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

Date: August 23, 2005

To: Council Member Lisa Goodman, Community Development Committee

Prepared by: Nila McDonald, Business Finance Phone 612-673-5189

Presenter in Committee: Nila McDonald, Business Finance CPED

Approved by: Chuck Lutz, Deputy CPED Director _____

Subject: Program Extension of the Capital Acquisition Loan (CAL) Program and Authorization to enter into a $2,000,000 Advance Commitment Agreement for CAL loans and a $1,000,000 Advance Commitment Agreement for CAL loans for properties in New Market Tax Credit (NMTC) eligible areas.

RECOMMENDATION: The CPED Director recommends that the City Council Approve an extension of the Capital Acquisition Loan Program and authorize appropriate City officials to enter into Advance Commitment Agreements.

Previous Directives: The Capital Acquisition Loan Program Guidelines were established in 1998. Advance Commitment Agreements were entered into 2000, 2001, 2002, 2003 and 2004.

Financial Impact (Check those that apply)

_x_ 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: All projects must comply with the policies of the Minneapolis plan.

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

Living Wage/Job Linkage: N/A

Background/Supporting Information: In 1998, the MCDA 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. On June 8, 2004 the City Council approved revised CAL guidelines and documentation to reflect changes necessary as the MCDA was in transition to the City.

CAL involves a partnership between the City and 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's CAL portion using CRF funds, are used to finance 40% of the eligible costs and business owners supply the remaining 10% in the form of equity. Properties located in certain areas may make these CAL loans eligible using CRF's New Market Tax Credit (NMTC) allocation. The use of NMTC allows the small business owner to receive savings in the form of lower than the normal CAL rate and longer term financing that they would otherwise not have direct access to.

The City enters into an two Advance Commitment Agreements with CRF, one for the standard CALs and one for properties in NMTC-eligible areas. When a loan is closed, the City's 40% share is immediate assigned to CRF. Because CRF funds the lender directly on behalf of the City, no City funds are used in the loan transactions.

Since program inception, CAL has enabled 86 local business owners to access $24 million in private financing, two using NMTCs. In addition, two loans have been approved and not closed, and one is in process.

In order to extend the program, it is necessary to enter into additional Advance Commitment Agreements 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 SEDO within Business Finance.

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

Advance Commitment Agreements