

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

Date: February 16, 2010

To: Councilmember Lisa Goodman, Chair, Community Development Committee

Referral to: Councilmember Betsy Hodges, Chair, Ways and Means/Budget Committee

Subject: Satisfaction of Dudley Riggs Forgivable Loan

Recommendation: Approve Dudley Riggs' offer of \$52,000 to buy out a 40-year forgivable loan, together with an early payoff of development loan of approximately \$24,000 on the property located at 1426 Washington Avenue South.

Previous Directives: In 1985 the MCDA acquired the Dudley Riggs Theater Property at 1426 Washington South as part of a master acquisition of various Cedar Riverside parcels. A sale of this property to Dudley Riggs was approved along with financing of two public loans totaling \$305,000 to Dudley Riggs on December 18, 1985. On August 11, 1995, the City approved subordinating the forgivable mortgage to an Associated Bank loan related to a \$275,000 private mortgage used to fund a new HVAC system and complete rehabilitation of the second floor of the building. Another subordination was approved by the Finance Officer on March 15, 2007, to allow for a \$40,857 private loan, again from Associated Bank, for building improvements (tuck pointing, power washing and chimney repairs).

Department Information

Prepared by: Judy Cedar, Senior Project Coordinator, 612-673-5025

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

Catherine A. Polasky, Director of Economic Development _____

Presenter in Committee: Kristin Guild, Manager, Business Development

Financial Impact

Revenue to the City of approximately \$76,000

Community Impact

- Neighborhood Notification: N/A
- City Goals: Connected Communities, Premier Destination
- Sustainability Targets: Action supports private financing for investments in the building consistent with the City's sustainability targets.
- Comprehensive Plan: Action supports private financing for investments in the building consistent with the comprehensive plan.
- Zoning Code: Anticipated building improvements would comply with the zoning regulations.
- Living Wage/Business Subsidy Agreement: N/A
- Job Linkage: N/A

Supporting Information

In 1985, the MCDA acquired the Dudley Riggs Theater Property (located at 1426 Washington Avenue South in the Seven Corners area of Cedar-Riverside) as part of a

master acquisition of various Cedar Riverside parcels. A sale of this property to Dudley Riggs was approved with the following public and private financing:

1. A loan secured by a first mortgage on the property with an original principal amount of \$175,000 was made by Associated Bank on December 18, 1985. The loan was used to rehabilitate the building. This loan has been satisfied, but in 1995 subsequent financing of \$275,000 from Associated Bank (for further property improvements) has taken the first security position in the property.
2. A promissory note (secured by a second mortgage) with an original principal amount of \$50,000 was made by the MCDA on December 18, 1985. The loan was used to modify the second floor for residential uses. The term of this loan is 35 years with the last payment scheduled for December 18, 2020. The interest rate for this note is 5% and monthly payments are \$252.35. Payments are current with a loan balance of approximately \$24,000.
3. A 40 year promissory note (secured by a third mortgage) with an original principal amount of \$255,000 was made by the MCDA on December 18, 1985. This forgivable loan is credited with a grant of \$6,375 each year that Dudley Riggs retains ownership of the building and complies with the terms of the mortgage agreement. Today the note balance is \$102,000. The loan would not be fully forgiven and the mortgage satisfied until December 2025.

Mr. Riggs has requested permission to buy out the remaining obligation of the 40-year forgivable loan for \$52,000. If that buy out request were approved by Council, he would also prepay the full remaining balance of \$24,000 of the other City loan. Mr. Riggs wishes to obtain additional private financing for further investments in the property, and banks view the conditions of the MCDA mortgages as a complicating factor in a hesitant and conservative lending environment.

The original objectives of the City's involvement in the property sale and financing, as articulated in the documents associated with the forgivable loan, were to secure stable, active entertainment uses in the Seven Corners commercial district and stimulate long-term investment in the historic building. These objectives have been met. Over the past 24 years Dudley Riggs has made capital investments into this property of more than \$500,000. Improvements to the building include the initial rehabilitation, tuck pointing, chimney repairs, HVAC replacement and conversion of the second floor for office uses.

Mr. Riggs has maintained a vibrant, active destination use on the premises for over 24 years - first the Dudley Riggs Theater and more recently the Town Hall Brewery. At this point, the extraordinarily long term City financing is proving to be a barrier to continuing the original objectives of investment and active uses on the site.

Staff recommends approving the buyout as negotiated. The payoff amount for the forgivable loan represents revenue to the City that could be used to finance commercial revitalization projects rather than incrementally forgiven as grants of \$6,375 annually over the next 16 years.

Precedent exists for a buyout of a forgivable loan. In September 2004, the City Council approved a buyout and satisfaction of a 40 year, \$90,850 forgivable loan for Midwest Mountaineering. That buyout amount was approved at \$23,280.