

HOUSING AND REDEVELOPMENT AUTHORITY OF THE CITY OF SAINT PAUL, MINNESOTA

REPORT TO THE COMMISSIONERS

DATE: DECEMBER 13, 2017

**REGARDING: RESOLUTION APPROVING A SUBORDINATION FOR BOCCE, LLC, DOING
BUSINESS AS COSSETTA ALIMENTARI, 211 WEST 7TH STREET, DISTRICT
9, WARD 2.**

Requested Board Action

Approving the subordination of a third mortgage HRA TIF Loan for Bocce, LLC (the “Borrower”) doing business as Cossetta Alimentari, to new first and third mortgage loans from Western Bank.

Background

Cossetta’s operates a successful Italian market and restaurant at the northeast corner of Chestnut and West Seventh streets. The market opened in a different, nearby location in 1978, and the restaurant was added in 1984 when the two operations moved to their current location at 211 West 7th Street (map attached).

In 2011, Cossetta’s requested financial assistance from the HRA to assist with the expansion of their restaurant, including the addition of a new multi-level structure built next to their existing restaurant, expansion of their market space and restaurant seating capacity, and added parking.

The HRA approved assistance for the project in 2011 that included: 1) a \$1,175,000 forgivable TIF loan; 2) a \$437,000 interest bearing amortizing TIF loan with a third position mortgage (the “HRA TIF Loan”); and 3) a \$388,000 TIF Pay-As-You-Go Note. The two loans were funded with Jobs Bill TIF. The estimated total cost of the project was \$10,500,000 at the time of approval. The HRA TIF Loan’s third position mortgage was subordinated to a first mortgage loan from Western Bank in the original amount of \$5,597,857 and a second mortgage loan from SPEDCO/SBA in the original amount of \$4,727,265 (for a total of \$10,174,857). The total cost for the completed project was over \$13 million.

The Borrower has submitted an application requesting the HRA subordinate our HRA TIF Loan to: 1) a restructured first mortgage loan with Western Bank to extend the maturity date and advance an additional \$901,840 (estimated); and 2) a new Western Bank third mortgage loan in the amount of an estimated \$304,969. The proceeds generated from the two loans will be used to pay-off additional debt held by the Borrower or Cossetta, Inc. that was necessary to complete the project since the costs increased by over \$1,500,000.

The Borrower is current on the HRA TIF Loan and the principal balance as of December 1, 2017, is \$399,338.

Budget Action - N/A

Future Action - N/A

Financing Structure

The table below includes the original debt sources, the current balances, and the proposed new balances if the refinancing and subordination is completed (excluding the HRA forgivable loan in the original amount of \$1,175,000). The Borrower will not be increasing the total debt of the project; they will be paying off higher-cost debt with the proceeds from the Western Bank loans and reducing their annual debt payments by over \$200,000.

Source/Lender	Original Principal	Current Balance	Position	Proposed Principal	Position	Change from Current Balance	
Western Bank Loan *	5,597,857	4,688,443	1 st	5,590,283	1 st	901,840	*
SPEDCO/SBA Loan	4,577,000	3,671,875	2 nd	3,671,875	2 nd	-	
New Western Bank Loan **	-	-	N/A	304,969	3 rd	304,969	**
HRA TIF Loan	437,000	399,338	3 rd	399,338	4 th	-	
Western Bank Term Loan *	364,897	177,146	None	-	N/A	(177,146)	*
Private A Loan *	1,080,809	724,694	None	-	N/A	(724,694)	*
Private B Loan **	400,000	304,969	None	-	N/A	(304,969)	**
Total Loans***	12,457,563	9,966,465		9,966,465		-	

* The increased principal for the Western Bank loan will pay-off the Western Bank Term loan and the Private A Loan

** The proceeds from the New Western Bank loan will pay-off the Private B Loan

*** The total does not include the HRA Forgivable TIF loan which has a current principal balance of \$893,000 and is not secured by a mortgage

The SPEDCO/SBA lender has agreed to subordinate their loan to the new first mortgage loan from Western Bank.

The subordination of the HRA TIF Loan will: 1) Increase Borrower's cash flow and overall financial stability, improving their ability to service the HRA TIF Loan; 2) Reduce the amount of collateral currently securing the HRA TIF Loan, although the amount is still adequate. On balance, the overall credit risk is likely to be lessened as a result of this loan restructuring.

PED Credit Committee Review

The PED Credit Committee reviewed the subordination request on December 4, 2017.

Compliance

N/A

Green/Sustainable Development

N/A

Environmental Impact Disclosure

N/A

Public Purpose/Comprehensive Plan Conformance

This project's primary purpose was for job creation and expanded property and sales tax base. To date the project has met or exceeded anticipated goals in both areas. The debt restructure will allow the pay-off of other construction related debt and provide improved cash flow for the Borrower.

Recommendation:

The Executive Director recommends adoption of the resolution which approves the subordination to the new first and third position mortgages from Western Bank provided the proceeds are used to pay-off the existing Western Bank term loan and the two private loans.

Sponsored by: Commissioner Noecker

Staff: Jenny Wolfe, 651-266-6680

Attachments

- Map