

City of Madison Common Council
MCRF Loan Report
June 21, 2016

Borrower: Sherman Plaza, Inc.

Project:

Sherman Plaza, Inc. (“Borrower”) proposes to borrow \$800,000 of MCRF funds (MCRF Loan#1) and transfer the funds to **RP’s Pasta Company, (“Tenant”)** that will occupy 28,000 square feet of the vacant Kohl’s grocery store located at 2901 North Sherman Avenue, within the Northside Town Center property (“Property”). Tenant will use the loan proceeds to pay for leasehold improvements that are required to operate a commercial food production facility in the Property.

In addition, Borrower requests \$80,000 of MCRF funds (MCRF Loan #2) to fund Borrower’s capital leasehold improvements in HVAC that are required to meet various local, state and federal regulatory codes for food production.

The Property, together with adjacent parcels noted by parcel identification numbers (PINs) below, commonly referred to as the Northside Town Center, hereinafter referred to as the Mortgaged Property.

PINs:

081030302161
081030302202
081030302210
081030302228
081030302236

Comments:

In April 2016, the CDA and Common Council approved a \$250,000 loan to Borrower to repair the parking lot adjacent Pierce’s grocery, in order to facilitate the Willy Street Co-op expansion in that space when Pierce’s closes.

Borrower requests \$880,000 in MCRF loans that require a CDA policy exception to the \$250,000 maximum loan policy to fund the project described herein. Borrower proposes to make leasehold improvements that facilitate the expansion of Tenant in the Property, with the retention and creation of 44 full-time jobs.

Tenant is a growing pasta production company that is consolidating locations to retain 24 and create 20 full-time jobs over the next five years in Madison.

Borrower intends to commence tenant improvements in July 2016.

The Mortgaged Property, comprised of several parcels and buildings, has \$7,930,000 in outstanding mortgages not including the proposed MCRF loan. With the pending \$250,000 MCRF for the Willy Street Co-op project, the total of outstanding mortgages will be \$8,180,000. Adding \$880,000 to that figure will represent \$9,060,000 in total loans to an appraised value estimate of \$14.8 million or 61% of value—well below the CDA’s maximum policy of 90%.

The cash balance in the MCRF Fund is approximately \$1.3M. This amount is available to fund the MCRF loan program and \$125,000 authorized in the 2016 Operating Budget for the Façade Grant program.



After reducing the cash balance by the \$250,000 MCRF loan authorized for the Willy Street Co-op project and \$125,000 authorized for the Façade Grant program (about \$50,000 in grants are currently in process), the MCRF will have approximately \$925,000 of funds available. The proposed \$880,000 in MCRF loans to Borrower will therefore exhaust the 2016 MCRF Fund.

Sources of Capital

| | |
|--------------|------------------|
| MCRF Loan #1 | \$800,000 |
| MCRF Loan #2 | <u>\$80,000</u> |
| Total Loans | <u>\$880,000</u> |

Uses

| | |
|------------------------|-------------|
| Leasehold improvements | (\$880,000) |
|------------------------|-------------|

Loan to Value Calculation

| | | |
|-----------------------------|--------------|-----------------------|
| MCRF Loan to Value Policy | 90% | (Including MCRF Loan) |
| Estimated Value (Dec, 2013) | \$14,800,000 | |

| | | |
|-----------------------------|---------------------------|--|
| Bank Loan Balance- #1 | \$1,960,000 | Terms: 3 yr, 4%, 1 st mortgage, First Business Bank |
| Bank Loan Balance- #2 | \$5,892,000 | Terms: 3 yr., 4% 1 st mortgage, First Business Bank |
| MGE Loan Balance | 78,000 | |
| MCRF Loan (Willy St. Co-op) | <u>\$250,000</u> | |
| Subtotal- Existing Loans | <u>\$8,180,000</u> | |
| New MCRF Loans | <u>\$880,000</u> | |
| Total – All Loans | <u>\$9,060,000</u> | |

Estimated Loan to Value with MCRF 61%

Recommendation:

On June 9, 2016, the CDA approved two loans—Loan #1 being a \$800,000 loan to Borrower evidenced by a 5-year note, 10-year amortization, paid quarterly, with a balloon payment of principal and interest due at note maturity. At maturity, the City shall extend said Note at Tenant’s request by a period not to exceed five years, contingent upon Tenant demonstrating that the MCRF Loan is not in default, and that the job creation and retention goals are met. Interest rate to be 3% fixed for the term of the loan (“MCRF Note”).

Borrower shall provide the City with a subordinate mortgage interest in the Mortgaged Property. The City shall receive the personal guaranty of David W. Bruns and Donald B. Bruns and the principal of the Tenant, Peter A. Robertson, in the amount of the MCRF Loan #1. MCRF Loan funds shall be disbursed upon completion of construction (“end loan”) as evidenced by an occupancy permit, evidence of a signed and executed lease with Tenant of not less than ten (10) years and evidence of compliance with all applicable City ordinances.

Prior to loan disbursement, Borrower shall provide the City with a current appraisal of the Property that shall demonstrate, to the City’s satisfaction, that all liens and mortgages against the Property, including the MCRF loans, shall not exceed 90% of the Property’s fair market value. At closing, Borrower shall re-lend Loan #1 proceeds to Tenant secured by a Note from Tenant (“Second Note”) at the same term, rate and conditions in the MCRF Note. Borrower shall assign the Second Note to the City of Madison.

Tenant is required to provide annual written, signed, letter reports to the City’s Office of Business Resources reporting the number of jobs working at the facility and the range of wages paid.

MCRF Loan #2—MCRF Loan #2 is an \$80,000 loan to Borrower evidenced by a 5-year note, 10-year amortization, paid quarterly with a balloon payment of principal and interest due at maturity. Interest rate to be 3% fixed for the term of the loan (“MCRF Note”). Borrower shall provide the City with a subordinate mortgage interest in the Mortgaged Property.. The City shall receive the personal guaranty of David W. Bruns and Donald B. Bruns in the amount of the Loan #2.