

Izzy's odyssey

Finding financing for ice cream plant took time

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SUBMITTED RENDERING: SALMELA ARCHITECT

Apartment buildings, restaurants — those are projects bankers can get their heads around. But what happens when you want to build an ice cream plant in downtown Minneapolis?

Welcome to the world of Izzy's Ice Cream owner Jeff Sommers and his yearlong odyssey assembling the \$2.2 million needed to build his roughly 5,000-square-foot dream plant and ice cream shop — slated to open in June at 1100 Second St. S.

"It wasn't fun because I had to learn on the fly," said Sommers, who started Izzy's in 2000 with his wife, Lara Hammel.

How Sommers assembled the money is a story of persistence, creativity and what Sommers describes as the "good will of everybody in the community beyond anything you could imagine."

"I'm an English major. They have to be patient with me while I learn it, and then work with me while I get a handle on the concepts to get the deal done," Sommers said.

Some of the first good will came in mid-2011 from Roseville-based McGough, whose top projects managers were willing to provide advice on his plans free of charge.

Izzy's new location, at 1100 Second St. S. in Minneapolis, will include a second-story observation deck for visitors.

Sommers for years had been scouting locations for a store and ice cream production facility that would relieve some of the overcrowding at Izzy's original location at 2034 Marshall Ave. in St. Paul. Then Sommers realized that a vacant lot across 11th Avenue South from Gold Medal Park was actually affordable. The city owned it and was asking for \$437,850.

Sommers saw access to numerous highways for shipping Izzy's ice cream, as well as proximity to the many downtown Minneapolis restaurants that serve it up.

But Sommers recalls the McGough project managers telling him to think differently because what he was proposing was so unusual for the area, which features downtown attractions including the Guthrie Theater and the Mill City Museum.

"They said, 'It's going to be very hard. ... It's not trending,'" Sommers said.

Sure enough, Sommers found it difficult to find a bank willing to take the risk, and he and Hammel had little experience on such deals.

They had bootstrapped Izzy's in 2000 with a second mortgage on their house that they

since paid off.

Sommers approached the situation with a simple philosophy: "When people tell you 'no' enough, you keep on asking, 'How do you get this done?' I just didn't want to accept no. I'm still getting a lot of no's."

Such questions eventually brought Sommers to St. Paul-based Sunrise Banks, which in recent years has developed a specialty using federal New Market Tax Credits to leverage financing for smaller projects in the \$500,000 to \$2 million range.

Since 2000, the U.S. Treasury Department's Community Development Financial Institutions Fund has awarded New Market Tax Credits to certified economic development organizations serving financially distressed areas. And even though it's looking better now, U.S. census figures still characterize the area around the future Izzy's plant as distressed, said Sunrise CEO David Reiling.

Tax credits pay for 39 percent of a project's costs over seven years. An economic development entity, in this case Sunrise, sells the credits to investors who pay cash up front for projects — usually equal to about 20 percent of the project



Jeff Sommers

Financing 'It can't stay this complicated forever,' Izzy's owner says

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costs. The investors get to pocket the difference.

Sunrise can use the cash produced from a New Market Tax Credit to create a seven-year loan package in which a third of the amount only requires payments on interest — and below market rate at that. A business can basically write off the principal from that portion of the loan package after seven years.

The other two-thirds of the financing package is a market-rate loan from Sunrise.

"At one point I think I got my hand on a 50-page document with 20 flow charts about how it works," Sommers recalled.

Reiling agreed that it's complicated. But Sunrise plans to apply with the U.S. Treasury

Department to receive more tax credits in 2014; it has already used up a previous 2010 award that helped it fund \$25 million worth of projects. For now, Sunrise plans to seek out other entities with tax credits to assist customers.

"It's really attractive financing. From our standpoint, it's a tool we can use not only ... to keep a business (like Izzy's) that is located in the urban core ... it's a tool to attract businesses into the urban core as well," Reiling said.

By spring 2012, Sommers thought the Sunrise deal had secured his financing. But then the appraisal came back lower than he had expected — a \$1.6 million appraisal. The appraisal was unable to take into ac-



STAFF PHOTO: BILL KLOTZ

Izzy's Ice Cream owner Jeff Sommers thinks his company's new ice cream store and production facility, at 1100 Second St. S. in Minneapolis, will be ready to start selling scoops to customers in June.

count the unusual building design provided by award-winning architect David Salmela of Duluth.

"They appraised just a rectangle. No windows. No architectural elements. But we'd already decided we were going to do an architectural building," Sommers said.

"I have my 100-page appraisal. And I'm studying every method of appraisal. I don't know anything about appraisals. I was talking to everyone who would talk to me," Sommers said.

It took another four months for Sommers to find the extra \$800,000 he needed. Through the Minneapolis-based Community Reinvestment Fund USA, he eventually secured a seven-year U.S. Small Business Administration 7(a) loan for \$650,000 — and the city of Minneapolis kicked in two five-year loans worth a total \$150,000 and with 2 percent interest.

With more than \$500,000 a year in annual revenue, Izzy's sales have grown and the business has stayed profitable through the recession. But what was an "A through K" process with Sunrise was an "A through Z" process with the SBA.

"The word on the street is no one gets an SBA loan. It's the hardest loan to get,"

Sommers said.

But by August, Sommers had his money in place. Wayzata-based Streeter & Associates was able to start work on the building — which features an open two-story entranceway mezzanine with a lookout deck and 12 seats for customers who have bought scoops at the counter.

The one-story ice cream production area also includes plenty of windows, but high enough that passers-by won't be able to spy on Sommers' workers around the clock.

Sommers plans to start selling scoops in June, with ice cream production start-

ing in a few months. He acknowledges that he would have liked to have been up and running months ago — save for the financing delay and the prolonged winter weather.

Cathy Polasky, director of economic policy and development for the city of Minneapolis, described Sommers and his wife as a strong team who paid attention to detail but also had a vision — a "great big picture" in which they "didn't want to settle for any ordinary building."

Reiling recalled that the state of Minnesota has been assembling online business financing advice. And sure enough, Minnesota.gov includes a business finance section.

Still, Reiling agrees that Sommers' shoe leather approach is still the best.

"Getting out and talking to some folks is still the most effective way to find all the programs that are available because some of them come and go, or get funded or don't get funded," Reiling said.

From Sommers' standpoint, he thinks business financing has become so complicated that it is inhibiting business growth.

"It can't stay this complicated forever," Sommers said.

Where Izzy's \$2.2 million came from:

- \$1.26 million loan from Sunrise Banks (New Markets Tax Credit Program)
- \$650,000 loan from Community Reinvestment Fund USA (SBA 7(a))
- \$150,000 loan from city of Minneapolis
- Balance is owner's equity

Source: Izzy's Ice Cream