

Minneapolis Community Development Agency

Request for City Council Action

Date: September 16, 2003

To: Council Member Lisa Goodman, Community Development Committee
Council Member Barbara Johnson, Ways and Means/Budget Committee

Prepared by Jack Kryst, Director, Development Finance, Phone 612-673-5130

Approved by Lee Sheehy, MCDA Executive Director
Chuck Lutz, MCDA Deputy Executive Director _____

Subject: Development Funding Cycle – September 2003

Previous Directives: On October 25, 2002, the City Council approved a process for implementing development funding cycles, to be effective March 2003.

Ward: (See Attachment A)

Neighborhood Group Notification: (See Attachment A)

Consistency with *Building a City That Works*: (See Attachment A)

Comprehensive Plan Compliance: (See Attachment A)

Zoning Code Compliance: (See Attachment A)

Impact on MCDA Budget: (Check those that apply) (See Attachment A)

- No financial impact
- Action requires an appropriation increase to the MCDA Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Other financial impact (Explain):

Living Wage / Business Subsidy: (See Attachment A)

Job Linkage: (See Attachment A)

Affirmative Action Compliance: (See Attachment A)

Recommendation: Receive and file.

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Background/Supporting Information

On October 25, 2002, the City Council approved a process for implementing development funding cycles. Requests for the following types of public financial assistance are subject to development funding cycles:

- tax abatement approvals
- Leveraged Investment Fund approvals
- other gap funding approvals
- Commercial Corridor Fund approvals
- Neighborhood Economic Development Fund (NEDF) approvals
- Community Commercial Economic Development Fund (CEDF) approvals
- Minneapolis Industrial Land and Employment Strategy (MILES) approvals
- developer selection following a Request for Proposals (RFP) process

Actions subject to development funding cycles are normally presented for City Council and/or MCDA Board consideration during the first Council meeting cycles of March, June, September and December. Due to the cancellation of the August 26 Community Development Committee meeting, this report is being presented for City Council consideration during the second meeting cycle of September.

September 2003 Development Funding Cycle

The September 2003 development funding cycle contains only one request – to approve a \$350,000 loan to the American Indian Neighborhood Development Corporation (AINDC) to defray extraordinary costs of site assembly for the Franklin Bakery at 11th and East Franklin Avenues. More detailed information on the proposed loan from the Community Commercial Economic Development Fund (CEDF) is provided in a separate report to the MCDA Board, which is attached to this report for convenience of reference (see Attachment A).

Funding Source

The Community Commercial Economic Development Fund (CDEF) supports commercial and mixed-use projects within commercial corridors identified in The Minneapolis Plan. The current unreserved balance of the CEDF is \$1,035,839. Approval of this \$350,000 request will leave an unreserved balance of \$685,839.

Comparison to Other Projects

The current request is compared on the following page to other recent requests for CEDF or Commercial Corridor funds.

Staff Recommendation

Staff recommends approval of this request for CEDF funds. More detailed recommendations regarding MCDA Board actions are included in Attachment A.

Comparison of Proposals for Use of CEDF or Commercial Corridor Funds

	Franklin Bakery	Hubbard Building	Do All Building
Location			
Ward	6	5	2
Neighborhood	Ventura Village	Near North	Seward
Address	11 th Avenue and East Franklin Avenue	1101 & 1105 W. Broadway; 1821 Emerson Avenue N	2327 East Franklin Ave.
Type of Project	Commercial New Construction	Commercial Rehabilitation	Commercial Rehabilitation
Date Approved	(Current Request)	March 21, 2003	December 28, 2001
Project Description			
Size (sq. ft.) – Industrial	----	----	----
Size (sq. ft.)-Office/Comm	15,550 square feet	6,050 square feet	14,000 square feet
Size (sq. ft.) – Retail	450 square feet	6,050 square feet	----
Jobs Created/Retained	65 / 96 (est.)	20 created	(not available)
Total Living Wage Jobs	59 (est.)	(not available)	(not available)
Total Housing Units	----	----	----
0-1 Bedroom	----	----	----
2 Bedroom	----	----	----
3+ Bedroom	----	----	----
Total Affordable Units	----	----	----
Percent Affordable Units	----	----	----
Parking Stalls - Surface	31	40	51
Parking Stalls - Structured	----	----	----
EMV Upon Completion	\$2,300,000 (est.)	\$725,000	\$737,000
Projected Annual Taxes	\$95,450 (est.)	\$28,796	\$16,136
Financing			
Total Development Costs	\$4,488,960	\$1,530,000	\$1,597,245
Private Costs	\$3,358,960	\$1,130,000	\$1,477,245
Public Costs	\$1,130,000	\$400,000	\$120,000
Percent Public	25%	26%	8%
Sources of Public Assistance	\$350,000 CEDF, \$300,000 EZ, \$480,000 US Dept. of HHS	\$100,000 Met Council \$300,000 CEDF	\$80,000 Comm Corridors \$40,000 2% Loan
Tax Exempt Financing	None	None	None
Recapture Provisions	Loan repayment	To be determined	Loan repayment
Other Information			
City Priorities	Economic Development	Economic Development	Economic Development
Neighborhood Support	Requested	Yes (NRCC & WBAC)	Yes

MEMORANDUM

progress
through
partnership

MCDA

September 16, 2003

REPORT TO THE COMMISSIONERS

Presented by: **John Harrington, Phone 612-673-5018**

Prepared by: Erik Hansen, Phone 612-673-5022

Approved by: Lee Sheehy, Executive Director

Chuck Lutz, Deputy Executive Director _____

SUBJECT: \$350,000 CEDF/CDBG loan to American Indian Neighborhood Development Corporation for site assembly in the construction of the new Franklin Bakery

Previous Directives: None.

Ward: 6

Neighborhood Group Notification: Ventura Village was notified of the potential loan to AINDC on February 7, 2003

Consistency with *Building a City That Works*: **Goal 3** – Support strong and diverse neighborhoods where people choose to live. **Objective C** – Create an environment that encourages private investment in neighborhoods. **Strategy 2** – Provide financial assistance programs. Provide gap financing for otherwise feasible new construction and rehabilitation projects.

Comprehensive Plan Compliance: Complies with Building a Market in the City

Zoning Code Compliance: The area was rezoned from C1 to I1. The facility is in compliance with the I1 zoning.

Impact on MCDA Budget:

- No financial impact
- Action requires an appropriation increase to the MCDA Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Other financial impact (Explain): Allocation of Funds -

This action will reduce the CEDF-CDBG budget, Fund FBGO 2201, by \$350,000, leaving an unreserved balance of approximately \$686,000.

Living Wage / Business Subsidy: N/A

Job Linkage: Complies

Affirmative Action Compliance: Complies

Recommendation: The Deputy Executive Director recommends that the MCDA Board of Commissioners:

- a) approve the use of \$350,000 of Year 27 CEDF/CDBG funds for a loan to the American Indian Neighborhood Development Corporation
- b) approve the use of these funds solely to defray site assembly costs associated with the Franklin Bakery Project at 11th and E. Franklin Avenue
- c) approve the loan with payments based on a 20-year amortization at 4 percent interest, 10-year term and a balloon at the end of the term; and
- d) authorize the Executive Director, or other appropriate official, to execute the necessary documents with the financing terms and underwriting conditions listed herein.

EXECUTIVE SUMMARY

This report proposes lending the American Indian Neighborhood Development Corporation (AINDC) \$350,000 of Community Economic Development Fund/Community Development Block Grant (CEDF/CDBG) funds to defray extraordinary costs of site assembly, including demolition associated with the construction of the Franklin Bakery at 11th and East Franklin Avenues. AINDC will repay the proposed loan in not more than ten years through revenue earned from a land lease to Franklin Bakery, LLC. Repayment on the loan will start on January 1, 2004. The loan will have a 4 percent interest rate. The public sector will provide an estimated 25 percent of total permanent financing. Every \$1 of public funding leverages \$3 of private funds. Proposed CEDF/CDBG financing will leverage \$12 for every \$1 it provides, equal to 8 percent of the total project financing.

Franklin Bakery is relocating from its current facility at 323 East Franklin Avenue. The bakery employs 65 people and expects to increase its staff by an additional 50 to 100 people when it moves into its new facility. The bakery has a history of hiring employees from the Whittier and Phillips neighborhoods. The project qualifies for the use of CDBG/CEDF funds since it meets the national objective as an activity that benefits low- and moderate-income persons and it is in the Empowerment Zone.

The loan would be supported by both a revenue stream for repayment and a stand-by note in case of land sale. In addition, the loan would be collateralized with a third mortgage position, behind the Small Business Administration (SBA), on both the land and the building. The project preserves and creates jobs and continues the progress of redevelopment on Franklin Avenue. The weaknesses and risks involve the customer base and sales projections of the bakery. Although sales have increased in recent years to the point that the bakery needs to expand, accurately forecasting the future is not certain.

PROJECT DESCRIPTION

The Franklin Bakery development includes the construction of a 16,000 square foot building on the north side of East Franklin Avenue between 10th and 11th Avenues to accommodate relocation of the bakery from its current location at 323 East Franklin Avenue. The area has already been rezoned from C1 to I1. The facility is in compliance with the I1 zoning.

AINDC has acquired all five parcels that comprise the one-acre project site. AINDC has razed three previously existing buildings. It began construction of the facility in April 2003 with a planned completion date during the third quarter, 2003. At the time of construction completion the Franklin Bakery, LLC will purchase the building from AINDC. AINDC will retain ownership of the land and will lease it to Franklin Bakery.

Assembled parcels for the Franklin Bakery:

Address	PIN	Parcel Size (sq ft)	Zoning
1004 E. Franklin Avenue (building)	2602924340026	9700	I1
1008 E. Franklin Avenue (empty lot)	2602924340027	5529	I1
1014 E. Franklin Avenue	2602924340028	8039	I1
1020 E. Franklin Avenue	2602924340029	14580	I1
1921 10 th Avenue South	2602924340025	4570	I1

The Franklin Bakery is projected to employ over 100 people. The existing bakery location is in the Whittier neighborhood and it will move to the Ventura Village neighborhood. The bakery began operation in August 1994. The owners were beginning to consider relocating to sites outside of Minneapolis because they could not find a suitable, affordable property in Minneapolis. This project will retain in the city the current 50+ jobs and will allow the bakery to grow and add more than 50 new jobs within three years. The owners of Franklin Bakery have a history of employing Whittier and Phillips residents.

The proposed loan of \$350,000 will help AINDC defray the extraordinary cost of site assembly, including demolition for this project.

FINANCING

This project has an estimated cost of \$4,488,960. Financing is being provided from private, non-profit, and government entities in addition to equity contributions from AINDC and the Franklin Street Bakery. The total public assistance is \$1,130,000 including the proposed \$350,000 from CEDF/CDBG, \$480,000 from the U. S. Department of Health and Human Services, Office of Community Service and \$300,000 from the Empowerment Zone. The remaining \$3,358,960 will come from private financing including owners equity, Franklin Bank, Philips Community Development Corporation, Twin Cities LISC, and an SBA 504 loan.

The bakery obtained an SBA 504 loan for \$1,157,000. The SBA loan is subordinate to the Franklin Bank loan. The SBA has secured the loan through collateral on the building and the land (owned by AINDC) as well as a personal guarantee from the principals. The proposed CEDF/CDBG loan follows this formula in a junior subordinate (third) position.

Sources and Uses

USES

Site assembly	\$1,557,830
Equipment purchases	\$800,678
Construction costs	\$2,009,000
Loan cost	\$121,452
Total	\$4,488,960

SOURCES

Construction Financing	
Loans	
Franklin Bank	\$1,485,197
Community Loan Tech	\$300,000
U.S. SBA 504	\$800,678
Other financing	
Twin Cities LISC	\$50,000
Phillips CDC	\$177,673
US Dept. of HHS – Office of Community Service	\$480,000
Mpls. Empowerment Zone	\$300,000
CEDF/CDBG	\$350,000
Owner equity	
AINDC Equity	\$218,360
Franklin Bakery Equity	\$327,052
Total	\$4,488,960

Permanent Financing	
Debt Financing	
Franklin Bank	\$1,606,725
U.S. SBA 504	\$1,157,000
Land Lease (AINDC Debt Service)	
Phillips CDC	\$152,673
CEDF/CDBG	\$350,000
Unsecured Loan	
Mpls. Empowerment Zone	\$150,000
Grants	
US Dept. of HHS – Office of Community Service	\$480,000
Mpls. Empowerment Zone	\$150,000
Owner equity –	
AINDC Equity	\$218,360
Franklin Bakery Equity	\$205,600
Franklin Bakery Cash	\$18,602
Total	\$4,488,960

Public-to-Private Financing

The public sector will provide an estimated 25 percent of total permanent financing. Every \$1 of public funding leverages \$3 of private funds. Proposed MCDA financing will leverage \$12 for every \$1 it provides, equal to 8 percent of the total project financing.

Public	
MCDA	\$350,000
Mpls. Empowerment Zone	\$300,000
US Dept. of HHS –	
Office of Community Service	\$480,000
Sub-total	\$1,130,000
Private	
AINDC Equity	\$218,360
Franklin Bakery Equity/Cash	\$224,202
Franklin Bank	\$1,606,725
U.S. SBA 504	\$1,157,000
Phillips CDC	\$152,673
Sub-total	\$3,358,960
Total	\$4,488,960

Total Investment:

	Public	Private	Total
Investment	\$1,130,000	\$3,340,358	\$4,470,358
% of Total	25%	75%	100%

	CEDF/CDBG	Other	Total
Investment	\$350,000	\$4,120,358	\$4,470,358
% of Total	8%	92%	100%

Public-Private Leverage:

	Total Private to Public	Other to CEDF/CDBG
Ratio	3 to 1	12 to 1

CEDF/CDBG Financing

The proposed CEDF/CDBG loan will assist AINDC to defray site assembly costs for the Franklin Bakery site. At the end of the Bakery’s construction, AINDC will sell the building to Franklin Bakery, LLC and retain ownership of the land. AINDC proposes to repay the loan through revenue earned from a land lease with Franklin Bakery, LLC. The loan is basically an operating expense for Franklin Bakery, LLC. Also, Franklin Bakery, LLC has provided a stand-by note that states that in the event of the land sale from AINDC, the Bakery will retire the debt on the MCDA loan.

THE PROPOSED LOAN TERMS

The proposed loan has a ten-year repayment schedule based on a twenty-year amortization with a balloon payment at the end of the ten-year term.

Loan Amount	\$350,000.00
Interest Rate	4.00%
Term (years)	10
Amortization Period (years)	20
Monthly Payment (120)	\$2,120.93
Annual Debt Service	\$25,451.16
Balloon Payment (1)	\$209,484.74
Repayment Start Date	01/01/2004
Balloon Payment Date	01/01/2014

RISK ASSESSMENT

STRENGTHS

The bakery has performed to the point that it needs to expand into a new facility. The placement of the new facility preserves and creates living wage jobs in the federally designated empowerment zone.

Franklin Bakery has secured \$2,763,725 in private sector financing; AINDC has secured \$780,000 in grants and \$152,673 in loans. Franklin Bakery will contribute \$205,600 in equity and AINDC will contribute \$218,360 in equity to the project. This returns a 3 dollars of private funding to every 1 dollar of public funding ratio and 12 dollars of grants, equity and other loans to every 1 dollar from the MCDA.

Public-Private Leverage:

	Total Private to Public	MCDA to Other
Ratio	3 to 1	12 to 1

The addition of the Bakery adds to positive development occurring on East Franklin Avenue. This facility complements the development on the avenue such as the Ancient Traders Market, the Franklin Art Works, Many River Housing Development, and streetscape improvements.

WEAKNESSES

The bakery has optimistic sales projections. After fluctuating sales in the past four years the Bakery projects to have growing sales for the foreseeable future. Some increase can be attributed to the new facility. It is unclear if the projections are based on a growing diversity of the bakery's customer base or increased sales to existing clients. With this projected growth, historical sales almost double in from 2001 to 2003.

Year	Sales	Growth
1998	2,363,895	
1999	2,040,894	-14%
2000	2,352,033	15%
2001	1,936,894	-18%
2002	2,824,834	46%
2003*	3,760,000	33%
2004	4,134,000	10%
2005	4,465,000	8%
2006	4,822,000	8%

*sale projections after and including 2003

RISKS

Although the bakery has a current client list of nearly 30 customers, two customers account for 55 percent of total sales in 2003. This presents a risk due to the exposure to the possible loss of these two clients. Conversely sales to these two customers rose 217 percent from 2001 to 2003.

The Use of CEDF/CDBG

To qualify for the use of a CEDF/CDBG a project must be an eligible activity that is not on the list of the ineligible activities and meets one of the three national objectives. Following these guidelines the Franklin Street Bakery project qualifies for the CEDF/CDBG fund for site assembly under the site clearance provision (24 CFR 570.201(d)). Further, the project does not benefit government operations or political activities so it is not rendered ineligible. Finally, the project meets the objective as an activity that benefits low- and moderate-income persons since the surrounding area is in a federally designated Empowerment Zone and the surrounding area has at least 51 percent of the population at low- or moderate-income earners.

Development Finance Committee Recommendation

"The Committee recommended approval of the loan, but noted its concerns about the associated risk, given the MCDA's proposed third mortgage position and the Committee's belief that the project's sales projections are optimistic." (Excerpt from July 31, 2003 memorandum to Chuck Lutz from Jack Kryst, DFC Chair)