



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

Date: June 8, 2004

To: Council Member Lisa Goodman, Community Development Cmte

Prepared by: Nila McDonald, Financial Analyst, Phone 612-673-5189

Presenter in Committee: Nila McDonald, Financial Analyst, Phone 612-673-5189

Approved by: Chuck Lutz, Deputy CPED Director _____

Subject: Capital Acquisition Loan Program (CAL)

RECOMMENDATION:

- Approve the proposed Capital Acquisition Loan program guidelines changes as outlined on Exhibit A to this report.
- Approve the attached resolution delegating authority to make and execute Loan Purchase Agreements and supporting documents consistent with Capital Acquisition Loan Program Guidelines.
- Authorize the appropriate City officials to enter into a \$1,000,000 Advance Commitment Agreement with the Community Reinvestment Fund.

Previous Directives: The Capital Acquisition Loan Program Guidelines were established in 1998. An amendment was made in 2003.

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
- other financial impact (Explain):
- Request provided to the Budget Office when provided to the Committee Coordinator

Community Impact (Summarize below)

Ward: City-Wide Program

Neighborhood Notification: N/A

City Goals: The Capital Acquisition Loan Program meets the City Goals to create an environment that maximizes economic development opportunities within Minneapolis by focusing on the City's physical and human assets; maintain the physical infrastructure to ensure a healthy, vital and safe City; and to promote public community and private partnerships to address disparities and to support strong healthy families and communities.

Comprehensive Plan: The proposed projects must be in compliance with the Policies of the Minneapolis Plan.

Zoning Code: The proposed projects must be in compliance with the City's Zoning Code.

Living Wage/Job Linkage: N/A

Background/Supporting Information: As we transition the small business loan programs from the MCDA to the City, program guidelines and documentation has been reevaluated for compliance with City process and procedures. The attached guidelines reflect changes to bring them into compliance.

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

CAL involves a partnership between the City and the Community Reinvestment Fund (CRF), a Minneapolis-based non-profit organization that provides a secondary market for community development loans. CAL uses a financing structure similar to the SBA 504 loan program. Local banks finance 50% of the cost of eligible projects. The City draws on CRF funds to finance 40% of eligible costs and business owners supply the remaining 10% in the form of equity.

The City enters into an Advance Commitment with CRF to purchase these loans. When a loan is closed, the City's 40% share is immediately assigned to CRF. Because CRF funds the lender directly on behalf of the City, no City funds are used in the loan transactions.

Since the inception of the program, CAL has enabled 79 local business owners to access \$20 million in private financing.

In order to extend the program, it is necessary to enter into an additional Advance Commitment Agreement with CRF to purchase additional loans. CRF requires a 1% commitment fee from its sellers for the advance commitment. The fee will be funded from Fund SED.

The delegation authority to the Director of CPED or his designee for the Loan Purchase Agreements will only be effective after certain City Charter changes currently under 90-day review period are made.

The following loan documents are on file and can be reviewed in the Business Finance Section of CPED:

- Loan Purchase Agreements
- Qualified Seller Agreement
- Advance Commitment Agreement

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June 1004 Guidelines
Capital Acquisition Loan Program (CAL)

Purpose

To facilitate the reuse of small commercial and industrial properties in Minneapolis by providing a source of affordable financing for the acquisition and rehabilitation of these properties.

Program Structure

CAL will provide City of Minneapolis financing in tandem with private banks for commercial/industrial acquisition projects. The lender will finance at least 50% of the project, the City of Minneapolis Department of Community Planning and Economic Development (CPED) will facilitate financing for up to 40%, and the business borrower will provide the remaining funds in the form of equity.

Program Funding

CAL will be capitalized through an Advance Commitment and loan purchase agreement with the Community Reinvestment Fund (CRF). CRF will inject funds into the program by purchasing loans facilitated by the City of Minneapolis. Because CRF purchases loans for resale on the secondary market, CAL loans must be priced to yield a market return for investors.

Eligible Uses

Loan proceeds can be used to finance the acquisition and rehabilitation of commercial and industrial properties in Minneapolis and to facilitate permanent financing for these properties. Refinancing of contracts for deed is an eligible use.

Loan Amount

The City of Minneapolis share of the loan will be capped at \$300,000. No limit will be placed on the bank's share of the loan.

Term

The maximum loan term will be determined on a case by case basis.

Underwriting

Loans must comply with underwriting standards developed jointly by the participating bank, the City of Minneapolis, Dept. of CPED, Business Finance staff and CRF.

Security

All loans will be secured with a first mortgage on the property to be financed. The City of Minneapolis' security interest will be subordinated to the bank.

Credit Enhancement Where needed, the City of Minneapolis will guaranty repayment to CRF of up to 20% of the principal amount of the City portion of the loan for a period of up to 18 months after the origination of the loan. The guaranty will be backed by a reserve account which has been set up in Fund SED.

Origination and Servicing

The participating lender will originate and service the loans. The lender will remit repayment of the City's share of the loan to CRF following CRF's purchase of the loan.

Fees

The City of Minneapolis will charge a 1% origination fee on its share of the loan. This fee will be collected at the time of closing.

Delegating authority to make and execute Loan Purchase Agreements and supporting documents consistent with Capital Acquisition Loan Program Guidelines.

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

That the City Council hereby delegates to the Director of the Department of Community Planning and Economic Development (CPED) or his designee, the Manager of Business Finance for CPED, authority to make and execute Loan Purchase Agreements and supporting documents not to exceed \$300,000 and for a maximum term of ninety (90) days.