



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

**Date:** January 18, 2005

**To:** Council Member Lisa Goodman, Community Development Cmte

**Prepared by:** Erik Hansen, Senior Project Coordinator, Phone 612-673-5022

**Presenter in Committee:** Erik Hansen

**Approved by:** Chuck Lutz, Deputy CPED Director \_\_\_\_\_

**Subject:** Re-subordination of Deferred Purchase Price Mortgage to the Stairstep Initiative

**RECOMMENDATION:** Staff recommends that the City Council authorize the re-subordination of Deferred Purchase Price Mortgage to Stairstep, Inc. dated June 30, 2000 to allow for the Stairstep to secure new primary financing.

**Previous Directives:** The City Council approved a land sale of 818 West Broadway to Stairstep, Inc. in 2000. The City Council and the MCDA approved a CDBG/UDAG loan for building and equipment of \$375,000 in 1993. Stairstep satisfied the mortgage in 2004.

**Financial Impact** (Check those that apply)

- No financial impact - or - Action is within current department budget.**  
(If checked, go directly to next box)
- 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:** 3

**Neighborhood Notification:** Neighborhood notification is not applicable in this situation. Staff notified the neighborhood at the original sale of the land.

**City Goals:** Promote public, community and private partnerships to address disparities and to support strong, healthy families and communities.

**Comprehensive Plan:** Complies with Objective 4.3 Minneapolis will support development in Commercial Corridors where it enhances the street's character, improves its ability to accommodate automobile traffic and foster pedestrian movement, and expand the range of goods and services offered.

**Zoning Code:** Use complies with current zoning of C2 - Neighborhood Corridor Commercial District

**Living Wage/Job Linkage:** There is no living wage/job linkage agreement for this project.

## Summary

Re-subordination of the MCDA Deferred Purchase Price mortgage to Stairstep, Inc. will decrease the possibility of a potential default on the Mortgage that could pass a \$100,000 liability onto the City and property management complexities with the current tenant Burger King Corporation. This action also allows for Stairstep to restructure its corporate debt and strengthen its operating solvency so it can continue with its community-based community-building activities on the City's north side.

## Background

Stairstep, Inc. is a community based organization with headquarters at 1000 Humboldt Avenue North. Stairstep, Inc is the business arm of the Stairstep Initiative. This initiative started in 1991 to combat issues that were having great affect on the African-American community (i.e. drug-abuse, teen pregnancy, inter-generational poverty). Stairstep is a community based, community driven initiative that focuses on the rebuilding of community through the empowerment of its residents. The Stairstep Initiative is divided into two different corporations, Stairstep, Inc. and Stairstep Foundation. The foundation is the organization's not-for-profit arm. The aim of Stairstep, Inc. is to enact the community-building agenda of the Initiative. Stairstep, Inc. works to empower African-Americans through the creation of employment opportunities within the traditional African-American communities led by African-American entrepreneurs.

In 1992, one of the first community-building activities of Stairstep, Inc. was the construction and operation of a restaurant at 818 West Broadway. Stairstep, Inc. entered into a ground lease and secured financing for the building's construction from the Minneapolis Community Development Agency in 1993 for \$375,000. Stairstep satisfied this loan in September 2004.

Stairstep operated this building as a restaurant initially Dairy Queen and subsequently as West Indies Soul under a wholly owned subsidiary, Step Up, Inc. until 2000. At this

time Stairstep, Inc. stopped operating the restaurant and leased the property to Burger King.

Also in 2000, Stairstep, Inc. purchased the land. The financing for the land, with a fair reuse value of \$161,000, was completed with a \$75,000 cash payment to the MCDA and a Deferred Purchase Price Mortgage for the remaining \$86,000. Stairstep would satisfy the mortgage without payment if it owns the property until January 1, 2008 and a commercial restaurant is in continuous operation on the site.

Two other major community-building efforts for Stairstep, Inc. include the opening of a Tires Plus automotive repair in the Hawthorne Crossings Shopping Center and a food co-packing facility initially intended to be a production facility for Glory Foods. The Tire Plus was not able to maintain a positive cash flow and Stairstep closed the facility in 2000. The co-packing facility, Siyeza Inc., at 1000 Humboldt Avenue North involved significant financial involvement from US Bank, General Mills, Stairstep and Glory Foods. This unique partnership brings the community-based organization together with a Fortune 500 company, a major bank and an African-American entrepreneur.

Market forces have created a situation that requires Stairstep to restructure its corporate debt. The production requirements of Glory Foods were not sufficient to sustain the Siyeza plant. Stairstep reached a deal with Destination Products International (DPI) to purchase the assets of Siyeza, Inc and create a new entity called Siyeza, Creative Foods LLC. The transaction results in 80 percent ownership by DPI, 15 percent ownership by Stairstep, and 5 percent ownership is to be made available to the employees. This deal required Stairstep to provide \$190,000 in cash at the closing last October to cover old business liabilities. Destination Products International is a company that has the volume of business to make the plant viable. Stairstep negotiated a short term loan from Voyagers bank for \$200,000 to allow the completion of the DPI transaction.

As a result of closing of the Tires Plus, Stairstep has a court stipulation defining the buy-out of their lease at Hawthorne Crossings for \$100,000 and payoff approximately \$200,000 remaining on a \$325,000 loan from Wells Fargo. Stairstep has used lease payments from the Burger King to cover debt service on the Wells Fargo note and has yet to begin paying on the court stipulation. Lease income will not cover debt service on both issues.

In order to be able to meet its debt obligations and achieve a stable cash flow, Stairstep is discussing a new loan from Voyager Bank that will use the Burger King lease income to cover debt service. This loan, with an initial principal balance of \$600,000, will take out the Wells Fargo loan, court stipulation with Hawthorn Crossings, and the repay the \$200,000 short term loan from Voyagers. The Burger King lease runs through 2019, with Burger King holding four 5-year extension options.

To secure the new \$600,000 financing, Voyager Bank requires first lien position on the land and building. Therefore the City (on behalf of the MCDA) would need to allow a subordinate position of the Deferred Purchase Price Mortgage to this loan.