



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

Date: June 23, 2015

To: Council Member Lisa Goodman, Chair, Community Development and
Regulatory Services Committee

Subject: **Eastside Food Co-op Expansion Project**
2551 Central Avenue

Recommendation: Staff recommends the approval of \$450,000 CDBG Great Streets gap financing loan and approval of subordinating \$400,293 (\$319,273.53 current balance) NRP Loan Pool loans originated in 2003.

The Development Finance Committee at its June 18, 2015 meeting supported the staff recommendation to approve a \$450,000 CDBG Great Streets Gap Financing Loan and subordinating \$400,293 (\$319,273.53 current balance) NRP Loan Pool loan with the recommendation to require a 3-month debt service reserve for all subordinate loans, to match the 3-month debt service reserve for Self-Help Federal Credit Union's first position loan.

Previous Directives: None

Department Information

Prepared by: Nila McDonald, Sr. Economic Development Specialist, 612-573-5189

Approved by: D. Craig Taylor, Executive Director, CPED _____

Chuck T. Lutz, Deputy Director, CPED _____

Presenters in Committee: Nila McDonald

Financial Impact

- Action is within the Business Plan
- Other financial impact: CDBG dollars are budgeted to the Great Streets program for this purpose; this investment would decrease Great Streets Real Estate Development Gap Financing CDBG Loan Fund balance from \$880,000 to \$430,000.

Community Impact

- Neighborhood Notification – Audubon Neighborhood Association, Sheridan Neighborhood Organization, Windom Park and the Holland Neighborhood Improvement Association have each provided letters of support agreeing to the subordination of their NRP loan.
- City Goals: Living Well, Great Places, A hub of economic activity and innovation.
- Comprehensive Plan: Policy 4.2: Promote business start-ups, retention and expansion to bolster the existing the existing economic base.

Zoning Code: Zoning approval at CPC 08/25/14 and rezoning approved by Council on 10/03/14.

Community Impact

Eastside Food Co-op (EFC) has applied for a Great Streets Gap Financing Loan of \$450,000 (total project costs estimated at \$6,612,024) for the expansion of its existing natural foods cooperative located at 2551 Central Avenue.

Project Summary

- Applicant for City Financial Assistance: EFC
- Loan Request: \$450,000 Great Streets Gap Financing; fixed interest rate of 4%, 26 years, 3 months with 15 months interest only, same term as primary lender.
- Subordination Request: Subordination of \$319,273.53 (current balance) of NRP Loan Pool loan made to EFC in 2003.
- Property Address: 2551 Central Avenue
- Non-public lenders: EFC member equity, Self-Help Federal Credit Union NMTC, Local Initiatives Support Corporation (LISC); fixed interest rate of 4.5%, 10 years, 15 months interest only.
- Construction Lender: Self-Help Federal Credit Union NMTC

Project Description

Eastside Food Co-op (EFC) opened and has been located at 2551 Central Avenue NE since 2003. Since its founding, sales have continued to increase and now EFC is at the point where they need to expand in order to continue serving the community. They are now seeking to expand the retail store and parking area to allow for continued sales growth.

In order to accommodate the proposed expansion, EFC has purchased the "Love Lines" property to the south at 2529 and 2535 Central Avenue. The purchase increased the EFC property from 32,652 to 48,959 sq. ft. and will allow a more functional addition, potential expansion capabilities and an enhanced image along Central Avenue.

EFC is proposing to demolish the recently acquired building and to construct a single story 5,835 sf "L" shaped addition to its retail store along Central Avenue and to the south of the existing building. The new site will be able to accommodate 61 parking stalls panel and semi-trailer truck deliveries and 30 bike racks. A landscape garden will be developed adjacent to the patio and office addition.

Company/Borrower

Eastside Food Co-Op (EFC) is a member-owned and operated, high-quality natural foods cooperative. EFC serves a growing membership plus the community at large. Sales grew 67% from \$4.9m to \$8.2m between 2010 and 2014. The total number of current members is 5447. There has been membership growth of 32% over the past four years. In 2014, membership growth was 14%, nearly 3 times the national average of food co-op member growth.

At the time they purchased the property in 2003, they remodeled the building and added an entrance vestibule. The Co-op opened a 4,100 sf retail grocery for business in December of 2003. At that time there were two additional tenants in the 12,220+/sf building. Those two leases ran out in August of 2013 and EFC did not renew them as they plan to incorporate these spaces into the planned expansion.

EFC is governed by a Board of Directors democratically elected from among the membership. The Board of Directors oversees the co-op's fiscal health, sets policy, hires and holds accountable the General Manager, and represents the membership.

Amy Fields has been EFC's General Manager since it opened in 2003. She has worked as a general manager in natural foods cooperatives for 16 years, and has worked in the co-op or nonprofit sector for all of her professional life. Prior to coming to Eastside, Amy worked at The Community Mercantile in Lawrence, Kansas, where she launched the co-op first major relocation and expansion.

Financing Overview

The financial package for this project includes \$450,000 Great Streets Gap Financing for the purchase of equipment, \$4,550,000 New Market Tax Credit (NMTC) financing, \$250,000 LISC loan, a \$5,000 Great Streets Façade Grant, and a \$1,183,284 equity contribution from EFC. Equity consists of current cash savings, prior fund raising, shareholder equity and member loans totaling \$963,284. The remaining \$220,000 is being raised through a capital campaign. The financing package also includes the request for subordination of City NRP loans with a balance of \$319,273.53 made to EFC in 2003.

SOURCES		
EQUITY	STATUS	
Cash (Operations+Reserves)	approved	\$ 335,684
New Member Equity & Member Fundraising-	approved	\$ 35,000
Preferred Shares	approved	\$ 365,600
Member Loans	approved	\$ 227,000
Phase II Campaign	pending	\$ 220,000
Subtotal Owners Contribution		\$ 1,183,284
GRANTS		
Great Streets Façade Improvement Program	approved	\$ 5,000
Energy Efficiency Rebates	approved (estimate)	\$ 13,450
Hennepin TOD	approved	\$ 150,000
Minnesota Brownfields - Brownfield Gap Program	approved	\$ 10,290
Subtotal Grants		\$ 178,740
TOTAL EQUITY AND GRANTS		\$ 1,362,024
DEBT		
Self-Help Credit Union	terms sheet/pending approval	\$ 4,550,000
LISC Loan	terms sheet/pending approval	\$ 250,000
City Gap Loan	this request	\$ 450,000
Subtotal Debt		\$ 5,250,000
TOTAL		\$ 6,612,024
USES		
Acquisition of 2535 Central		\$ 425,000
Construction/Remodel, allowances/alternatives		\$ 3,171,960
Construction Contingency		\$ 317,196
Equipment		\$ 1,238,000
Equipment contingency		\$ 61,900
Existing debt payoff		\$ 299,304
Softcosts		\$ 386,156
Other development costs		\$ 28,000
SAC/WAC		\$ 6,000
Closing costs		\$ 196,523
Operating Reserves		\$ 400,000
Other reserves		\$ 81,985
Total Uses		\$ 6,612,024

The proposed terms for the Great Streets Gap Financing of \$450,000 will be a 4% rate with a term matching the primary loan amortization of 26 years, 3 months with 15 months interest only during the construction period. This is the same term as the primary lender.

The Minneapolis City Council launched the Great Streets neighborhood business district program in 2007, including façade grants, business district marketing grants, and low interest gap financing loans for real estate development. The gap financing loans are funded with Federal Community Development Block Grant dollars. Since 2008, the City has invested \$2.9m through Great Streets gap financing loans of \$150,000 to \$500,000 to projects worth a total of \$22m in neighborhood business districts throughout the City.

An NRP pool loan in the amount of \$400,230 was made to EFC in 2003 to develop a food cooperative at 2551 Central Avenue. The loan terms are 3% simple interest with maturity in 2028. The loan is secured by the property EFC originally purchased in 2003. The neighborhood groups who pooled the NRP funds together to assist with the initial project have all provided letters of support to the subordination of the new financing. Primary financing was provided by NE State Bank and will be paid off when project closes. Although the amount of new debt in front of the NRP will be increasing, due to increased sales and the debt coverage ratio estimated at 1.25:1 after expansion, this is not seen as having a negative impact on the likelihood of repayment.

Repayment

The source of repayment is cash flow from operations. As shown on the attached cash flow proforma provided by EFC, the first full year of post-expansion stabilized operations is 2018. In that year, gross sales of \$14.1m are projected, costs of goods sold is projected to be \$8.7m and total operating expenses are projected to be \$4.9m, resulting in approximately \$500,000 of income available to pay debt service of \$407,328. The projected growth of 71% between 2014 and 2018 is similar to the 67% growth experienced in the period between 2010 and 2014.

Debt service coverage is projected to be 1.25:1 or better upon post-construction stabilized operations.

The loan to value ratio for the as built building and equipment is 83%. City Finance staff has reviewed the EFC financial statements and found that they have the financial capacity to meet the debt service requirements associated with this proposed expansion.