



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

Date: April 3, 2007
To: Council Member Lisa Goodman, Community Development Committee
Referral to: Council Member Paul Ostrow, Ways and Means/Budget Committee
Subject: Bean Scene working capital loan

Recommendation: Authorize Working Capital Loan for Bean Scene Restaurant in the amount of \$70,000 at terms defined in this report. Amend the 2007 General Appropriation Resolution by increasing the Community Planning and Economic Development agency Fund SPH0 – Community Development (SPH0-890-8933) appropriation by \$70,000 from the available fund balance.

Previous Directives: None.

Prepared by: Erik Hansen, 612-673-5022
Approved by: Mike Christenson, Economic Development Director _____
Chuck Lutz, Deputy CPED Director _____
Presenter in Committee: Erik Hansen

Financial Impact

Action requires an appropriation increase to the Operating Budget
Action is within the Business Plan

Community Impact

Neighborhood Notification - Staff notified the Jordan Area Community Council informally of this project on January 9, 2007 and formally on January 29, 2007.

City Goals - Complies with Connected Communities Goal.

Sustainability Targets - N/A.

Comprehensive Plan - Business is consistent with the creation of retail choices on this commercial corridor.

Zoning Code - Use complies with zoning.

Living Wage/Business Subsidy Agreement

Yes____ No__X__

Job Linkage

Yes__X__ No_____

Supporting Information

Linda Baker and Dean Rose own the Bean Scene restaurant at 2220 West Broadway. Ms. Baker and Mr. Rose have requested City participation in a working capital and debt restructuring proposal in order to improve cash management and ensure the business' ability to continue to operate.

This request will retire an existing \$60,000 Small Business Administration (SBA) 7(a) working capital loan and re-finance additional working capital, currently financed

through credit cards and other short term high interest debt instruments. The proposed City Working Capital loan will reduce monthly debt service by \$2,500. The loan is a component of a \$1,000,000 refinancing and expansion plan that will expand the Bean Scene brand to 1101 West Broadway and rehabilitate additional commercial space on West Broadway.

Staff has consulted with Minneapolis Consortium of Community Developers, The Ackerberg Group, and Franklin Bank. Together, these parties have recommended two steps to reposition the business: 1) reduce the interest rate on existing debt service payments and 2) open another location. This repositioning of the business will reduce monthly debt service obligations and distribute overhead of the restaurant location at 2220 West Broadway to the additional location at 1101 West Broadway. Expansion plans include improvements to the kitchen at 2220 West Broadway. This will allow the owners to create more opportunities for revenue through an expanded menu.

The expansion would also allow the business to complete City-required improvements. The City Health Department requires the Bean Scene kitchen to include additional hooding and venting. Mr. Rose and Ms. Baker decided that if they were to pay this \$30,000 expense, they would also build out the kitchen to provide full service. Both the consultants and the owners believe that a full service kitchen will add additional opportunities for revenue through expanded food offering that will increase dinner/evening service and the ability to enter into other service areas (such as commissary or catering) or to allow others to rent the kitchen to do such tasks. The Bean Scene would be the only non-fast food sit down restaurant in the area and one of only three coffee houses on the Northside.

The remaining funding needed for the Bean Scene package will come from private and public sources. The Bean Scene owners are in the approval process with the Empowerment Zone for a \$250,000 loan and are in the application process with CPED Business Finance for a Capital Acquisition Loan of up to \$150,000. The Bean Scene is in the application process to secure a \$125,000 grant from Target through the Minneapolis Foundation. These funds are for West Broadway business support that Target donated in 2003 when it closed its West Broadway store. The remaining \$405,000 will come from a conventional lender, likely Franklin National Bank. Due to additional time necessary for the Working Capital loan approval, staff is moving this request forward before these other sources are secured. Of the other sources identified, the Empowerment Zone has committed \$250,000, Business Finance will review the application for its loan in late March, and the request for Target funding will go to the Minneapolis Foundation in early April. Franklin Bank will review its funding when the others are in committed. Mike Christenson met with the bank board on this and other Northside investments on March 21. Franklin Bank has allowed for a temporary forbearance of the SBA 7(a) loan to accommodate the time needed to build the refinancing structure.

As a component of this project, the owner will rehabilitate the former Scotch Wash building at 2209 West Broadway. Based on the projected rehabilitation costs and prevailing rents in the area, a new tenant should provide enough revenue to cover expenses and debt service.

Community Benefit

Private investment and increasing consumer confidence are critical elements to the success of the CPED Business Development's Northside Economic Development Program (see Report to City Council of August 22, 2006). Recent City sponsored development activities at St. Anne's Housing, Penn-Lowry, 1101 West Broadway, and anticipated investment in the Delisi's building reinforce trends for private investment in this area of the city. The proposed City-Bank-Business partnership for the Bean Scene financing continues to build on these developments and improves the market for additional private investment. In addition to continuing the momentum for private investment, the restaurant provides a gathering place for residents, contributes to positive community identity, and provides entry-level employment opportunities.

Strategic Community Development Investment

The Northside Economic Development Program identifies investments through four principles - (1) target developers with proven track records of success in challenged areas, (2) maximize social and financial capital leverage with diverse partners, (3) invest near recent public improvements and other investments, and (4) place priority on projects with the most transformative potential.

Investment in the Bean Scene addresses these principles. First, Mr. Rose and Ms. Baker have committed personal financial resources, including using all available equity in personal homes and foregoing any personal salary, into this area and have proven through increased sales that a market exists for their product. Second, the CPED Business Finance loan leverages more than \$930,000 in other funds (\$405,000 in private sources).

Third, the business is in the middle of a number of City and County led investments and the expansion will go into the City led 1101 West Broadway building. Investment in the Bean Scene supports numerous public investments at the node. Since January 2005, staff has worked closely with stakeholders to target redevelopment and commercial investments.

Work to date includes a Hennepin County led planning project, two percent business financing for acquisition and capital improvements in Harold's Chicken, Multifamily Housing Section's Saint Anne's development (under construction), West Broadway façade improvement program financing in Hollywood School of Dance and El-Amin's Fish House, planning, acquisition and demolition for Metro Transit Northwest Corridor BRT stations, and the preparation of the former Delisi's supper club for City led redevelopment (RFP issued in February). Penn and West Broadway is in the middle of three existing or planned Northside Home Fund cluster projects at 21st and Penn, 27th and Penn, and Cottage Park. This node also supports City led new home construction at Lowell Curve.

In addition to City, County and transit led investments, some private investment has begun including the renovation of Broadway Liquor, the construction of a new CVS, and the formation of a development plan for the Capri Theater.

Fourth, this business is a forerunner for community transformation on the intersection of Penn and West Broadway avenues. The Bean Scene is the identifiable anchor of the

intersection and occupies a corner on one of four focus nodes of CPED Business Development's Northside Economic Development Program. The Bean Scene is building a market draw that is slowly expanding past the local neighborhood. This restaurant serves as a place to gather, a place to eat and a place to see art and performances. Most importantly it significantly contributes to a growing positive identity of the area, with positive identity comes consumer confidence and with consumer confidence comes private investment and market growth.

The intricate nature of community economic development depends on all of the previously mentioned actions contributing to growth without major failures. It is in the realm of possibilities that progress with growing the area's positive image will continue with the loss of this restaurant. However, staff believe the potential for swift redevelopment of the site is not likely, given limited unique area-defining businesses coupled with the lack of private investment in North Minneapolis (see CRA small business investments in August 22, 2006 report). With these conditions, instability at the northwest corner of the intersection will have detrimental impacts on the other investments in the area especially on City efforts to develop the Delisi's building at the southeast corner.

Loan Terms

The Bean Scene requests \$70,000 to finance working capital. In partnership with Franklin Bank, Empowerment Zone, Business Finance, and Minneapolis Foundation/Target the owners will also refinance and take on additional debt to finance a \$1,000,000 stabilization and expansion project. Bean Scene ownership will apply \$60,000 of the City loan to refinancing an existing SBA 7(a) loan and the remaining \$10,000 will go towards refinancing additional working capital in the business. The proposed loan has a seven-year repayment schedule based on a ten-year amortization with a balloon payment at the end of the seven-year term.

Loan Amount	\$70,000.00
Interest Rate	2.00%
Term (years)	7
Amortization Period (years)	10
Monthly Payment (84)	\$644.09
Annual Debt Service	\$7,729.13
Balloon Payment (1)	\$22,487.30
Repayment Start Date	06/01/2007
Balloon Payment Date	06/01/2014
Collateral	Junior position on all business assets including real estate at 2220 West Broadway

The proposed loan terms are modeled after CPED Business Finance's Two Percent Loan Program—maximum of \$75,000 in principal, two percent interest, ten-year term, and private bank participation. Because the proposed loan would be used to refinance working capital, it is not eligible for the standard Two Percent Loan Program

Risk Assessment

- Strengths

The restaurant has increased total sales over the past three years of operations and is building an identity for good service and quality. Through this new working capital financing structure, the business will free up from this loan alone more than \$2,500 per month in cash-flow from reduced debt service payments. The proposed loan will leverage \$830,000 in various public and private sources. The ownership hires from the community providing entry level jobs skills for local youth. The Health Department required \$30,000 in improvements to the kitchen would allow the business to expand to other services creating new revenue sources. This financing improves the likelihood of continued operations of a restaurant that adds to positive development occurring on West Broadway and North Minneapolis. This facility complements the development on the avenue such as 1101 West Broadway, the Delisi's redevelopment, West Broadway Alive, and Penn-Lowry site.

- Weaknesses

This is a business in a competitive industry that requires high sales per customer. The public perception of the neighborhood cuts into potential demand from outside the immediate trade area, requiring the Bean Scene to capture a high percentage of local demand. Numerous factors, outside the control of the restaurant management (crime, etc.), can lead to an increased unfavorable perception of the neighborhood and decreased demand. Accurate proforma predictions rely on assumptions that are based on limited competitors, improving overall image, and continued private investment. If any of these do not prevail, there is a greater potential for default.

- Risk

Real estate and business assets are collateral for the loan. The City will subordinate its interest in all assets. The current assessor's value of the 2220 West Broadway property is \$316,000. There is a risk to recapturing 100 percent of loan proceeds in the event of a default in the short term.

Additional Requirements

In addition to the proposed working capital loan, the Bean Scene ownership has agreed to technical assistance and job-linkage agreements. The Minneapolis Consortium of Community Developers has begun to work with the owners and will continue over the next year to provide technical assistance on marketing and general operations. The Bean Scene owners will also enter into a Job Linkage agreement.

Penn-West Broadway Intersection

