

## **Request for City Council Committee Action from the Department of Community Planning and Economic Development - CPED**

**Date:** September 25, 2007

**To:** Council Member Lisa Goodman, Chair, Community Development Committee

**Referral to:** Council Member Paul Ostrow, Chair, Ways and Means/Budget Committee

**Subject:** American Indian Neighborhood Development Corporation (AINDC) Franklin Circles Shopping Center debt restructure and sale of the Franklin Business Center

**Recommendation:** In order to support the ongoing work of AINDC, a key partner in the revitalization of Franklin Avenue, and allow AINDC to undertake a similarly catalytic development activity on West Broadway in North Minneapolis, staff recommends the following actions which will allow AINDC to leverage the strength of their Franklin Avenue properties to support development activities on North Minneapolis:

1. Authorize appropriate City staff to restructure a 1981 Urban Development Action Grant (UDAG) loan to the American Indian Neighborhood Development Corporation (AINDC) in the original amount of \$550,000, restructured 1993, to extend the term, reduce the interest rate and suspend interest accrual and payments for five years;
2. Authorize appropriate City staff to subordinate loans AA940045 and BD00000022 to a Franklin Bank Line of Credit (the UDAG loan will not be subordinated and will remain in second position);
3. Authorize appropriate City staff to amend loan documents removing the Franklin Business Center as security for City loan BD00000022 also secured by the Franklin Circles Shopping Center.

### **Previous Directives:**

Between 1981 and 2003, the City took a number of actions to support the development and continued success of the Franklin Circles Shopping Center (FCSC) at 1301-1311 East Franklin Avenue (map, Exhibit A, Property A) and the Franklin Business Center (FBC) at 1401-1425 East Franklin Avenue (Exhibit A, Property B):

1. FCSC - On June 6, 2003 the City Council authorized a loan of \$40,000 (Levy) to AINDC to pay AINDC's share of the Snyder Drug build-out at the Franklin Circles Shopping Center;
2. FCSC - On December 12, 2003, the City Council authorized the subordination of City mortgages to a Franklin Bank mortgage;
3. FCSC - On September 18, 2000, the MCDA approved a one-year forbearance of all City/MCDA loan payments (this forbearance was not utilized for the UDAG loan; the \$2500 principal payment on that loan was made in 2000);
4. FCSC - On November 1, 1999 the MCDA approved a loan of \$250,000 (CDBG) to provide the local match to a \$1 million Economic Development Administration (EDA) grant for rehabilitation of the Franklin Circles Shopping Center property. This loan was converted to a grant on December 28, 2001;
5. FBC - On September 12, 1997, the Minneapolis City Council approved a loan of \$50,000 (CDBG) 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;

6. FCSC - In 1994, the MCDA board authorized a loan of \$300,000 (CDBG) to develop the Bruegger's Bagel Bakery;
7. FCSC - In 1993, the MCDA Board of Commissioners (MCDA) authorized a loan restructuring reducing annual UDAG loan debt service payments from \$34,765 (principal and interest) to \$2,500 (interest only) for twelve years ending in 2004, with the loan to be reamortized in 2005 for repayment by 2014;
8. FBC - In June 1988, the MCDA sold AINDC property to be redeveloped as the Franklin Business Center, issued five loans and guaranteed a forgivable loan from the Economic Development Agency for the development of the Franklin Business Center;
9. FBC - On July 24, 1987, the City Council approved a Guaranty of the Permanent Loan financing in the amount of \$1 million to AIBDC to finance the development of the Franklin Business Center;
10. FBC - 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 Franklin Business Center site;
11. FCSC - In 1981, the Federal Government awarded the City of Minneapolis an Urban Development Action Grant for a loan of \$550,000 to the (then) American Indian Business Development Corporation (AIBDC) to develop the Franklin Circles Shopping Center; the loan was for 30 years at 4.75% annual simple interest.

Prepared by:	Kristin Guild (673-5168)
Approved by:	Charles T. Lutz, Deputy Dir. CPED _____
Presenters in Committee:	Kristin Guild

### Financial Impact

- No financial impact  
 Action is within the Business Plan

### Community Impact

Neighborhood Notification - N/A;

City Goals - A safe place to call home, Connected communities, Enriched Environment, Premier destination;

Sustainability Targets – Economically vibrant neighborhood commercial districts such as Franklin Avenue create attractive urban neighborhoods for infill development, support efficient growth, and reduce the need for car travel to obtain necessary goods and services;

Comprehensive Plan - 4.1 Minneapolis will encourage reinvestment along major urban corridors as a way of promoting growth in all neighborhoods, and 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 expands the range of goods and services offered;

Zoning Code – N/A

Living Wage/Business Subsidy Agreement      Yes \_\_\_\_\_      No  X   
Job Linkage      Yes \_\_\_\_\_      No  X

**Supporting Information**

The American Indian Neighborhood Development Corporation (AINDC) has long been a strong City partner in revitalizing East Franklin Avenue. AINDC replaced blighting influences with a light industrial jobs center, the Franklin Business Center. It recruited commercial tenants to the Franklin Circles Shopping Center such as Aldi and Snyder’s Pharmacy, providing neighborhood residents staple goods. More recently, AINDC developed the Ancient Traders Market with Maria’s Café as its anchor, the Franklin Street Bakery and Roger Beck Florist , all icons of rejuvenation that draw shoppers and diners from a broad trade area.

A quarter century of sustained City and partner investment and careful attention to design and business mix is bearing fruit on Franklin Avenue. The private market is returning to the Avenue. We see this in the economic success of Aldi, increasing demand for a table at Maria’s Café, 133 jobs at the Franklin Street Bakery, and the development of the City-County Federal Credit Union and Roger Beck Florist.

As Franklin Avenue has stabilized, the AINDC Board directed the organization to move into other areas of need. To meet this direction, AINDC is embarking upon a new catalytic development project on a still-struggling Minneapolis commercial corridor, West Broadway Avenue. AINDC has established a partnership with the YWCA to develop a new athletic facility on West Broadway Avenue. AINDC also plans to develop retail square footage, a restaurant and a parking structure on an adjacent parcel. The estimated project cost is \$60 million.

To allow the organization to move forward with this significant development, AINDC seeks to reposition the organization’s property holdings and debt. Relative to the City as a financial partner in AINDC’s Franklin Avenue development projects, this repositioning takes two forms:

- 1) Restructure Franklin Circles Shopping Center debt (map, Exhibit A, Property A)

There are three outstanding City loans secured by mortgages on the Franklin Circles Shopping Center (in second, third and fourth positions behind a \$1 million Franklin Bank mortgage). Franklin Bank has requested that the City subordinate these three mortgages to a new Line of Credit loan that AINDC is using for pre-development and acquisition costs related to the West Broadway development and restructure one of these three loans to reduce annual debt service.

The UDAG loan to be restructured has a balance of \$806,624 (as of May 31, 2007) and AINDC is three years in arrears. City staff has been in discussions with AINDC on restructuring this loan for payment since 2006. Staff recommends that AINDC pay down this loan balance to \$400,000, and that the City subordinate the two other City loans to the portion of the Line of Credit secured by the Franklin Circles Shopping Center. The UDAG loan would remain in second position.

The payments to the City from the Franklin Circles Shopping Center loans would be approximately \$407,000 for use for other City redevelopment activities. The prepayment and restructuring increase the likelihood of repayment of the remaining City debt secured by the property. Though the restructuring would extend the UDAG repayment period through 2027, the total payments made to the City for the restructured loan would be greater than the lifetime payments due on the loan as it currently stands.

2) Sell the Franklin Business Center (map, Exhibit A, Property B)

AINDC has received a signed offer to purchase the Franklin Business Center from a private investor for \$2.527 million. All of the outstanding City loans secured by the property will be paid upon sale and two City guarantees on loans from other parties will be released. This report outlines all debt associated with this property for context. From the sale proceeds, AINDC will repay approximately \$559,000 in debt secured by the Franklin Business Center to the City for use for other City redevelopment activities.

In total, these repayments would mean that approximately \$966,000 would be available to the City for community development activities.

AINDC has already purchased two parcels on West Broadway Avenue for this proposed development (710 and 718 West Broadway). The organization intends for the sale proceeds of the Franklin Business Center to partially finance the acquisition of a third key property located at 800 West Broadway, the site proposed for the YWCA facility (map, Exhibit B). After making the proposed UDAG loan payment (approximately \$407,000) and AINDC's outstanding debt obligations for the Franklin Business Center property (City: \$559,000, Private: \$859,000), and paying the six percent sales commission (\$61,000), AINDC would have approximately \$641,000 remaining from the Franklin Business Center sales proceeds to utilize for the organization's work on West Broadway.

### **Franklin Circles Shopping Center**

The Franklin Circles Shopping Center, at 1301-1311 East Franklin Avenue, includes Aldi, the Bruegger's Commissary Snyder Drug, the Franklin Safety Center, a medical clinic and the Wolf Den Coffee Shop. AINDC developed the Shopping Center in the early 1980s and the parking lot and streetscaping were significantly overhauled in 2001 when AINDC developed the adjacent Ancient Traders Market (home to Maria's Café).

AINDC has requested that the City restructure a loan with a balance as of May 31, 2007 of \$806,624 (source: Urban Development Action Grant - UDAG) to reduce debt service payments and subordinate three City loans secured by the Franklin Circles Shopping Center property to a portion of a Franklin Bank Line of Credit (up to \$997,000). AINDC is currently three years in arrears on the UDAG loan. To come current on the loan, AINDC would need to pay \$267,724, and a payment of \$89,208 would be due in less than five months on February 10, 2008. AINDC could come current on the loan using the Business Center sale proceeds, but the organization's projections (Exhibit C) indicate that they would not have sufficient cash flow to meet the February 2008 payment or subsequent near-term payments.

### Restructure UDAG loan

In order to ensure repayment of the UDAG loan, staff recommends that AINDC use sale proceeds from the Franklin Business Center to pay down the principal balance from \$806,624 (as of May 31, 2007; balance figure will be updated to payment date) to \$400,000 and restructure the remaining principal to a 20-year term at 4% interest with interest accrual and payments suspended for five years as the West Broadway development is in the planning and construction phases. The loan would be amortized for payment by 2027, with annual principal and interest debt service payments of approximately \$36,000 would be due beginning in 2013.

### Subordinate City debt to Line of Credit

Franklin Bank has issued a Line of Credit to AINDC to provide flexible capital for predevelopment and acquisition costs associated with the organization's development work on West Broadway Avenue. Currently, this Line of Credit is last in line to be repaid in the event of a default, and the bank has conditioned the Line of Credit on the City sharing the risk by subordinating the City interest in the property to the bank's. If the City does not agree to subordinate its debt, the Line of Credit will convert to a term loan with an interest rate of prime plus one, a 20-year amortization and a balloon payment due at year five; with City subordination the Line is scheduled to convert to a term loan on December 31, 2008.

The Line of Credit is a valuable source of flexible capital to AINDC as the organization is embarking on a major development project that requires significant predevelopment outlays and a degree of nimbleness in acquiring property. The Line of Credit loan structure allows AINDC to pay it down when new resources (e.g. contributions or revenue from sale of property) become available and to pay interest only on the portion of the line the organization is using at any given time. A term loan would not allow this flexibility. Moreover, staff does not believe that AINDC would have the cash flow to cover debt service payments on a term loan resulting from converting the Line of Credit at this time.

As the Line of Credit is also secured by two other properties worth \$1,003,000, the City could subordinate its debt to just the portion of the Line of Credit that is secured by the Franklin Circles Shopping Center – up to \$997,000. Franklin Bank has agreed to this concept. Franklin Bank also holds a first mortgage on the property (balance \$1,050,306).

To increase the chance of repayment in the event of foreclosure by the first mortgage lender, staff recommends subordinating two of the three City mortgages (balances \$260,848 and \$29,933) to the Line of Credit if AINDC pays down the UDAG loan balance to \$400,000, but maintaining second position for the UDAG loan. Since Franklin Bank would then hold both the first and third mortgages on the property, there would be a strong incentive in the event of foreclosure to sell the property for a price that would repay at least the UDAG loan to the City. The other City loans would be behind up to \$2,047,306 of private debt and the City's \$400,000 UDAG loan. Franklin Bank has agreed that this proposed partial subordination meets the conditions to maintain the Line of Credit to AINDC as a flexible capital source rather than converting immediately to a term loan.

A May 4, 2007 appraisal of the Franklin Circles Shopping Center property by Orion indicates a value of \$8.6 million. The CPED appraiser concurs. This means that there would be more than \$6 million in equity in the property to repay the City loans in fourth and fifth position.

#### Risk assessment

A partial repayment and restructuring of the UDAG loan significantly increases the likelihood of repayment of that debt. Not only would the City obtain approximately \$966,000 in total payments now for use on other redevelopment activities, but by the time payments resume in 2013, AINDC should have cash flow for the \$36,000 annual debt service payments following the West Broadway planning and construction period.

Subordinating one of the City's mortgages to the Line of Credit would slightly reduce the likelihood of repayment in the event of a default, though the property is worth significantly more than the debt it secures. By subordinating to a private lender, the City assumes some of the risk of urban commercial development projects. Though the Line of Credit is being utilized by AINDC for predevelopment and acquisition costs associated with their work on West Broadway, the City's loans would remain secured by the Franklin Circles Shopping Center, a property with significant collateral value and reliable rental income with credit tenants.

If the West Broadway project fails, the Franklin Circles Shopping Center's fundamentals remain solid. The shopping center has a new roof and mechanical systems (2005) and stable credit tenants. Aldi's lease runs through 2014 with five year renewal periods; Snyder's lease expires in 2008, also with five year renewal options. The risk is that AINDC's West Broadway development proposal does not raise adequate capital for construction, leaving the organization with several properties on West Broadway Avenue with significant holding costs. In such a situation, it is possible that the organization would not have adequate cash flow to meet debt service obligations.

As access to flexible capital to finance West Broadway development activities is critical for AINDC at this juncture and the shopping center provides sufficient collateral for repayment in the event of default and foreclosure, staff recommends subordinating a portion of the City's debt secured by the property to up to \$997,000 of the Franklin Bank Line of Credit. To increase the likelihood of repayment in the event of foreclosure by the first mortgage holder, staff suggests that the UDAG loan remain in second position and that the City subordinate the other two City loans to the portion of the Line of Credit secured by the Shopping Center. Since Franklin Bank would then hold both the first and third mortgages on the property, there would be a strong incentive in the event of foreclosure to sell the property for a price that would repay the City at least the UDAG loan balance.

The Franklin Circles Shopping Center provides adequate collateral for repayment of the City's debt in the event of foreclosure. However, subordinating to Franklin Bank would make it more difficult for the City to foreclose in the event of default on a City loan. To foreclose, the City would have to buy out the lenders in a superior position. Currently, that would mean paying Franklin Bank's first mortgage of \$1,050,306. The

subordination of two loans to the Line of Credit would mean that the City would have to buy out approximately \$2,000,000 in Franklin Bank debt in order to foreclose on those debts if they went into default. With the UDAG loan remaining in second position, to foreclose on that loan in the event of default, the City would have to buy out just the first mortgage.

The loan status and recommendations are summarized in the following two tables.

<b>Franklin Circles Shopping Center Loan Status and Recommendations</b>				
<b>Lender - Position</b>	<b>CPED loan number (source)</b>	<b>Original balance</b>	<b>Balance on 5/31/07</b>	<b>Recommendations and notes</b>
Franklin National Bank – 1st		\$1,166,534	\$1,050,306	
City of Minneapolis – 2nd	None (UDAG)	\$550,000	\$806,624	<b>Recommendation:</b> Balance to be paid down to \$400,000 with the proceeds from the sale of the Franklin Business Center. Request Council Authorization to restructure balance to a 20-year term at 4% interest with interest and payments deferred for five years.
City of Minneapolis – 3rd	AA940045 (CDBG)	\$300,000	\$260,848	<b>Recommendation:</b> Council authorization to subordinate to \$997,000 of Franklin Bank Line of Credit.
City of Minneapolis – 4th	BD00000022 (Levy)	\$40,000	\$29,933	<b>Recommendation:</b> Council authorization to subordinate to \$997,000 of Franklin Bank Line of Credit and to release the security of the Franklin Business Center.
Minnesota Nonprofits Assistance Fund – 5th		\$350,000	\$339,473	City debt would not be subordinated to this loan.
Franklin National Bank Line of Credit – 6th		Up to \$2 million	\$1,955,000	While the total Line of Credit is up to \$2 million, it is also secured by two other properties worth \$1,003,000. Conditioned on City subordination.

<b>Proposed changes to Franklin Circles Shopping Center debt</b>		
<b>Lender (loan number, source)</b>	<b>Balance as of 5/31/07 (position)</b>	<b>Proposed (position)</b>
Franklin National Bank	\$1,050,306 (1 <sup>st</sup> )	\$1,050,306 (1 <sup>st</sup> )
City of Minneapolis (UDAG)	\$806,624 (2 <sup>nd</sup> )	\$400,000 (2 <sup>nd</sup> )
Franklin National Bank LOC		Up to \$997,000 (3 <sup>rd</sup> )
City of Minneapolis (AA940045, CDBG)	\$260,848 (3 <sup>rd</sup> )	\$260,848 (4 <sup>th</sup> )
City of Minneapolis (BD00000022, Levy)	\$29,933 (4 <sup>th</sup> )	\$29,933 (5 <sup>th</sup> )
Minnesota Nonprofits Assistance Fund	\$339,473 (5 <sup>th</sup> )	\$339,473 (City will not subordinate to this loan. Franklin Bank will need to obtain a subordination agreement from MNAF to move a portion of the LOC to 3 <sup>rd</sup> position.)
Franklin National Bank LOC	Up to \$2 million (6 <sup>th</sup> )	\$1,003,000 (7 <sup>th</sup> )

### **Franklin Business Center**

AINDC developed the Franklin Business Center at 1401-1425 East Franklin Avenue in 1988 to provide jobs and entrepreneurial opportunity to area residents as well as redevelop key blighted properties along Franklin Avenue. In partnership with the federal Economic Development Administration (EDA) and a private bank, the City provided significant financing for the project through a number of sources.

A private real estate investor has submitted an offer to purchase the Franklin Business Center for \$2.527 million. The CPED appraiser's opinion on the fair market value of the property is \$2.48 million. While there are no provisions in the City loans to prohibit AINDC from selling the Franklin Business Center, the City has a financial stake in the property.

While AINDC hoped to use the bulk of the Franklin Business Center sale proceeds to acquire property on West Broadway, staff recommends that AINDC repay three outstanding City loans upon the sale of the Business Center. The amount of debt secured by the Franklin Business Center to be repaid to the City is approximately \$559,000.

Two other City loans do not require repayment under the terms of the loan agreements. One of these (for \$700,000) was to have been repaid through either Tax Increment revenue or by AINDC through excess cash flow from the project. AINDC's payment obligation on this Loan, secured by a mortgage, was a second source of revenue pledged to payment of the note, after Common Project tax increment. The tax

increment that has been collected since the note was issued exceeds the amount payable on the note. Therefore, AINDC's obligation for repayment no longer exists.

The other is a City CDBG grant of \$770,000 that matched an Economic Development Administration (EDA) grant of \$1 million to develop the Business Center. The City, like the EDA, invested in this development not to earn a profit, but to stabilize Franklin Avenue and the Phillips neighborhood and to provide job and entrepreneurial opportunities to neighborhood residents. Those public benefits have been achieved, in large part due to this investment. The grant was structured as a forgivable loan to recapture a portion of the investment in the event that the project earned windfall profits either through rents or the sale of the property. Neither has occurred. Under the terms of this grant, for AINDC to be obligated to repay the full original City investment, the purchase price of the property would have to be \$4.3 million, nearly \$2 million above the market value. Even if the purchase price were \$3 million, under the terms of the agreement the City would receive approximately \$25,000 in repayment. As it is, no repayment is required under the terms of the agreement.

The loan status and recommendations are summarized in the following table.

<b>Franklin Business Center Loan Status and Recommendations</b>				
<b>Lender - Position</b>	<b>CPED loan number (source)</b>	<b>Original Loan amount</b>	<b>Balance on 5/31/07</b>	<b>Recommendations and notes</b>
US Bank – 1st	Guaranty	\$1,000,000	\$729,220	To be paid upon sale and the City's guaranty released.
City of Minneapolis and EDA – 2nd	AA880018 (CDBG)	\$230,000	\$34,961	To be paid upon sale.
	AA880019 (NDA)	\$700,000	-	AINDC's payment obligation on this Loan, secured by a mortgage, was a second source of revenue pledged to payment of the note, after Common Project tax increment. The tax increment that has been collected since the note was issued exceeds the amount payable on the note. Therefore, AINDC's obligation for repayment no longer exists.

<b>Franklin Business Center Loan Status and Recommendations</b>				
<b>Lender - Position</b>	<b>CPED loan number (source)</b>	<b>Original Loan amount</b>	<b>Balance on 5/31/07</b>	<b>Recommendations and notes</b>
	AA880020 (CDBG)	\$260,000	\$260,000	To be paid upon sale.
	AA880021 (CDBG)	\$264,300	\$264,300	To be paid upon sale.
	AA880022 (CDBG)	\$770,000	\$770,000	<p>This is a grant structured as a forgivable loan in the event of windfall profits from rent or sale. Repayment not required.</p> <p>Under the terms of the loan, if AINDC sells the property prior to 12/31/2013, the organization must pay the City 50% of the net sale proceeds, not to exceed the original value of \$770,000. The loan documents define the net sale proceeds as the gross sale price (\$2,572,000) minus the development costs (\$2,665,000) and the payments made on loan AA880018 (\$250,631 as of 7/31/07).</p> <p>This is negative \$343,631.</p>
	City guaranty	\$1,000,000	\$1,000,000	The EDA has released their security on the property. Therefore, the grant does not need to be repaid.
US Bancorp CDC – 4th		\$200,000	\$130,000	To be paid upon sale.

### **Additional background information**

#### History of Debt

In 1981, the Federal Government awarded the City of Minneapolis an Urban Development Action Grant (UDAG) for a loan of \$550,000 to the (then) American Indian Business Development Corporation (AIBDC) to develop a shopping center at 1301-1311 East Franklin Avenue (see map, Exhibit A). The loan had a 30-year term from the 1984 Grant Date (maturity 2014) at 4.75% interest. In 1993, private bond financing used to develop the property came due and new bond financing with a relatively high interest rate was secured for a 12-year term. The MCDA Board of Commissioners (MCDA) granted an AINDC request to restructure the UDAG loan to allow the organization to pay the private bond financing which had higher debt service than the UDAG loan.

The UDAG restructuring lowered AINDC's annual payments from \$34,765 principal and interest to \$2,500 principal only for twelve years while debt service payments were made on the bonds (these bonds were paid off in full in 2004). The remaining loan term, from 2005 to 2014, has a principal and interest payment structure, including interest accrued at 4.75% over the past 12-year period. This accrued interest increased the loan balance by \$259,052 between 1993 and 2004. In 2005, the debt service payments increased from \$2,500 to \$89,208 annually when the loan repayment structure changed to amortize the remaining balance and accrued interest for repayment within the 30-year loan term ending in 2014. Between 1984 and 2004, AINDC paid \$111,772 in principal and \$196,350 in interest on the original \$550,000 note.

In 2004, the Shopping Center experienced cash flow deficits due to a number of vacancies (including the Aldi location which was vacant for eight months), substantial litigation fees related to the organization's eviction of Las Americas, and legal fees to negotiate a complex lease with Aldi. Also that year, AINDC invested \$1,000,000 in significant improvements to the Shopping Center including a new roof, new mechanical systems and the build-out for Aldi. In November 2005, AINDC requested that the City restructure the UDAG loan, citing inadequate cash flow for the increased debt service payments.

In 1988, the City provided significant financing to AINDC to develop the Franklin Business Center at 1401-1425 East Franklin Avenue. The total investments in the development were \$3.9 million, with \$1.9 million provided by the City through a blend of five forgivable loans and loans requiring repayment, \$1 million provided by a forgivable loan from the EDA (also guaranteed by the City) and \$1 million from a private loan guaranteed by the City. The EDA and City secured six loans (one EDA, five City loans) with a single mortgage; thus the EDA and the City are co-mortgagees on this loan in addition to the City role as guarantor.

#### Current Financial Status

AINDC is current on payments on two of the three City loans secured by the Franklin Circles Shopping Center (Loans AA940045 and BD00000022 with balances as of May 31, 2007 \$260,848 and \$29,933 respectively). Only four of the nine loans secured by the Franklin Business Center require regular payments, AINDC is also current on payments on these, including a City-guaranteed US Bank loan with a balance of \$729,220 on May 31, 2007 and a City loan (Loan AA880018) with a balance of \$34,961.

However, the organization is three years in arrears on the City UDAG loan (balance as of May 31, 2007 \$806,624). AINDC suspended payments on the UDAG loan when the debt service increased in 2005 to \$89,208 for payoff consistent with the agreed-upon terms. The last payment of \$2500 for principal only was made on November 11, 2004. CPED staff has been in discussions with AINDC on restructuring the loan for repayment since 2006. While the Shopping Center does generate revenue, it is inadequate to cover the debt service obligations of the organization, especially as AINDC has leveraged the strength of its Franklin Avenue properties to acquire property for development on West Broadway and cover predevelopment costs. Development Finance staff reviewed AINDC's financial statements and projections (Exhibit C) and

concluded that the organization will not have the cash flow to make the annual payments on the UDAG loan as it is currently structured for repayment by 2014.

According to AINDC's financial projections (Exhibit C), the organization's development activity on West Broadway will reduce the organization's ability to pay debt service on this note from existing cash flow in the near term. While the projected cash flow statements indicate a substantial positive cash flow in 2010, the projections are speculative with regard to contributions garnered from the West Broadway development capital campaign which will begin this fall.

### **Conclusion**

Under the recommended proposal, AINDC would repay all outstanding City debt on the Franklin Business Center and a significant portion of one of the City loans secured by the Franklin Circles Shopping Center. The City would assume some of the risk of the new endeavor by subordinating one City loan to a Line of Credit loan that is being used to finance predevelopment costs and property acquisition on West Broadway. That risk is tempered by the fact that the City debt is secured by a property with sufficient collateral value.

AINDC has agreed to repay three outstanding City loans in full upon the sale of the Business Center and use the proceeds of the Business Center sale to pay down the UDAG loan secured by the Franklin Circles Shopping Center. The City would garner repayments of approximately \$966,000 that can be utilized for other community development activities, and AINDC would have remaining from the Franklin Business Center sale approximately \$641,000 to invest in West Broadway development activities.

AINDC can, if necessary, approach the City for financial assistance for the West Broadway development work that could be secured by mortgages on West Broadway properties. This would allow the City to assess the needs and financial viability of these projects before investing City resources.

### Exhibit A: Franklin Avenue, AINDC Property



Franklin Avenue – AINDC properties



Franklin Circles Shopping Center – Property A



Franklin Business Center – Property B



Ancient Traders Market

**Exhibit B: West Broadway Avenue Properties**

