Green Institute

March 20, 2006

Patrick Born
City Finance Officer
City of Minneapolis
City Hall, Room 325M
350 South 5th St.
Minneapolis, MN 55415

Dear Mr. Born,

Thank you for the opportunity to provide this financial status report for the Green Institute and to address our past due account with the City of Minneapolis.

Section 108 Loan

As you know, the Green Institute and the City of Minneapolis maintain a Section 108 loan agreement that involved an original disbursement of $3,500,000 to refinance our Phillips Eco-Enterprise Center (PEEC). The Green Institute is current with the quarterly (variable) interest payments on the loan. Beginning in 2004, the Institute made the first of seven annual principal payments. However, after a very difficult year, the Institute was unable to make the second principal payment of $110,000 due August 2005. This payment has since been converted to an outstanding bill with Minneapolis Finance. We have made two $10,000 payments toward this obligation, so that the outstanding balance is now $90,000 plus accrued interest at 6% per annum. The balance of this letter describes the circumstances that led to this delinquency, what the Institute is doing to promptly turnaround our finances, and a suggested alternative for Green Institute repayment to the City.

FY2005 Performance

The Green Institute experienced the most financially challenging year in its 10-year history in FY2005, ending with a loss of $299,406. This loss was the result of the convergence of lower than anticipated revenue in several areas and the organization's inability to react quickly enough with corresponding expense reductions. Most significant were lower than expected grant proceeds (more than $200,000 below budget). In addition, rental revenue for the PEEC was impacted by the departure of its single largest tenant, leaving 25% of the facility's leasable space vacant for nine months during FY2005 (approximately $135,000 in lost rent). Finally, sales at our salvaged building materials enterprise (the ReUse Center) were adversely affected by more than six month's of construction activity hindering access at the shopping center in which the store was located (sales were down by $40,000 from the previous year). Management did reduce expenses in several categories, including staffing, insurance, and professional fees, but these reductions were not of sufficient scale to offset the lower than expected revenue.

FY2006 Performance (July 2005 - January 2006)

The Green Institute's Board of Directors hired me to serve as interim Executive Director in the last month of FY2005. With the Board's direction and support, we have substantially realigned the organization with an emphasis on conservative budgeting and financial management, and aggressive fundraising and market development of earned income sources. We have recommitted the organization to excellence in our current activities and careful planning before expanding into new initiatives. Our ReUse Center and DeConstruction Services, in particular, have immediate and substantial opportunities for growth.

Working with me is a highly skilled Operations Director, who I've tasked with accelerating cost saving measures begun in the previous fiscal year. Staff levels have been reduced to 20, which is more than a 50% reduction from the 41 that populated the payroll in FY2004. In the first few months of the fiscal year,

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the organization institutionalized staff reductions and other cost saving strategies amounting to more than $300,000 annually. On the revenue side, we're implementing a major expansion of our salvaged building materials business with the guidance of a recently-retired marketing executive from the 3M Corporation. The PEEC is now fully occupied with minimal turnover of tenants expected in the next few years. And we've hired a new fundraising team that has dramatically improved our capacity and process for securing the philanthropic support that we require for 20% of our budgeted activities.

As you noted in our first meeting last September, only improvements in our financial performance will convey real confidence in our turnaround efforts. In response, during the first seven months of FY2006 the Green Institute saw net ordinary income return to a positive $10,543. This performance is particularly remarkable considering that the period included severance payouts as well as the cost of moving the ReUse Center (during August and September) estimated at more than $70,000 ($30,000 in direct expenses and $40,000 in lost sales). As for the balance of this fiscal year, we remain cautiously bullish. We expect our ReUse Center expansion and fundraising efforts to begin generating new revenue by this coming quarter, and we are just now realizing the full benefits of the restructured expense base.

Principal Payments

While we are confident about our ability to meet Section 108 obligations from 2007 and beyond, we remain concerned about the current $90,000 liability with the City as well as the $115,000 principal payment that is due August 2006. We're particularly apprehensive about diverting finite unrestricted financial resources with our turnaround initiative at such a critical juncture. And our auditors will be reluctant to allow the use of restricted funds from foundations and other sources to meet unrelated debt obligations. As such, we hope to identify some acceptable vehicle for combining these two principal payments, possibly into a term loan with a reasonable maturity date and interest rate. We believe that the restructuring of these payments will afford the Green Institute the necessary time and financial flexibility to build a strong, healthy, income generating organization.

The Green Institute values the important partnership we have with the City in building a more sustainable Minneapolis; and we are well into the process of returning to an efficient and effective partner in this relationship. In requesting this limited financial restructuring, we ask the City for trust in our ability to improve our finances and meet future commitments, and recognition that the Green Institute is a community asset worth preserving.

We look forward to discussing our proposal with you in greater detail and thank you again for the opportunity to provide this update.

Best regards,

Corey Brinkema
Interim Executive Director

cc: Jeff Karr, Chair, Green Institute Board of Directors