



Request for City Council Committee Action from the Department of Community Planning & Economic Development - CPED

Date: August 21, 2012

To: Council Member Lisa Goodman, Community Development Committee
Council Member Betsy Hodges, Ways & Means/Budget Committee

Subject: Informational Report on the status of the Minneapolis Common Bond Fund (CBF) and the Reduction of the Common Bond Fund Reserves to Support the City's Small Business Assistance Programs.

Recommendation: The CPED Director recommends that the City Council:

1. Receive and file this report on the status of the Minneapolis Common Bond (CBF); and
2. Direct staff to transfer up to \$1.4 million of funds currently held by the CBF Trustee, Wells Fargo Bank, in the General Agency Reserve IDB-Tax-Exempt B Account to the City directed Fund 07ERZ, within the CBF accounts, to be used to support the small business assistance programs of the City.
3. Increase the 2012 Revenue Budget for the Community Planning & Economic Development Agency Fund 07ERZ-GAEFS (07ERZ-8900330-333501) by \$1,400,000.

Previous Directives: The CBF was created by the City in 1982 and has undergone various changes and enhancements to improve the availability of attractive financing for small businesses. Many individual projects were presented and approved by the Council.

Prepared by: Bob Lind, 673-5068 & Charles Curtis 673-5069
 Approved by: Charles T. Lutz, Deputy Director CPED _____
 Catherine A. Polasky, Director, Economic Development _____
 Presenters in Committee: Bob Lind & Charles Curtis
 Funding Source and Appropriation Language
 Reviewed by Development Finance: _____

Reviews

- Permanent Review Committee (PRC): NA

Financial Impact

- Action provides increased revenue for appropriation increase
Dept. Name: Community Planning & Economic Development – 8900330
Fund Name: 07ERZ – GARFS
Amount: \$1,400,000
- Other financial impact:
The transfer of CBF Reserves within the various CBF accounts will allow development resources to be applied to support the small business assistance programs of the City of Minneapolis, in particular the 2% Commercial Loan Programs, the Alternative Financing Program, Working Capital Program and the Energy Efficiency Loan Program.

Over the past 18 months, these City Business Assistance Programs have:
Provided public financing for 183 small businesses for \$4,462,299
Leverage \$23,416,777 of private investment
Preserved 1,021 jobs
Increased new job opportunities by an estimated 409 positions

Community Impact

- Neighborhood Notification: NA
- City Goals: The utilization of the CBF and its reserves for economic development purposes furthers the City Goals of creating an environment that maximizes economic development opportunities and promotes community and private partnerships to support strong, healthy families and communities.
- Sustainability Targets: The use of the CBF Reserves will allow the continued support of the small business community.
- Comprehensive Plan: NA
- Zoning Code: NA
- Living Wage/Business Subsidy Agreement: NA
- Job Linkage: NA

Background/Supporting Information

The Minneapolis Common Bond Fund (CBF) was created in 1982 in response to the need for a financing vehicle to issue revenue bond financing for industrial/manufacturing and other development projects in the City that were unable to tap into the financial capital market on their own. The CBF has typically provided financing for owner-occupied small industrial/manufacturing companies that would be unable to borrow funds in the capital markets without a bond rating. The CBF provides the access to the capital markets having a "A+" rating from Standard & Poor's.

Since 1982, the CBF has resulted in the following numbers:

83 projects The most recent project was a \$25 million financing for OATI.

\$314,655,000 in revenue bonds issued

Over 2,000 new job opportunities

Over 4,500 jobs retained by projects

The growth and diversification of the CBF has served the City well in achieving its goals of assisting development in all areas of industrial, commercial and nonprofit and cultural

development. Very few cities have the capability to access the world's financial markets on behalf of economic development projects securing long-term financing at attractive terms and conditions. At the same time, this growth and diversification has reduced the portfolio risk as the City strives to maintain the financial integrity of the CBF.

Since its inception in 1982 and capitalization in 1983, the City has made a number of changes to the CBF pursuant to its commitment to develop a unique financing tool to foster economic development. The CBF provides its fixed rate, long term financing to small businesses in the City and Hennepin County.

Among these changes since its inception in 1982 with a rating of "BBB" were:

- CBF bonds rated "AAA" from 1984-1986 backed by insurance policy from Firemen's Insurance Company;
- The establishment of the City Limited Tax Capacity Pledge in 1987 to provide a partial backing of the CBF bonds and the removal of the Firemen's Fund insurance policy due to costs and restrictions on the CBF;
- CBF bonds rated "BBB+" from 1987-1996 based on reserves and the City's tax pledge and without the Fireman's Insurance Company rating;
- Formalization of the roles and responsibilities of the Financial Advisor and Managing Underwriters in 1990 to provide greater disclosure and transparency to the transactions;
- Restructuring of the \$10 million Letter of Credit from U.S. Bank as a reserve of the CBF and trustee role with Wells Fargo in 1993;
- CBF bonds rated "A-" from 1997-2005;
- Hennepin County partnership established in 2005 to expand the scope and diversity of the CBF throughout all of Hennepin County;
- CBF bonds rated "A+" 2006 to present. \$10 million Letter of Credit from U.S. Bank is no longer required to maintain CBF rating and is thus dropped resulting in a cost savings to the CBF; and
- CBF repays the City's initial reserve funding of \$5 million during 2006-2010 period.

The CBF has maintained a prudent cash reserve ratio and has diversified the CBF portfolio to minimize the risk of defaults in the CBF. The CBF has grown and matured into one of only a handful of pooled bond programs in the country with an "A" or better bond rating by Standard & Poor's. Use of the "A+" investment grade rating of the CBF to finance a variety of projects throughout Minneapolis and Hennepin County provides a fixed low-interest rate with long-term funding as an incentive to businesses to remain, grow and locate in Minneapolis and Hennepin County. The CBF is designed for established owner-occupied manufacturing facilities with a history of profitability and whose owners provide personal guaranties.

The Common Bond Fund is constantly monitored to assure the maintenance of its strong financial position.

The proposed transfer of CBF funds has been presented to S & P as a part of its regular review of the status of the CBF. The proposed transfer of funds will not affect the rating of the CBF and S & P, on August 2, 2012, formally confirmed the "A+" status of the CBF.