



**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 informational update to the March 27, 2006 communication regarding the status of the \$3,500,000 Section 108 HUD loan agreement with the Green Institute. Since March of 2006, the Green Institute has continued to make interest payments on the loan agreement with the City but has not made any additional progress on the delinquent principal balance from August 1, 2005 and has missed the \$115,000 August 1, 2006, principal payment leaving a current balance owed to the City of \$212,748.19 including accrued interest on the delinquent balances.

In addition to the missed principal payments, the Green Institute is partially delinquent on the \$45,581.10 interest payment which was due on October 23, 2006. On November 15, 2006, the City received \$30,000 toward this payment and was informed that the balance will be paid on December 1<sup>st</sup>, 2006.

The Finance Officer and staff met with the Executive Director & Treasurer of the Green Institute on August 1<sup>st</sup> and October 6<sup>th</sup>, 2006 to discuss the status of the loan agreement and to review results of financial operations for the Green Institute's latest completed fiscal year. The good news is that the Green Institute reported an operating profit of \$101,863 for the most recently completed fiscal year ending June 30, 2006 versus a loss of (\$271,077) for the prior year. The recent year's profit is a reversal of several consecutive years of operating losses, indicating initial success of the new management team's organizational restructuring. The Phillips Eco-Enterprise Center is currently fully leased which contributed positively to the financial results versus the last update. In addition, we learned recently that the Green Institute is planning to open a second store for selling recycled building materials in Osseo, Minnesota on November 24, 2006 which is expected to improve visibility and financial results.

With all of the positive momentum seen during the past year, the problem remains that the organization's restructuring will take additional time to achieve its intended financial impact and, as a result, cash flows have not been sufficient to make timely debt service payments on the Section 108 loan. At the October 6<sup>th</sup> meeting, the Green Institute requested that the delinquent principal balance be set up as a new loan, separate from the existing Section 108 loan, to provide more time and a defined payment structure for them to get current on the missed payments.

## Recommendation

After meeting with the Green Institute, the Finance Department recommends a five-year fixed rate loan repayment strategy for the delinquent principal balances. The interest rates proposed for the new loan are closer to market-based rates and reflect a premium over the Section 108 Loan which is currently in variable rate mode, based on the London Interbank Offered Rate (LIBOR) plus 2 basis points (.02%). The average interest rate for the most recent quarter for the Section 108 Loan was 5.62%.

The proposed new loan terms follow:

1. 7.5% Interest Rate for the 1<sup>st</sup> two years using a 10 year amortization.
2. 8.0% Interest Rate for years 3 – 5 using a 3 year amortization.
3. Maximum repayment term of 5 years (potentially shortened by additional principal payments in years 3 – 5).
4. Incentive: If all principal and interest payments on both the original Section 108 loan and this new loan are paid on time and if the new loan is paid off in 48 months or less, the City will recalculate the new loan as if the interest rate had always been at 6% and refund the difference to the Green Institute.
5. Starting date for new loan would be 12/1/06 with a starting balance of approximately \$213,500 which will be adjusted to the actual Financial System balance on 12/1/06 with the first payment due 1/1/07.
6. Loan will be secured by the Phillips Eco-Enterprise Center like the Section 108 loan.

The Finance Department recommends the City Council approve this new loan strategy by authorizing the Finance Officer to execute an agreement with the Green Institute to become effective on 12/1/06 as indicated.