

**Request for City Council Committee Action
From the Finance Department**

Date: October 7, 2008
To: Community Development Committee
Referral to: Ways & Means/Budget Committee

Subject Green Institute Loan Status

Recommendation

Authorize the Chief Financial Officer with assistance from the City Attorney to negotiate a debt reduction/elimination plan with the Green Institute by December 31, 2008 and report to the City Council by December 1, 2008 on the status of the plan.

Previous Directives

11/14/05 Green Institute Loan Update
3/27/06 Green Institute Section 108 HUD Loan Update
11/27/06 Green Institute Loan Update – forwarded to
the Community Development Committee
4/17/07 Green Institute Loan Update – Delinquency Loan approval
8/21/07 Green Institute Section 108 and Delinquency Loan Update

Prepared or Submitted by: Michael Abeln
Director, Capital & Debt Management
673-3496

Approved by: Patrick Born, City Finance Officer _____

Steven Bosacker, City Coordinator _____

Presenters in Committee: Michael Abeln, Director, Capital & Debt Management and
Patrick Born, City Finance Officer

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 (use any categories that apply)

- Neighborhood Notification
- City Goals
- Comprehensive Plan
- Zoning Code

Other
 Not applicable

Background/Supporting Information

This letter is an update to the August 21, 2007 letter regarding the status of City loans to the Green Institute.

The Green Institute was unable to pay the full August 1, 2007 principal and interest payment of \$167,082.08 on the Section 108 Loan on the due date but the entire amount was paid by August 21, 2007. Part of the capacity to pay the August debt service was provided by a \$100,000 loan from the Minnesota Non-Profit Assistance Fund which operates out of the Green Institute building. At the end of 2007, the Green Institute was current on the Section 108 loan and the Delinquency Loan described below.

The city has two loans with the Green Institute. Below is the current financial status of each loan as of 9/30/08:

Section 108 HUD Loan – The original loan amount was \$3,500,000 and the current outstanding principal balance with HUD is \$2,920,000. The Green Institute's current loan balance outstanding with the City related to this loan including payments missed in 2008 and accrued interest through 9/30/08 is estimated to be \$3,128,010.13.

During 2008, the following activity took place with respect to the Section 108 Loan:

February 1, 2008 quarterly interest payment	\$ 39,945.15
Green Institute payments made in March & April	(9,500.00)
May 1, 2008 quarterly interest payment	24,451.91
August 1, 2008 quarterly interest payment	23,286.11
August 1, 2008 principal payment	128,000.00
Accrued interest on late payments – through 9/30/08	<u>1,826.96</u>
Net 2008 missed/late payments owed City	\$208,010.13
Remaining Principal Balance	<u>\$2,920,000.00</u>
Total Loan Amount outstanding	\$3,128,010.13

The City has made all payments to HUD (the loan originator) on a timely basis despite the delinquencies from the Green Institute. The City's self supporting debt service fund 05260 has been the temporary source for HUD loan payments and will require reimbursement when loan repayment funds become available.

Delinquency Loan – This loan was executed on May 1, 2007 for \$216,188.66 and represented an accumulation of missed principal and interest payments on the Section 108 loan at that point in time. Timely payments were made on this loan through June 1, 2008 but the July – September 2008 payments totaling \$7,122.12 have been missed. The current outstanding balance at 9/30/08 including accrued interest is \$188,336.14.

The City loans are backed by a fully executed mortgage on the Green Institute property but are subordinate to Western Bank, the first mortgage holder. Western Bank has an outstanding loan of approximately \$500,000 with the Green Institute which becomes

due and payable in February 2009 unless refinanced. The Green Institute is current on this loan and Western Bank has indicated a willingness to extend the loan.

As a result of the delinquencies described above, the Finance Department has had several discussions with representatives of the Green Institute and Western Bank. The purpose of the meetings were to determine what actions the Green Institute will take to improve its financial condition. Options include relocation of the Reuse Center, add new tenants to replace the ReUse Center, and other steps that improve the revenue productivity of the building. In fact, the Green Institute has made progress in negotiating existing leases at higher rental rates and has reduced it's footprint in the building from 34% to 20% of leasable space with an additional reduction to 14% anticipated by 1/1/09.

Relocating the ReUse Center and finding new tenants may not result in additional cash flow to the Green Institute to allow it to become current on loans to the City. Additional actions, such as sale of the building may be necessary. Both the City and the Green Institute have commissioned real estate appraisals for the building. The City's appraisal indicates the building's fair market value is \$5.4 million, which is above the total outstanding loans of the Green Institute.

The board of directors of the Green Institute has authorized the relocation of the ReUse Center and exploration of the sale of the building. The Green Institute has not committed to specific dates for either action.

It is recommended that the Chief Financial Officer be directed to negotiate a debt reduction plan with the Green Institute not later than December 31, 2008. The CFO will report to the City Council not later than December 1, 2008 about the status of negotiations. The debt reduction plan will identify actions that will either eliminate the Green Institute's debt to the City or reduce its debt to a level that the City can expect to be paid on a timely basis. The plan must be approved by Green Institute's board of directors and include specific dates of performance. If adequate progress to develop the plan has not been made by December 1, 2008 the City Council will be requested to take alternative actions to repay the City's debt.