund Lenders

Role: As a general matter, these lenders allow the Investor Member of the Investment Fund to increase the NMTCs that it receives for its equity investment in the Investment Fund. While this may assist the project by attracting additional equity financing that is not dependant upon project economics, it places the lenders in a position from that of a direct lender to the project.

Subject in all cases to NMTC program regulations, the rights of, and interactions between, the various parties would be as follows:

Lender(s) Recourse to Investment Fund
depends upon:
- the terms (e.g., acceleration of payments, collateral, guarantees, etc.) of the loans to the Investment Partnership
- the terms of any intercreditor or other agreement that may subordinate or otherwise define the relative rights and remedies of multiple lenders

Investment Partnership's Recourse to CDE
depends upon:
- the terms of the agreement governing the CDE (e.g. Partnership or Operating Agreement) and the role of its general partner or managing member

CDE's Recourse to Project QALICB
depends upon:
- the terms of any QLICI loans or equity investments (e.g., acceleration of payments, collateral, guarantees, etc.) made by CDE to the project QALICB

At the Investment Fund level, the equity investor(s) would negotiate the terms of any loans to the Investment Fund. If a lender to the Investment Fund were able to negotiate recourse to the equity investor(s), it might be able to obtain a security interest in the Investment Fund's interest in the CDE, which the lender could foreclose if it failed to receive payment under its loan to the Investment Fund. If the project QALICB wasn't making the payments required by the QLICIs, then the lender might be able to exercise the rights of the Investment Fund to recover those payments, including, if applicable, foreclosing on a security interest in the property of the project QALICB. In the case where multiple lenders provided funds to the Investment Fund, such lenders would, most likely, enter into an intercreditor agreement in order to establish their respective loan collateral, payment, and enforcement priorities and rights.

COMMUNITY DEVELOPMENT ENTITY (CDE)

Function
Issues a Qualified Equity Investment in exchange for cash equity, which it uses to make Qualified Low-Income Investments in QALICBs.

Parties

Investor Member (or Limited Partner)

Role: Provides capital in exchange for an ownership interest that entitles it to NMTCs (and, in some cases, historic rehabilitation and other tax credits) as well as the economic and tax consequences arising from the investments made by the CDE into Qualified Low-Income Businesses (QALICBs).

NMTC Managing Member (or General Partner)

Role: Makes Qualified Low-Income Investments (QLICIs) into QALICBs

Manages the day-to-day financial operation of the CDE, including

- receiving QLICI payments from the QALICB
- paying CDE expenses
- making distributions to the Investor Member
- obtaining annual audits of financial statements
- providing the Investor Member with financial and narrative reports

Monitors and assures the CDE's compliance with NMTC program requirements, including:

- preventing the redemption of a QEI
- overseeing the maintenance of QALICB status
- performing semi-annual tests to confirm that 85% of QEI proceeds are invested in the QALICBs during the first six-years of the seven-year compliance period and 75% in the seventh year
- maintaining CDE status
- furnishing the CDFI Fund with reports

In an event of default, oversees and coordinates the enforcement of the CDE's creditor rights in a manner consistent with the Investor Member's investment objectives taking into account the requirements of the NMTC program

MASTER TENANT

Function

Like most first-round recipients of awards of NMTC investment authority, LISC's CDE subsidiaries cannot have a majority ownership interest in the QALICBs they finance. At the same time, in cases where the project generates federal historic rehabilitation or other similar tax credits, the extent to which the QEI investor can receive these tax credits depends upon its ownership interest. Under a provision of federal tax law, the owner of a real estate project eligible for federal historic rehabilitation tax credits can elect to have a Master Tenant receive those credits. Consequently, these transactions can be structured so that the CDE has a 100% ownership interest in the Master Tenant, but only a minority ownership interest in the QALICB.

Under a Master Tenant structure, the Master Tenant leases the property from the QALICB pursuant to a Master Lease. The Master Tenant is responsible for the overall property operation, including subleasing it, collecting rents, providing for its maintenance, and paying expenses. Consequently, the project developer or general partner of the owner would generally serve as the Master Tenant.

Although nothing prevents the CDE from being the Master Tenant, it can be useful to segregate these property operation functions being performed by the project developer or general partner of the owner from the other financial and NMTC functions being performed by the managing member of the CDE. This can be accomplished by forming a separate Master Tenant that is wholly owned by the CDE, and thus disregarded for purposes of federal income taxation.

Parties

CDE Owner

Role: Makes QLICIs to QALICB being leased by the Master Tenant.

Non-Member Manager

Role: Manages the day-to-day operation of the property owned by the QALICB, including

- finding tenants and entering into leases
- collecting rents
- providing for property maintenance
- paying property expenses

PROPERTY OWNER (QALICB)

Function
The Property Owner holds title to the real estate and receives the financing (QLICIs) provided by the CDE. The Property Owner does not actively operate the property, but instead leases it to the Master Tenant and elects to have the Master Tenant receive federal historic rehabilitation tax credits. The Property Owner uses the Master Lease payments to meet its obligations under the QLICIs. The Property Owner must satisfy the NMTC requirements for a QALICB, which relate to where it generates its income, owns its property, and provides it services, as well as prohibitions against engaging in certain activities.

Parties

Majority Owner

Role: Generally an entity affiliated with the developer or general partner of the owner that provides capital in exchange for a majority ownership interest and is likely to purchase the minority owner's interest after the NMTC investment period.

CDE / Master Tenant

Role: Owns a minority interest and, in that capacity and owing to a federal tax election by the Property Owner, it receives federal historic rehabilitation tax credits, as well as other tax and economic incidences of its ownership interest. In addition, it receives the payments owed to it under the terms of the QLICIs that it makes.