

**City of Minneapolis**  
**Request for Committee Action**

**To:** Community Development & Regulatory Services  
**Date:** 10/13/2015  
**From:** Community Planning & Economic Development  
**Prepared by:** Rebecca Parrell  
**Presented by:** Rebecca Parrell  
**File type:** Action  
**Subcategory:** Loan

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**Subject:**  
Chicago Avenue Fire Arts Center (CAFAC) Loan Deferral

**Description:**  
Authorizing a restructuring of the City's Great Streets Gap Financing Loan to Artspace CAFAC, LLC, consistent with this report, and direct staff to execute amendments to the appropriate loan documents

**Previous Actions:**  
1) July 17, 2009, the Minneapolis City Council approved revised loan terms for the approved \$425,000 Great Streets Gap Financing Loan to Artspace CAFAC, LLC.  
2) On June 2, 2009, the Minneapolis City Council approved a \$275,000 CDBG-R Grant to the Chicago Avenue Fire Arts Center (CAFAC).  
3) On November 21, 2008, the Minneapolis City Council approved the sale of 3749 Chicago Avenue South to Artspace CAFAC, LLC for \$510,000 and approved a \$425,000 Great Streets Gap Financing loan to Artspace CAFAC, LLC.

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**Ward/Neighborhood/Address:**  
Ward 9  
Powderhorn Park  
3749 Chicago Avenue

**Background/Analysis:**  
In 2007, artists near East 38<sup>th</sup> Street and Chicago Avenue created the nonprofit Chicago Avenue Fire Arts Center (CAFAC) with a mission to provide arts education in fine and industrial art forms that are produced by heat, spark, or flame. This includes sculptural welding, blacksmithing, jewelry-making, glassworking, foundry, and others. Filling an open niche in the arts sector, CAFAC provides an array of fire arts specialized classes, studio rentals, and events that are unique to the Twin Cities.

The CAFAC founders identified the historic Nokomis Theater at 3749 Chicago Avenue (long before converted to an auto repair use) as an ideal location for their home when it was listed for sale. In January 2008, they secured a purchase agreement for the property for \$510,000. When the organization was unable to secure financing to purchase the building, they turned to the City and Artspace Projects, Inc. (Artspace) for assistance in realizing their plans.

The City wanted to help the project for several reasons. First, the City's *38th St & Chicago Ave Corridor Framework/Small Area Plan* identified the building as a priority for preservation. Second, the plan recommended seeding the startup of an arts practice and instruction space as a key strategy for revitalization. Third, the intersection was categorized as an "intervene" commercial node in the Great Streets Program, a priority category for Great Streets resources. Finally, a blight analysis at the intersection confirmed that the City could use Community Development Block Grant (CDBG) dollars to assist the project.

Artspace purchased the building, acted as developer for the renovations, and secured a lease with CAFAC. Artspace financed the acquisition and redevelopment with several sources. The chart below separates the debt, grants, and other financing, totaling \$1,023,500.

### Chicago Avenue Fire Arts Center Redevelopment Sources

Debt Sources	Amount	Rate	Term	Annual Debt Service
TCF First Mortgage	\$ 150,000	7.50%	10	\$ 20,866
Great Streets Gap Financing Loan	\$ 425,000	4.00%	10	\$ 24,348
CPED 2% Loan	\$ 75,000	2.00%	10	\$ 8,292
<b>Debt Subtotal</b>	<b>\$ 650,000</b>			<b>\$ 53,506</b>
Grant Sources	Amount			
CDBG-R Grant	\$ 275,000			
Great Streets Façade Improvement Matching Grant	\$ 5,000			
Powderhorn Park Façade Improvement Matching Grant	\$ 5,000			
Philanthropic Grants	\$ 29,500			
<b>Equity Subtotal</b>	<b>\$ 314,500</b>			
Other Sources				
Artspace Projects, Inc. Partner Contribution	\$ 59,000			
<b>Other Subtotal</b>	<b>\$ 59,000</b>			
<b>TOTAL</b>	<b>\$ 1,023,500</b>			

All three debt sources are currently scheduled to mature in three years at the end of 2019. The TCF Bank and City 2% loans will both be satisfied at that time, while the Great Streets Gap Financing Loan will have a balloon payment. Artspace has made every monthly payment on the Great Streets loan as scheduled and the current balance is \$395,000. If the current payments were to continue, the balloon payment in 2019 would be \$358,000. The current lease between Artspace and CAFAC is structured so that in 2019 CAFAC would purchase the property from Artspace and refinance the \$358,000 outstanding balance of the Great Streets loan with a new private loan.

### Progress Since Opening

The Chicago Avenue Fire Arts Center (CAFAC) opened in late 2010. In the five years since opening, the organization has experienced consistent upward growth in gross revenue from approximately \$84,000 in 2011 to over \$190,000 in 2014. As their revenue has increased, so has their ability to make larger and larger rent payments to Artspace from \$25,000 in 2011 up to \$45,000 in 2014. Unfortunately, the rent payments CAFAC has made have not been enough to cover Artspace's costs associated with owning and managing the property. Because of insufficient rent each year, Artspace has advanced CAFAC close to \$300,000 since opening to allow CAFAC to avoid having past due rent payments accrue. Artspace anticipates advancing another \$28,000 in 2015, down from a high of \$60,000 in 2011. CAFAC and Artspace agreed that CAFAC would repay the advances in full, without interest.

### CAFAC Projections

CAFAC's consistent revenue growth is projected to continue (Attachment 1). They expect to increase their revenues within the next five years to reach a rent of \$87,000 by 2020 and maintain an annual 2% increase thereafter. Reaching \$87,000 in annual rent means Artspace can operate the building at breakeven. At this rent level, Artspace can make \$53,500 in annual debt service, \$16,000 in property taxes payments, \$7,500 in all other operational expenses, and

maintain a reasonable cushion (Attachment 2). CAFAC's plan to achieve the stabilized \$87,000 in annual rent is threefold.

#### *Increase public art contracts and artist-designed commission projects*

CAFAC has received more contract revenue from the creation and fabrication of public art projects and artist-designed commission projects than originally projected. The revenue in these contracts is expected to continue at ten percent annual increase until 2021. These projects align with CAFAC's mission to specialize in community engagement and provide training to increase the capacity of artists to compete for public art contracts. The projects position CAFAC as a liaison between artists and commercial designers by managing commissions requiring design and fabrication.

#### *Add strategically planned programs and classes*

Class revenue is projected to grow by one and a half times between 2014 and 2016 with a ten percent annual increase thereafter for six years. They plan to accomplish this with program expansion projects strategically planned around the physical limitations of the space to offer programs and classes simultaneously.

#### *Secure grant funding for operations*

After five years, CAFAC now has a large enough budget and a long enough operating history to meet certain requirements and prove more compelling in a competitive field for operating grants. For example, they are now able to seek funding from Minnesota State Arts Board. Their projections show twice as much grant and contributed income in 2016 than in 2014 and a 20 percent annual increase thereafter for five years.

To support further diversification and growth of programming and grant writing activities, CAFAC has prioritized paid staff in its budget over the next five years. The organization believes this is critical to their sustainability. They have shown solid success as a volunteer-run organization, but realize that continued growth is reliant upon operating a well-supported, professionally-managed community resource.

#### **Restructure Request**

Artspace cannot continue advancing funds to cover CAFAC's operating deficit nor waiting for repayment of their advances. In order to achieve this, Artspace requested a deferral and restructure of the Great Streets Gap Financing loan with the following terms:

- no payments, no interest for 28 months (September 2015-December 2017);
- 4% interest-only payments for 24 months (January 2018-December 2019); and
- principal and interest payments with a 30-year amortization, January 2020-December 2029, and a \$285,000 balloon in year 10 (January 2030).

#### **Staff Recommendation and Risk Analysis**

Staff negotiated the terms of the request to require interest during the deferral period and even out the delay in revenue the City receives, the pace at which Artspace recovers their advances, and the speed at which the capital reserve balance grows. With these changes, the staff recommendation is to approve the following terms (see chart on following page):

- no payments, 4% interest accruing for 28 months (September 2015-December 2017);
- 4% interest-only payments for 24 months (January 2018-December 2019); and
- principal and interest payments with a 25-year amortization, January 2020-December 2029, and a \$310,000 balloon in year 10 (January 2030).

## CAFAC Great Streets Gap Financing Loan, Staff Recommended Loan Restructure Terms

	Original 2009	Deferral Period Sept 2015- 2017	Interest- Only Period 2018-2019	P&I 2020-2029	Maturity December 2029
<b>Loan Amount</b>	\$425,000				
<b>Interest Rate</b>	4.0%	4.0%	4.0%	4.0%	
<b>Term</b>	10 years	28 months	2 years	10 years	
<b>Annual Debt Service</b>	\$24,348	\$0	\$17,357	\$27,394	
<b>Monthly Payments</b>	\$2,029	\$0	\$1,446	\$2,283	
<b>Balloon Payment</b>					\$308,621

Staff recommends this restructure for several reasons, chief among them:

- Artspace has kept up-to-date on loan payments thus far.
- Artspace has advanced CAFAC over \$300,000 in five years to cover expenses and is prepared to be repaid the amount over fourteen years.
- A change in repayment gives CAFAC more time to grow into a strong and self-sustainable nonprofit organization.
- CAFAC plays an important role supporting local artists, public art, and community learning at the 38<sup>th</sup> and Chicago commercial node.
- CAFAC has been a critical component to the commercial revitalization at 38<sup>th</sup> and Chicago.

Deferring the Great Streets debt payments puts \$56,813 back into the project over the 28 months, allowing Artspace to stop advancing dollars to the project, begin receiving repayment of their advances, and start a small capital reserves fund for the building. By approving interest-only payments for two additional years, the project is able to satisfy its first and second mortgages and continue the repayment of advances and growth of the reserves fund. In January 2020, the Great Streets Gap financing loan will be the only long-term debt remaining in the project, and the majority of the \$29,000 in annual debt service on the first and second mortgages can be redirected to making principal and interest payments on the Great Streets loan. At the time the balloon payment is due in the recommended restructure in 2030, CAFAC and Artspace believe that CAFAC will be in a position to privately refinance the balloon payment and purchase the building from Artspace CAFAC, LLC through private financing. Artspace and CAFAC plan to extend the current lease and maintain the purchase option for CAFAC to buy the property from Artspace in 2030 for the total outstanding debt, plus any remaining unpaid advances, plus a \$50,000 deferred developer's fee.

If the City were to choose not to restructure the loan, Artspace's options would be to choose to continue making cash advances and delay repayment of advances, find a new tenant, or default on the City's loan. None of these are good alternatives for the City. The building renovation was custom designed to fit CAFAC'S needs and Artspace would find securing a new user difficult. CAFAC has become a known community asset that can continue to make important contributions to the city. And a reasonable loan restructure is better than facing a loan default.

CAFAC's consistent increases in revenues year after year support their continued growth pattern. Their projections show significant revenue increases each year in all areas, especially in grants and contributed income. When commissions, public art contracts, class tuition, grant funding, studio rents, and membership revenue are added together, CAFAC has a diverse source of revenue, providing more stability if certain areas fall below expectations. Additionally, the organization has been conservative on their expenses, and other than adding to the personnel budget to increase fundraising, increasing rent payments to CAFAC, and higher program expenses with more class offerings, they project minimal changes in expenses. CAFAC's revenue and expense projections are the best estimates they can layout at this time to meet the rent payments required, but they are projections, not absolutes.

The Development Finance Committee reviewed staff's recommendations at their October 22, 2015 meeting.

**Financial Review:**

**No additional appropriation required, amount included in current budget.**

- Future budget impact anticipated.**
- Approved by the Permanent Review Committee.**
- Meets Small and Underutilized Business Program goals.**

**Attachments:**

1. CAFAC's Organizational Projections, 2016-2026
2. Artspace's Operating Projections, 2016-2029