

City of Minneapolis

Request for Committee Action

To: Community Development & Regulatory Services
Date: 7/26/2016
Referral: N/A
From: Community Planning & Economic Development
Lead Staff: Casey Dzieweczynski
Presented by: Casey Dzieweczynski
File Type: Action
Subcategory: Loan

Subject:

Forgivable loan for Wirth Cooperative Grocery Store project

Description:

Authorizing a \$75,000 forgivable loan to Wirth Cooperative Grocery Store for construction and start-up costs for its store at Penn Ave N and Golden Valley Road in North Minneapolis.

Previous Actions:

None

Ward/Address:

Ward 5
2201 Golden Valley Road

Background/Analysis:

Wirth Cooperative Grocery Store (Wirth) was incorporated in 2010 by a group of North Minneapolis residents seeking to establish a community-owned grocery store in their neighborhood. Over the past few years Wirth has been steadily increasing its membership base while raising start-up capital and searching for the right location in North Minneapolis. Wirth has now executed a letter of intent to lease the ground floor space of the newly constructed Commons at Penn project, which is a mixed-use building located at the intersection of Penn Ave N and Golden Valley Road. To date, the coop has secured financing for approximately 50% of its capital budget, and is requesting City financial assistance to leverage several other financing sources. Pending commitment from the remaining financing sources, the store is expected to open by the end of 2016.

Wirth's board has requested \$75,000 of City financial assistance to support the initial store-buildout and start-up costs. CPED staff support this project due to the significant, positive impacts that will result from the City's investment. Wirth is committed to hiring local residents, paying a living wage to full-time employees, and providing fresh, healthy food to the community. The store will also anchor the ground floor retail space of the Commons at Penn mixed-use building, recently completed by local developer, Building Blocks.

Wirth's project has received tremendous support in the community as evidenced by the nearly 700 members that have invested in the store before it has even opened its doors. Wirth estimates that its membership base will more than triple to over 2,500 members in the next 2-½ years. As a cooperative business, each member is also an owner; member-owners are therefore

likely to be committed to the store's success and provide an instant customer base when the store opens.

Project Budget and Store Description:

The total project budget is approximately \$1.2 million and includes build-out of the commercial space, equipment, inventory, working capital and soft costs. The store will occupy 4,000 sq. ft. including 3,250 sq. ft. of retail space and 750 sq. ft. of office and storage/prep space. The store will include a meat and deli department, a produce area and other general grocery items. Wirth will offer a mix of conventional and organic/natural grocery products based on customer demand.

Financing Sources:

Grants and Member Equity:

Wirth has secured approximately \$567,500 of equity to date, including \$67,500 from the sale of coop membership shares. Additionally, Latino Economic Development Center (LEDC) received a \$500,000 federal grant from the U.S. Dept. of Health and Human Services to promote healthy food projects, which LEDC is using to make an equity investment in Wirth. LEDC has also contributed significant pre-development resources in the form of business planning and project management. Furthermore, Wirth recently launched a member capital campaign and is seeking \$42,000 of additional member equity. The coop has also submitted a \$75,000 grant request to the McKnight Foundation, for which an award decision is expected in August.

Hennepin County Grant and connection to Penn Ave Corridor:

The Hennepin County Board will consider a \$75,000 grant to Wirth Coop at its August 23rd board meeting. The City of Minneapolis, Hennepin County, and Metro Transit recently completed an extensive planning process for the Penn Avenue corridor, working together to develop strategies for improving mobility and connectivity, supporting placemaking and livability and encouraging economic development to leverage the planned \$30 plus million investment in the C Line in 2018. In March 2016, the Hennepin County Board approved an implementation framework to provide resources for businesses near the C Line route and the Wirth Coop project is a perfect example of the type of economic development envisioned in the implementation framework.

Bank Financing:

Wirth Coop has applied for debt financing from three local lenders: Sunrise Banks, Community Reinvestment Fund, and Shared Capital Cooperative. All three lenders have expressed interest in the project and are expected to make their funding decisions by August 2016. The total bank financing is expected to be approximately \$300,000. Wirth has already received a \$25,000 loan from Local Initiatives Support Corporation (LISC) to help pay for various predevelopment costs. That loan will be repaid when the store is open.

City Loan:

CPED staff recommends providing a \$75,000 forgivable loan to Wirth to support this important project. The proposed loan would be forgiven if Wirth Coop meets its projection of hiring 11 employees over the first two years of store operations, and those positions remain filled for at least one year. To the extent the goals are not met by that time, the unforgiven portion of the loan would be paid back over a period of seven years. If the Council approves this request, CPED will not close on the financing until Wirth has secured the other necessary financing commitments and Wirth's board of directors has hired a general manager for the store. Below is a summary of the proposed loan terms, the loan forgiveness criteria, and a detailed sources and uses.

Loan Terms:

- Amount: \$75,000
- Annual Interest Rate: 3.00% (based on 30 day month/360 day year)

- Repayment details: no payment of principal or interest is due for first three years from store opening; up to 100% of the loan will be forgiven if hiring goals are met; any unforgiven principal will be amortized over the following seven years at a 3.00% interest rate

Hiring goals/loan forgiveness criteria:

Loan principal will be forgiven retroactively to the closing date at a rate of \$6,818 per job (\$75,000/11 jobs (either full or part-time)), subject to the following conditions:

1. All full-time positions pay a living wage as defined by the City of Minneapolis.
2. Positions must be filled by the second anniversary of the store opening and remain filled for at least 12 months.
3. Wirth will work with the City of Minneapolis’s Employment and Training department to recruit North Minneapolis residents for open positions. Wirth expects at least 50% of open positions will be held by North Minneapolis residents.

| Source of Funds | Status | |
|--|-----------------------------------|---------------------------|
| Federal Grant – LEDC | secured | \$500,000 |
| Member Equity | \$67k secured; \$42k to be raised | 109,056 |
| McKnight Grant | commitment pending | 75,000 |
| Hennepin County Grant | commitment pending | 75,000 |
| <i>Total Equity</i> | | <u>\$759,056</u> |
| Sunrise Banks Loan | commitment pending | \$225,000 |
| City of Minneapolis Forgivable Loan | commitment pending | 75,000 |
| Shared Capital Cooperative Loan | commitment pending | 50,000 |
| Community Reinvestment Fund Loan | commitment pending | 50,000 |
| LISC Pre-Development Loan | secured | 25,000 |
| <i>Total Debt</i> | | <u>\$425,000</u> |
| Total Sources | | <u>\$1,184,056</u> |
| Use of Funds | | |
| Store Build-out | | \$449,927 |
| Equipment | | 220,000 |
| Working Capital | | 200,000 |
| Pre-development Costs | | 116,000 |
| Inventory | | 90,000 |
| Professional Fees | | 66,500 |
| Contingency Fund - 2.5% of total cost | | 28,879 |
| Closing Costs - 3% of external debt | | 12,750 |
| Total Uses | | <u>\$1,184,056</u> |

The funding source for the proposed City loan would come from CPED’s allocation of federal Community Development Block Grant (CDBG) funds which have already been appropriated in the current City budget. CPED uses these resources to provide financing to economic development projects that meet federal criteria for CDBG funds, which include supporting projects that serve low to moderate-income communities. The Wirth Coop is an excellent fit for this funding source based on said criteria.

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.

SUBP Goals will be established for the project as required by the City