



**Request for City Council Committee Action  
Community Planning & Economic Development**

Date November 12, 2003  
To Barbara Johnson, Chair - Ways & Means Committee  
Submitted by Kim W. Havey, Minneapolis Empowerment Zone, 673-5016  
Approved by Lee Sheehy, Community Planning and Economic Development  
**Subject** Authorization to allocate \$800,000 of Federal Empowerment Zone Funds for the acquisition of 1508 East Lake Street. Total EZ funding committed of \$1,050,000.

**Presenters in Committee** Kim W. Havey, Director, Minneapolis Empowerment Zone

**Recommendation**

- 1) Authorize the allocation of an additional \$800,000 in Federal Empowerment Zone Funds payable from 0300-840-8460 to NDC for 1508 East Lake Street.
- 2) Authorize staff to enter into a contract with the Neighborhood Development Center (NDC) for the acquisition of 1508 East Lake Street
- 3) Approve a waiver of the RFP regulations requiring the City to issue an RFP for contracts over \$50,000

**Financial Impact** (Check those that apply)  
 No financial impact or Action is within current budget.  
 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

**Background/Supporting Information**

The Neighborhood Development Center (NDC) plans to purchase and renovate the former “Antiques Minnesota” building at 1508-1516 East Lake Street as a community-based revitalization strategy. The street level entrances and windows will be restored to their original use for the store-front businesses, reinvigorating the street with commercial activity that will help to establish the corridor as the central Latino Commercial District in Minneapolis. By renovating this prime historic property, this project creates new economic and cultural opportunities for residents and businesses located in the Phillips community – housing arts and community-based businesses that will create jobs for teens and adults,

provide cultural programs for neighborhood youth and families, and generate new customers for nearby restaurants, retail stores and other businesses.

The first level will be leased to ready-to-grow businesses in the Cooperativa de Mercado Central, which currently master leases the 38,000 SF commercial building directly across the street from the proposed project. There is a real shortage of retail space with storefront access and parking along the Lake Street Commercial Corridor, and this project would provide the next logical step for many of the successful businesses inside the Mercado, which are ready to expand into larger spaces. Heart of the Beast Theater (HOBT) would utilize the third floor of the building for office, educational, studio and rehearsal space, so that the Avalon Theater could be rented throughout the year to other theater or performing arts groups.

The building is the second largest vacant property in Midtown Phillips, and the shuttered windows and uncontrolled parking lots have dragged down the value and growth potential of neighborhood businesses, particularly restaurants and retail stores that need a location with positive, active street life. Due to the size of this property and its prominent position on East Lake Street, this vacant building has become a property of high concern among neighborhood coalitions, residents and the area business association.

The Heart of the Beast Theatre, in conjunction with the California Building Company, tried unsuccessfully to purchase the building in 2002. NDC has a purchase agreement on the property that is good through December 27, 2003 and has been working for six months to raise the necessary funds to purchase and renovate the property. While we have identified sources for all \$3.4 million in development costs, several of the sources including a \$1.6 million New Markets Tax Credit Investment, the TIF note, and the Metropolitan Council Tax Base Revitalization Grant, will most likely not be ready to close before February of 2004. Unfortunately, the owner of the building will not extend the purchase agreement, so NDC needs to have \$1,350,000 available to purchase the building by December 15, 2003.

The loan from the Empowerment Zone would provide bridge financing for acquisition of the building, until the initial closing with LISC, Wells Fargo, and the City of Minneapolis takes place in early 2004.

The Neighborhood Development Center has raised more than \$1 million of the total \$3.4 million acquisition and construction costs, and is in the process of negotiating a \$1.8 million investment by Wells Fargo Bank that would utilize LISC's allocation of New Markets Tax Credits and the 10% Rehabilitation Tax Credit.

The following sources of funds are committed and would be available in December to apply towards the purchase price (if the Empowerment Zone loan can make it through contracting by that time):

Pohlad Foundation	\$100,000 (committed grant)
NDC REDI Loan	\$200,000 (committed loan)
<u>Empowerment Zone Loan</u>	<u>\$250,000 (committed loan)</u>
SUBTOTAL	\$550,000

With bridge financing from the Empowerment Zone, NDC will be able to purchase the building on December 15, 2003 and then finalize the remaining financing sources over the next few months. The City of Minneapolis and the Empowerment Zone are critical resources

for completing this project, as the remaining sources that we have identified cannot close by the end of December for a variety of reasons:

TIF Pay-Go Note	\$ 270,000	available after construction commences
MCDCA Commercial Corridor	\$ 250,000	available after all permanent financing committed
Historic Tax Credit Equity	\$ 162,000	available at initial closing
Met Council TRBD Fund	\$ 232,000	application currently being reviewed
LISC Mortgage	\$ 360,000	loan committee will review in December
Wells Fargo NMTC Equity	\$1,600,000	currently under review by Wells Fargo & LISC
Midtown Phillips	\$ 100,000	Available after contracting with the City of Minneapolis is complete

Because the New Markets Tax Credit program is still in its infancy, the transaction is much more complex and unfortunately, much slower, than a typical mortgage process. LISC anticipates completing its financial modeling in November, and we hope to finalize the relationship with Wells Fargo in December, with a closing in early 2004. Once that piece is committed, the other funding sources will be quickly finalized and NDC will be able to commence construction by March 2004, with the building open for occupancy by fall 2004.

**IV. LOAN REQUEST:**

A. Amount requested: \$ 800,000 \_\_\_\_\_

B. When do you need the loan: \_\_December 15, 2003\_\_\_\_\_

C. Proposed term or repayment period: *Six months.*\_\_\_\_\_

D. List assets you will use to secure this loan:  
**Property at 1508-1516 East Lake Street**

Is this collateral used to secure any other loan? \_  
**Minneapolis Empowerment Zone Loan of \$250,000.**