

Minneapolis Community Development Agency

## Request for City Council Action

Date: May 20, 2003

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

Refer to: MCDA Board of Commissioners

Prepared by John Harrington, Phone 612-673-5018

Approved by Lee Sheehy, MCDA Executive Director  
Chuck Lutz, MCDA Deputy Executive Director \_\_\_\_\_

**Subject: \$40,000 Commercial Corridor Loan for Snyder's Drugstore**

**Previous Directives:** On April 10, 1987, the Minneapolis City Council approved Modification No. 2 to the Franklin Avenue Redevelopment Plan (which expanded the Project Area to include the subject property). On July 24, 1987, the City Council approved a Guaranty of the Permanent Loan financing in the amount of \$1 million to AIBDC. In June 1988, the MCDA sold AIBDC land known as the Franklin Fruit property for \$180,000. On September 12, 1997, the Minneapolis City Council approved a CEDF loan of \$50,000 to AIBDC to renovate Franklin Business Center, Franklin Circles Shopping Center and plan for Phase III activities and authorized restructuring of AIBDC's existing Franklin Fruit loan. On November 1, 1999 the MCDA Board approved a \$250,000 CEDF loan to provide the local match to a \$1 million EDA grant for rehabilitation of the Franklin Circles Shopping Center property. On October 3, 2000, the MCDA Board approved an amendment to the loan terms to "Authorize the Executive Director to convert the previously approved \$250,000 match for Federal EDA funds to one-half grant or long-term deferred loan and one-half amortizing loan at the terms agreed to, and to permit disbursement of those funds prior to the disbursement of the EDA funds." On December 28, 2001 the MCDA Board approved a further amendment to the terms "to convert 100% of the previously approved \$250,000 match to the American Indian Business Development Corp (AIBDC) for Federal Economic Development Account (EDA) Funds to a grant or long-term deferred loan, and to permit disbursement of these funds prior to disbursement of the EDA funds."

**Ward:** 6

**Neighborhood Group Notification:** Notification sent to Phillips – Ventura Village neighborhood on March 19, 2003.

Crown Roller Mill,  
105 Fifth Ave. S., Suite 200  
Minneapolis, MN 55401-2534  
Telephone: (612) 673-5095  
TTY: (612) 673-5154  
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**Consistency with *Building a City That Works*:** Complies with Goal 3, Objective A. Support neighborhood retail services, commercial corridors and employment hubs.

**Comprehensive Plan Compliance:** Complies.

**Zoning Code Compliance:** Complies.

**Impact on MCDA Budget:** (Check those that apply)

- 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):

This action will reduce Fund SCD (Community Development 595) by \$40,000.

**Living Wage / Business Subsidy:** Not Applicable

**Job Linkage:** Not Applicable

**Affirmative Action Compliance:** Will Comply

**RECOMMENDATION:**

**City Council Recommendation:** The Executive Director recommends that the City Council

1. Allocate Commercial Corridor funds of \$40,000 for a low interest loan to AINDC.
2. Amend the 2003 MCDA Appropriation Resolution to increase the appropriation in fund SCD (Community Development 595) by \$40,000 from available fund balance.
3. Forward this report to the MCDA Board of Commissioners for its review and approval.

**MCDA Board Recommendation:**

The Executive Director recommends that the Board of Commissioners authorize appropriate staff to execute the necessary documents to provide American Indian Neighborhood Development Corporation a Commercial Corridor loan of \$40,000 for a period of ten (10) years at four percent (4%) interest.

**BACKGROUND / SUPPORTING INFORMATION**

The Franklin Circles Shopping Center / Ancient Traders Market is a commercial complex located on the south side of Franklin Avenue East between 11<sup>th</sup> and 14<sup>th</sup> Avenues S. The space in question had previously been occupied by a major national drug store chain which decided not to renew its lease, allegedly because the site was insufficiently profitable. AINDC has leased the vacant space to Snyder's Drug Stores, Inc. One provision of the lease requires AINDC to provide a Tenant Improvement Allowance of \$40,000 for the initial build-out of the premises to be occupied by Snyder's.

AINDC has requested assistance in the form of the subject loan because they also are faced with the near-term need to make major additional investments in the shopping center, including an estimated \$500,000 expenditure for a new roof and an additional \$150,000 expenditure for replacement of HVAC roof top units.

Filling the vacant space produces an estimated 35 (range 25 – 50) living wage jobs; supports approximately \$15,000 in annual property taxes, compared to a longer-term vacancy impact resulting in reduced property values; and ready neighborhood access to goods and services that would have been lost due to the previous tenant's decision to not renew their lease.

### **FINANCING**

The property in question is part of the Ancient Trader's Market — Franklin Circles Shopping Center.

For 2002, Base Rent and Reimbursable Expense Income were on budget.

Early 2003 income statements continued to reflect a positive net income from the property.

Using unaudited income statements for the property for 2002, the Debt Service Coverage Ratio (net operating income over [divided by] principal and interest payment) for this loan calculates to approximately 14.4.

### **MCDCA Financing**

The proposed funding source for this loan is the Commercial Corridor portion of the HRA levy. Proposed terms are:

Loan Amount	\$40,000
Annual Interest Rate	4.0%
Term	10 Years
Interest Start Date	07/01/04
Payment Frequency	Monthly
Payment Amount	\$404.98
Annual Debt Service	\$4,859.76

Repayment of the loan from 2002's net income should present no problem. Net income for 2003 and subsequent years can be expected to improve.