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

Date: December 11, 2007

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

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

Subject: 900 Hennepin Avenue Leveraged Investment Fund (LIF) restructure

Recommendation: Approve the proposed restructure of the two Leveraged Investment Fund loans at 900 Hennepin Avenue and consolidate into one loan.

Previous Directives: On March 21, 1996 City Council approved two Leveraged Investment Fund loans to Bravo! Holdings LLC, a development entity formed by Lee Lynch and approved the use of tax increment financing and on the same day, the MCDA Board of Commissioners approved authorization to enter into a redevelopment contract with the Bravo! Holdings LLC and approved the pay-go note and the LIF loans to Bravo! Holding LLC. On December 16, 1996 the City Council and Board of Commissioners acted to amend the Tax Increment revenue note amount and adjusted the LIF loans interest rate. On November 9, 2001, the MCDA Executive Director approved changing the amortization of the LIF loans with Bravo from ten years to 30 years, maintaining the interest rate, and a balloon payment due after 10 years. On September 9, 2002, the executive director of the MCDA approved the sale of the property as required by the MCDA Combination Mortgage, Security Agreement and Fixture Financing Statement to 900 Hennepin Holdings.

Prepared by: Andrea Petersen, Project Coordinator, 673-5106
Approved by: Charles T. Lutz, Deputy CPED Director _______________
Presenters in Committee: Andrea Petersen

Financial Impact
Action is within the Business Plan
Other financial impact: restructure and restructure existing Leverage Investment Fund (LIF) loans.

Community Impact

Neighborhood Notification: Notified the Downtown Minneapolis Neighborhood Association
City Goals: A premier destination.
Sustainability Targets: Not applicable
Comprehensive Plan: The property is located in the entertainment district described by the Minneapolis Downtown 2010 Plan.
Zoning Code: B4s-1/Downtown Service District; DP/Downtown Parking Overlay District

Living Wage/Business Subsidy Agreement	Yes_____	No_X__
Job Linkage	Yes_____	No_X__

Background

The City of Minneapolis provided Bravo! Holdings, LLC (Bravo), a development entity created by Lee Lynch, two leveraged investment fund (LIF) loans totaling $940,000 amortized over 30 years with a balloon payment in 10 years (due February 1, 2008) and two tax increment financing pay-as-you-go notes (TIF notes) to assist with redeveloping the property located at 900 Hennepin Avenue. Tax increment (TI) is dispersed twice a year in February and August. Bravo developed the property into a bar and catering facility. The TIF notes were pledged to Riverside Bank (n/k/a Associated Bank, N.A.) as security for repayment of a first mortgage received by Bravo to assist with the purchase and redevelopment of the property.

In 2002, Bravo entered into a contract for deed to sell the property to 900 Hennepin Holdings, LLC. 900 Hennepin Holdings, LLC assumed the LIF and Associated Bank loans and took out additional financing to purchase and improve the property.

900 Hennepin Holdings, LLC currently operates a restaurant and event center at the property. Sales for the restaurant and event center remain strong though fixed costs continue to increase due to a variable interest rate mortgage with Associated Bank. The increased monthly debt service has made it difficult for 900 Hennepin Holdings, LLC to make monthly LIF loan payments as well as semi-annual property tax payments. The current combined principal balance for the LIF loans is $596,344and unpaid interest accumulated from April 1, 2006 to December 1, 2007 of $69,698. The TIF Notes allow the City to withhold TI if the LIF loans are in default. Therefore the City withheld TI for the second half 2006 and all of 2007 for failure to pay the LIF loan and failure to pay property taxes for the second half 2006 and all of 2007. Both LIF loans mature on February 1, 2008 requiring a large balloon payment.

Company/Borrower

The 900 Hennepin Holdings, LLC is a limited liability company. Solera Restaurant Holdings, LLC leases the building from 900 Hennepin Holdings, LLC.

Company	Principals	% owner of 900 Hennepin Holdings, LLC	Majority or limited partner
Dynamic 50/50	Josh Thoma and Tim Mckee	74.4%	Majority
Kenneth Judson	Kenneth Judson	10%	Limited
L'Addition		10%	Limited
Nelson Enterprises, FLP		4%	Limited
JTROS	Kurt and Beth Heikkila	1.6%	Limited

Josh Thoma and Tim McKee also own La Belle Vie restaurant in Minneapolis.

Hennepin Avenue Opportunity Fund, LLC is a limited liability company.

- Mr. Lynch owns 100% of Hennepin Avenue Opportunity Fund, LLC.

Financing Overview

900 Hennepin Holdings, LLC asked several banks, without success, to refinance the variable interest rate Associated Bank mortgage which matured in March 2007. To protect his interests and promote Hennepin Avenue, Mr. Lynch agreed to reacquire the property pursuant to deed in lieu of cancellation of the contract for deed with 900 Hennepin Holdings. Through Hennepin Avenue Opportunity Fund, LLC, Mr. Lynch will assume the debt on the property and lease the property back to 900 Hennepin Holdings, LLC. 900 Hennepin Holdings, LLC will have an option to repurchase the property in the future. Mr. Lynch negotiated a $1,460,000 Crown Bank mortgage to refinance the Associated Bank mortgage and finance $195,000 in past due property taxes owed by 900 Hennepin Holdings, LLC.

Current Loans for 900 Hennepin Avenue								
Note	Debt Payable To	Responsible Party	12/1/07 Principal Balance	Interest rate	Maturity date	Monthly payment	Secured by	Position
Associated Bank mortgage	Associated Bank	900 Hennepin Holdings, LLC	$1,250,000	adjustable currently @10.5%	3/1/2007	$12,480	Building & TIF note	1st
original LIF Loans	City	900 Hennepin Holdings, LLC	$596,344	6.333%	2/1/2007	$5,400	Building	2nd

Proposed Loans for 900 Hennepin Avenue								
Note	Debt Payable To	Responsible Party	12/1/07 Principal Balance	Interest rate	Maturity date	Monthly payment	Secured by	Position
Crown Bank mortgage (taking out Assoc. Bank mortgage)	Crown Bank	Hennepin Ave Opportunity Fund, LLC	$1,460,000	adjustable .50% below prime	12/1/2009	interest only	Building	1st
restructured LIF Loan	City	Hennepin Ave Opportunity Fund, LLC	$599,077	Treasury Bill Rate	2018	semi-annual $8000 after TI applied	Building & TIF note	2nd

Since Hennepin Avenue Opportunity Fund, LLC helped 900 Hennepin Holdings, LLC bring their property taxes current in October 2007 the result is an estimated $90,000 in TI available for disbursement in February 2008. As part of the proposed LIF loan restructure the TIF note will be assigned to the City for extra security on the LIF loan. The City will apply the TI first to accumulated interest on the LIF loans ($76,747 as of February 1, 2008) and the remaining TI will be applied to the principal balance on the past due LIF loans. The LIF loans will then be restructured into one loan with a resulting principal balance estimated around $583,091.

The restructured LIF loan will have terms of 10 years at the current Treasury bill rate with semi-annual debt service payments that will coincide with semi-annual TI distributions in February and August. Semi annual TI payments were conservatively estimated at $30,000 which the City will apply to the semi-annual debt service payment for the restructured LIF loan. The remaining debt service will be billed to Hennepin Avenue Opportunity Fund, LLC every February and August. The first LIF loan payment from Hennepin Avenue Opportunity Fund, LLC will be due August 2008 since the $90,000 TI will be applied on February 1, 2008. An estimated $15,986 in interest will accumulate on the principal balance of the restructured LIF loan between February 2008 and August 2008. Therefore, the principal plus interest balance on the restructured LIF loan is estimated at $599,077 in August 2008. See Attachment A for a draft Amortization Schedule.

Discussion of Financial Statements

CPED and Development Finance Staff reviewed Mr. Lynch's personal financial statements and 2006 tax returns, but they are not incorporated in this document as he would prefer to keep his personal finances private. Mr. Lynch has significant net worth and annual income, but Mr. Lynch will not be personally responsible for repayment of this debt. The debt will be secured solely by a second mortgage on the property payable by Hennepin Avenue Opportunity Fund, LLC and an assignment of the TIF Notes.

Repayment

900 Hennepin Holdings, LLC and Hennepin Avenue Opportunity Fund, LLC worked out a lease structure. 900 Hennepin Holdings, LLC will pay Hennepin Avenue Opportunity Fund, LLC not less than $26,000 per month or 9% of 900 Hennepin Holdings, LLC's monthly gross receipts whichever is greater. This lease payment paid by 900 Hennepin Holdings, LLC will be applied to the debt service for the Crown Bank mortgage, LIF loan, and property taxes. The projected monthly lease payment for 2008 is about $32,000 (9% of projected monthly gross receipts). If 900 Hennepin Holdings, LLC fails to pay Hennepin Avenue Opportunity Fund, LLC the monthly lease payment, Hennepin Avenue Opportunity Fund, LLC will still remain responsible for the semi-annual LIF loan payments due to the City.

The restructured LIF loan will be subordinate to a $1,460,000 Crown Bank mortgage. This loan will be collateralized by the 900 Hennepin Avenue property. An appraisal dated October 4, 2007 by Diversified Real Estate Services, Inc. states that the property has a fee simple market value of $4,050,000 for the property.

The loan to value ratio for the restructured LIF loan behind the new Crown Bank loan is 45 percent.

Risk Assessment

Given that the City has not received a LIF loan payment since March 1, 2006, keeping the current financial structure does not appear favorable for repayment of the LIF loans. 900 Hennepin Holdings, LLC is at risk of going out of business due to the current debt structure. 900 Hennepin Avenue is a large, prominent building on Hennepin Avenue in the entertainment district.

City staff intends to recommend approval of the LIF loan restructure for 900 Hennepin Avenue. The new lease structure determined between the lessee and lessor will provide rental income to pay the first mortgage to Crown Bank, the restructured LIF loan, and property taxes. This structure ties a portion of fixed costs to monthly gross receipts for 900 Hennepin Holdings, LLC and therefore increases the likelihood of keeping the restaurant and event center open. The LIF loans remain subordinate to almost the same amount of debt. The City still risks losing the principal and interest balance on the LIF loans if Hennepin Avenue Opportunity Fund, LLC does not make payments; however this risk is less than if 900 Hennepin Holdings, LLC keeps the LIF loans for the following reasons:

- The TIF notes will be assigned to the restructured LIF loan repayment
- Hennepin Avenue Opportunity Fund, LLC will have rental income to meet debt obligations
- 900 Hennepin Holdings, LLC will have better cash flow which will permit the payment of rent to Hennepin Avenue Opportunity Fund, LLC

Attachment A

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Solera LIF Loan Refinancing Amortization Schedule

For discussion purposes only, actual account totals to be adjusted upon approvals

Rate 4.750% **2.3750% semi-annual rate** **T-Bill =** 4.75%

Term 10 **20 total payments**

$37,976.80 semi-annual payment

Starting Balance 8-1-07 $ 599,077 *Equals debt plus interest*

Interest from Feb to August (6 mo.) = *$ 15,985.92* at 4.75% interest rate

Payment Number	Payment Date	Beginning Balance	Principal	Interest	Ending Balance	Projected TIF Pay-As You Go Payment	Projected Lynch Shortfall Payment
1	08/01/08	$ 599,077.35	$23,748.71	$ 14,228.09	$ 575,328.64	$ 30,000.00	$7,976.80
2	02/01/09	$ 575,328.64	$24,312.74	$ 13,664.06	$ 551,015.90	$ 30,000.00	$7,976.80
3	08/01/09	$ 551,015.90	$24,890.17	$ 13,086.63	$ 526,125.72	$ 30,000.00	$7,976.80
4	02/01/10	$ 526,125.72	$25,481.31	$ 12,495.49	$ 500,644.41	$ 30,000.00	$7,976.80
5	08/01/10	$ 500,644.41	$26,086.49	$ 11,890.30	$ 474,557.92	$ 30,000.00	$7,976.80
6	02/01/11	$ 474,557.92	$26,706.05	$ 11,270.75	$ 447,851.87	$ 30,000.00	$7,976.80
7	08/01/11	$ 447,851.87	$27,340.32	$ 10,636.48	$ 420,511.55	$ 30,000.00	$7,976.80
8	02/01/12	$ 420,511.55	$27,989.65	$ 9,987.15	$ 392,521.90	$ 30,000.00	$7,976.80
9	08/01/12	$ 392,521.90	$28,654.40	$ 9,322.40	$ 363,867.50	$ 30,000.00	$7,976.80
10	02/01/13	$ 363,867.50	$29,334.95	$ 8,641.85	$ 334,532.55	$ 30,000.00	$7,976.80
11	08/01/13	$ 334,532.55	$30,031.65	$ 7,945.15	$ 304,500.90	$ 30,000.00	$7,976.80
12	02/01/14	$ 304,500.90	$30,744.90	$ 7,231.90	$ 273,756.00	$ 30,000.00	$7,976.80
13	08/01/14	$ 273,756.00	$31,475.09	$ 6,501.70	$ 242,280.90	$ 30,000.00	$7,976.80
14	02/01/15	$ 242,280.90	$32,222.63	$ 5,754.17	$ 210,058.27	$ 30,000.00	$7,976.80
15	08/01/15	$ 210,058.27	$32,987.92	$ 4,988.88	$ 177,070.36	$ 30,000.00	$7,976.80
16	02/01/16	$ 177,070.36	$33,771.38	$ 4,205.42	$ 143,298.98	$ 30,000.00	$7,976.80
17	08/01/16	$ 143,298.98	$34,573.45	$ 3,403.35	$ 108,725.53	$ 30,000.00	$7,976.80
18	02/01/17	$ 108,725.53	$35,394.57	$ 2,582.23	$ 73,330.96	$ 30,000.00	$7,976.80
19	08/01/17	$ 73,330.96	$36,235.19	$ 1,741.61	$ 37,095.77	$ 30,000.00	$7,976.80
20	02/01/18	$ 37,095.77	$37,095.77	$ 881.02	$ (0.00)	$ 30,000.00	$7,976.80