Request for City Council Committee Action
Office of the City Coordinator (Community Planning & Economic Development)

Date	July 12, 2004
To	Council Member Barbara Johnson, Ways and Means/Budget Committee
CC:	Council Member Lisa Goodman, Community Development Committee
Submitted by	Kim W. Havey, Minneapolis Empowerment Zone, 673-5016
Approved by	Lee Sheehy, CPED Director _____ Chuck Lutz, Deputy CPED Director _____ Mike Christenson, Director, Strategic Partnerships _____

Subject Approve the forgiveness of a $164,000 loan to Siyeza, Inc.

Presenters in Committee Kim W. Havey

Recommendation

(1) Authorize the proper City of Minneapolis officers to amend the Siyeza contract to reflect the Empowerment Zone Governance Board recommendation to forgive the $164,000 loan to Siyeza if EZ resident employee goals are met. The EZ will secure a vendor note with Stairstep Foundation in the amount of $50,000 until the hiring goals are met. The goal is to employ 66 EZ residents including currently employed EZ residents during the next five (5) years. The Vendor note will be a no interest balloon payment loan due in five (5) years.

Financial Impact

_X_ 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

On December 13, 2002 the Minneapolis City Council approved a loan in the amount of $164,000 to Siyeza, Inc., a frozen and refrigerated food manufacturing company located at 1000 Humboldt Avenue North. The loan was five year loan with no interest or payments accrued until September 2004. The loan was then to accrue interest at 3% annually and be fully amortized over then next two years with final payment due in December 2006.

During the last two years, Siyeza has been manufacturing food for various organizations including General Mills, Glory Foods and Destination Products International (DPI).

In recent months Siyeza began discussions with DPI to purchase Siyeza and its manufacturing capacity and assets. DPI is a wholesale food distributor based in Ontario Canada with total sales of approximately $150 million. This would be their first purchase of a food manufacturing facility. In May 2004, an agreement was reached with DPI to pay off Siyeza's existing short term debt, with other lenders, including the EZ/City of Minneapolis writing off the majority of their long term debt. DPI will pay a total of $1.65 million. $300,000 cash up front will pay off Siyeza's current liabilities and $1.35 million will be in the form of vendor notes due in to Glory Foods, General Mills, Stairstep Foundation and Stairstep Inc. Please see the attachment for specific terms and amount of the forgiveness and vendor notes.

In order for the agreement to move forward, Siyeza has requested that the EZ and City Council agree to forgive the entire $164,000 loan. The EZ Governance Board at its meeting on June 17, 2004 agreed to forgive the loan based on a formula that would forgive $2500 for each EZ resident employed. This means that the full $164,000 can be forgiven if sixty six (66) EZ residents obtain full time employment during the next five years. If this does not happen, the EZ will recover a payment of $50,000 from the $400,000 DPI vendor note pledged to Stairstep Foundation. The $50,000 would have the same no interest, no payment terms of the other vendor notes. The $50,000 would be secured with a promissory note from Stairstep foundation.

In light of the certain closing of Siyeza and the total loss of the existing 35 jobs on the site if nothing is done, this is the best option for the EZ and the City of Minneapolis to pursue at this time. The goal is to increase employment in the facility thus securing jobs for EZ residents and continuing to support the local economy of North Minneapolis. Moreover, the City has a mortgage on the building housing Siyeza which is owned by Beck Horton. The DPI buyout would support the continuation of payments on this City loan.

Attachment I

Minneapolis Empowerment Zone Governance Board

June 17, 2004
1:30 to 3:30 p.m.
City Hall Room 132

Board Members Present: Charnaah Caldwell, Theresa Carr, Mike Christenson, Willie Dominguez, Arlene El-Amin, Eric Eoloff, Roger Hale, Peter Heegaard, Karen Kelley-Ariwoola, Jan Morlock, Jonathan Palmer, Mayor R.T. Rybak, Council Member Don Samuels, Keith Sjoquist, Missy Staples Thompson, Xang Vang, Jeffrey Washburne, Paul Williams, Joyce Wisdom, Vusumuzi (Vusi) Zulu

Board Members Excused: Lee Antell, Jason Geschwind, Craig Lewis, Juan Linares, David Nasby, Paul Rebholz, Josephine Reed-Taylor, Osman Sahardeed, Commissioner Mark Stenglein, Joe Werner, John Williams

Staff Present: Amber Austin, Kim Havey, Elizabeth Held, Narin Sihavong, Erik Takeshita, Jenny Yanke

Guests: Council Member Natalie Johnson Lee, Al Flowers, Shari Pugh, Larry Mackenzie, Mia Petrovich, Thomas Dickson, Barbara Howard, 14 other community members and guests.

Forgiveness of Siyeza $164,000 Loan

Kim Havey reported CEO Alfred Babington has been negotiating with food manufacturer DPI for the sale of Siyeza and DPI has requested EZ's forgiveness of the $164,000 loan as part of the arrangement. Others have agreed to loan forgiveness and the Board is being asked to do the same on the EZ $164,000 loan, though the EZ would be the only lender not paid back a percentage of their loan. Concerns include setting a precedence of loan forgiveness and the message of fairness, a vendor note of $50,000 out of the $400,000 equity note retained by Stair-step and a continued seat at the negotiations table is recommended. Member comments included the forgiveness tied to potential benefit for EZ residents, the balance of the business investment and job creation and forgiveness subject to terms of wealth creation by owning opportunities. Mayor R.T. Rybak moved forgiveness of the Siyeza loan, Vusi Zulu seconded amending the motion by tying the forgiveness to employee stock ownership at $2,500 per employee, capped at $50,000 in the form of a vendor note, the Mayor accepted the amendment and motion passed.

Respectfully Submitted,
Elizabeth Held