



Legislation Text

File #: EDA Res. 2017-001, **Version:** 1

Date: June 29, 2017

To: Members of the Economic Development Authority

From: Nate Carlson, Economic Development Coordinator
Chris Heineman, Community Planning & Development Director

Northfield Hotel Properties, LLC. Revolving Loan Application

Summary and Action Requested:

Review the Citywide Revolving Loan Application, the Loan Sub-Committee recommendation, and consider the Resolution for a revolving loan in the amount \$250,000 to Northfield Hotel Properties, LLC for new construction of a hotel at the Crossings site.

Background:

The formal application for a \$250,000 EDA Revolving Loan for the Fairfield Inn & Suites Hotel Project was received in early June. A revolving loan for \$250,000 was outlined in the Development Agreement with Rebound Hospitality for the Crossing Project and was approved in May of 2016. The EDA Loan Sub-Committee convened on June 14 to review the application and discuss the project in detail. The Sub-Committee minutes are attached for your review.

Northfield Hotel Properties, LLC is requesting a \$250,000 Loan from the EDA Revolving Loan Program. A copy of the application is attached for your review. This revolving loan application is part of a larger project that has been approved for funding and incentives by the City of Northfield. The redevelopment of the Crossing site has been an ongoing project for the EDA over the past twenty years, starting with site assembly, removal of blight and contamination, and collaborating with a developer for redevelopment.

The current project was leveraged by utilizing Tax Increment Finance (TIF) incentives, City assistance for improvements, and the sale of City-owned land at a reduced price. The Development Agreement between the City of Northfield and the Developer dated May 17, 2016 as Council Resolution No. 2016-053 approved all these incentives.

In addition to the City incentives, an EDA loan was offered as part of the incentive package for this project and the loan was included in the Development Agreement. The EDA held discussion on this offer at the April 28, 2016 regular EDA meeting. The Board took action and agreed to the terms of the Development Agreement, which included the EDA Revolving Loan amount of \$250,000.

The EDA Board had preliminarily approved the Loan in 2016 prior to the approval of the Development Agreement, but a loan application was not submitted until the project was underway. The guidelines for the citywide revolving loan program are attached for your review. These guidelines provide flexibility for the EDA Board to approve a loan that does not meet all of the criteria.

EDA loans are typically limited to \$50,000 but the guidelines dictate a loan may be approved by the EDA should the amount exceed the maximum dollar amount. The guidelines also require 20% equity from the borrower. The application states that the applicant is providing 16.8% of equity into the project. In addition, Carleton and St. Olaf College are contributing \$750,000 in subordinated financing (11.1% of total project cost) towards the hotel project.

The total project cost was estimated at \$13.2 million and now exceeds \$13.5 million. Private financing through Midwest One Bank accounts for approximately 68.4% of total project costs, and the EDA revolving loan equates to approximately 1.85% of the total project cost. The percentage of equity were considered and discussed by the EDA Loan Sub-Committee. The Sub-Committee felt the applicant equity was at an appropriate level after taking into account the large amount of local financial support for the project.

The terms of the loan were negotiated at the April 28, 2016 EDA meeting and were updated at the Sub-Committee meeting. The terms are as follows:

- Principal Amount of \$250,000
- 1% interest-only payments for first 5 years
- Increased interest rate after 5 years to Wall Street Journal Prime Rate at that time, initiating P&I monthly payments; 20-year amortization schedule starting at time of increased rate
- 10-year balloon payment from the time of loan closing
- Collateral offered: 3rd position on Mortgage of building

The current balance available, as of June 29, 2017, reserved for revolving loans within EDA Fund 292 (balance sheet attached) is \$547,025.51.

The following supplementary documents are included for your review:

- EDA Loan Sub-Committee Minutes
- Northfield EDA Loan Program Guidelines
- Loan Application
- Project Costs Sheet
- Project Financing Terms
- Executed Contract for Development (Article VII - Project Financing)
- EDA Minutes from April 28, 2016 & Draft terms
- EDA Fund 292 Balance Sheet
- EDA Resolution 2017-001
- Subordinate Notes
- Loan Agreement
- Mortgage
- Promissory Note
- Borrower Affidavit

Alternative Options:

The EDA Board has the following options to consider:

- 1) Approve the Loan Sub-Committee recommendation and approve EDA Resolution 2017-001
- 2) Request further information from applicant to review at a follow-up loan committee meeting

Recommendation:

Staff recommends approving the Loan Sub-Committee's recommendation and approving the EDA Resolution 2017-001.