

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

Date: May 17, 2011

To: Councilmember Lisa Goodman, Chair, Community Development Committee

Referral to: Councilmember Betsy Hodges, Chair, Ways & Means Budget Committee

Subject: City consent to the loan assumption for the Franklin Bakery Site Assembly Loan between the GNDC and Franklin Bakery, LLC and modification of terms.

Recommendation: Authorize staff to execute the necessary documents to consent to the transfer and assumption of the Franklin Bakery Site Assembly Loan (#BD00000023) from Great Neighborhoods! Development Corporation (formerly known as American Indian Neighborhood Development Corporation) to Franklin Bakery, LLC and modify the loan terms as stated herein to acknowledge a reduced principal balance (the interest rate and due date will remain the same).

Previous Directives:

On September 16, 2003 the MCDA Board of Commissioners approved a \$350,000 CEDF/CDBG loan to American Indian Neighborhood Development Corporation for site assembly costs in the construction of the new Franklin Bakery at 1020 E. Franklin Ave.

Department Information

Prepared by: Erik Hansen, Principal Project Coordinator, 612-673-5022

Approved by:

Charles T. Lutz, Deputy Director CPED _____

Catherine A. Polasky, Director of Economic Policy and Development _____

Presenter in Committee: Erik Hansen

Financial Impact

- Improves likelihood of existing loan repayment

Community Impact

- Neighborhood Notification – N/A
- City Goals – N/A
- Sustainability Targets – N/A
- Comprehensive Plan – N/A
- Zoning Code – Project is in compliance with the zoning code.

Supporting Information

On June 21, 2010 Great Neighborhoods! Development Corporation (GNDC) filed for Chapter 11 bankruptcy protection. GNDC is a non-profit commercial real estate developer and

property owner with a long-standing financial relationship with the City. One of GNDC's assets includes land under the Franklin Bakery (1020 E. Franklin Ave). Among other City investments in GNDC-owned commercial properties is a 2003 loan of \$350,000 for the bakery project (#BD00000023). GNDC stopped making payments on this loan in March 2010. The outstanding principal is approximately \$273,000. Collateral for this loan includes a corporate guaranty from Franklin Bakery, LLC (the Bakery). Staff triggered the guaranty in March 2011. Under the terms of the guaranty and City policies for debt recovery, Staff recommends that the City consent to the assignment of this loan from GNDC to the Bakery, with the condition that GNDC also deeds the property to the Bakery. The Bakery seeks to extract itself from the uncertainty created by a land lease with a property owner in bankruptcy, and the deed transfer agreed to by GNDC and the loan assignment recommended here will allow the Bakery to achieve this with minimal financial impact.

The Bakery will then pay the remainder of the loan under these modified terms:

	Original Terms	Modified Terms
Principal	\$350,000.00	~\$273,000
Interest Rate	4.00%	4.00%
Monthly Payment	\$2,120.93	\$2,120.93
Annual Debt Service	\$25,451.16	\$25,451.16
Balloon Payment	\$209,484.74	Outstanding Principal & Interest
Repayment Start Date	5/15/2004	07/15/2011
Balloon Payment Date	05/15/2014	05/15/2014
Collateral	3rd mortgage on land, corporate guaranty	3rd mortgage on land, corporate guaranty

To minimize the financial impact to the Bakery, the monthly payment amount is equal to an existing land lease rent payment to GNDC. When GNDC deeds the land to the Bakery the land lease will no longer exist. A balloon payment of outstanding principal and accrued interest will be due on the original loan satisfaction date of May 15, 2014. Staff will determine the amortization schedule and exact balloon amount at the time of the assignment so that the payments equal \$2,120.93.

The Franklin Bakery project is a 16,000 square foot commercial bakery at 1020 E. Franklin Ave. The Bakery grew from 65 employees in 2003 to over 150 employees in 2011 with a payroll over \$3 million. In 2003, as a component of multiple financing sources, GNDC borrowed \$350,000 from the MCDA (now City) to cover costs associated with site assembly for the Bakery project. After GNDC completed the development, it sold the bakery building to Franklin Bakery, LLC and retained ownership of the land. The City has a third mortgage position on the land and a corporate guarantee from Franklin Bakery, LLC as collateral on the loan.