



Request for MCDA Board of Commissioners Action from the Department of Community Planning & Economic Development - CPED

Date: November 27, 2012

To: Council Member Lisa Goodman, Community Development Committee

Referral to: MCDA Board of Commissioners

Subject: A Public Hearing and Request for Preliminary and Final Approval of up to \$7 million in Bank Qualified Bank Direct Tax-exempt 501(c)(3) Minneapolis Community Development Agency Revenue Bonds for the Augustana Chapel View Homes, Inc. Project.

Recommendation: City Council Recommendation: Adopt the attached Resolution, giving Preliminary and Final Approval to the issuance of up to \$7 Million in Bank Qualified Bank Direct Tax-exempt 501(c)(3) Minneapolis Community Development Agency Revenue Bonds, Series 2012, for the Augustana Chapel View Homes, Inc. Project.

MCDA Board Recommendation: Forward this report to the Minneapolis Community Development Agency Board of Commissioners for their approval and adoption of the attached Resolution giving Preliminary and Final Approval of up to \$7 Million in Bank Qualified Bank Direct Tax-exempt 501(c)(3) Minneapolis Community Development Agency Revenue Bonds, Series 2012, for the Augustana Chapel View Homes, Inc. Project.

Previous Directives: The City of Minneapolis has issued revenue bonds for several Augustana projects over the years with the first issuance dating back to 1977 and the most recent in 2005. At this time, Augustana is requesting preliminary and final approval on the issuance of up to \$7 Million to refinance the outstanding balance of MCDA Series 2004 Bonds and to finance elevator upgrades to three Augustana housing facilities in Minneapolis.

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| Prepared by: Jessica Green, 673-5232 |
| Approved by: Charles T. Lutz, Deputy Director CPED _____ |
| Catherine A. Polasky, Director, Economic Development _____ |
| Presenters in Committee: Jessica Green |

Reviews

- Permanent Review Committee (PRC): Approval N.A.

Financial Impact

- Other financial impact: The issuance of the Series 2012 Bonds for the Augustana Chapel View Project will generate revenue bond administrative fees of about \$18,000 per year that are used to support the small business assistance programs of the City of Minneapolis.

Community Impact

- Neighborhood Notification: The Elliot Park Neighborhood representatives have been notified of this project.
- City Goals: This project is consistent with multiple City goals including: A Safe Place to Call Home; Livable Communities, Healthy Lives; and Many People, One Minneapolis.
- Sustainability Targets: N.A.
- Comprehensive Plan: This project is in compliance with the policies of the Minneapolis Plan.
- Zoning Code: The project is in compliance.
- Living Wage/Business Subsidy Agreement Yes ____ No X All conduit revenue bonds allocated under State Statute Chapter 474A, refunding bonds and 501(c)(3) bonds are exempt from the State Act. City bond financing is not subject to the City's local Ordinance if the intent of the bond financing is not to create jobs.
- Job Linkage Yes ____ No X

Supporting Information:

Augustana Chapel View Homes, Inc. is a nonprofit corporation that owns and manages a variety of senior living apartments in Minneapolis and the surrounding metro area with over 800 nursing home beds and 1,100 senior housing units. The City has assisted Augustana many times in the past 35 years to issue revenue bonds for various projects in Minneapolis and other facilities located outside of the City. This proposed new issue of up to \$7,000,000 would entail the refunding of revenue bonds previously issued by the City in 2004 with respect to the senior housing facilities located at 1510 11th Avenue South and 1425 10th Avenue South. The project would also entail financing the acquisition and installation of approximately \$1,200,000 in elevator improvements to the following properties located on Augustana's Minneapolis campus:

- 1510 11th Avenue South, Minneapolis
- 1020 E. 17th Street, Minneapolis
- 1509 10th Avenue South, Minneapolis

The bonds will be secured by a first mortgage on the 1510 Apartments (93 Units) located at 1510 11th Avenue South, and the Park Center North Apartments (46 Units) located at 1425 10th Avenue South. The bonds will also be secured by an assignment of leases and rents as well as a first security interest in all assets including furniture, fixtures and equipment. The proposed bonds are expected to be fully amortized over 15 years with a fixed rate of 3% for the first ten years. Northland Securities is acting as the underwriter for this transaction; the bonds are expected to be privately placed with Bremer Bank.

The borrower has requested that the firm of Gray, Plant & Mooty, P.A. act as both bond counsel and corporate counsel for this transaction, which will result in a significant cost savings to the borrower. Given the rather standardized documentation used in bank qualified bank direct financings, staff has no objection to this request.

Sources

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| MCDA Revenue Bonds | (Up to) \$7,000,000 |
| Transfer from Prior Issue Debt Service Reserve | 793,378 |
| Equity Contribution | <u>48,538</u> |
| Total Sources: | \$7,841,916 |

Uses

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| Deposit to Refunding Account | \$6,043,878 |
| Elevator Improvements | 1,200,000 |
| Placement Fee | 98,775 |
| Cost of Issuance | 81,463 |
| Rounding Amount | (Up to) <u>417,800</u> |
| Total Uses: | \$7,841,916 |

Type of Financing:

Industrial Development bonds (commonly known as IDBs or tax-exempt revenue bonds) have been used by the City of Minneapolis since 1972 to finance the capital needs of many small companies and organizations. Tax-exempt revenue bonds were often not a practical financing option for small organizations due to the high cost of borrowing. In 2002 the City of Minneapolis developed a financing program to provide cost-effective tax-exempt financing for small 501(c)(3) nonprofit organizations. The program provides a streamlined efficient application and documentation process, which lowers borrowing costs for nonprofits. The City has assisted over 45 small nonprofits organizations in gaining access to capital.

The federal tax code authorizes cities to issue bank qualified debt. Banks are allowed to deduct 80% of their "carrying costs" associated with the purchase of bank qualified tax exempt bonds. Banks get the dual benefit of tax-exemption and deductibility of carrying costs which translates into lower borrowing costs for the nonprofit organizations. Bank qualified revenue bonds are underwritten and collateralized just like any conventional bank loan, but the interest rate to the borrower is lower due to the tax-exempt status.

CITY IRB POLICIES:

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| Job Component | Minimum standard of one (1) job per 1,000 square feet of building area. ACVH: In compliance. |
| Property Improvements | No more than 25% of the bond proceeds may be used for land and acquisition. If purchasing an existing building, an amount equal to at least 15% of the acquisition cost must be spent on rehabilitation expenditures. ACVH: In compliance. |
| Development Standards | Compliance with the Land Use Plan of the City's Comprehensive Plan. ACVH: In compliance. |
| Equipment Financing | Limited to companies that create or preserve a significant number of jobs, and the equipment financed must be sufficiently secured. No more than 10% of the bond proceeds may be used to finance movable equipment not constituting a fixture. ACVH: N.A. |
| Restaurant/Bank | IRB financing is allowed for a restaurant or a bank if it is built or rehabilitated in a CPED Redevelopment Area. No more than 25% of the bond proceeds can be used to |

finance retail food and beverage establishments, automobile dealerships or recreation or entertainment facilities.

ACVH: N.A.

Tax-exempt Institution

Refinancing is permitted when new jobs are created or when a significant number of jobs are preserved; any interest cost savings must directly reduce patient costs.

ACVH: In compliance. All jobs will be preserved.

IRB CAP:

The project is not subject to the volume cap, in that the project is exempt from income tax under Internal Revenue Code Section 501(c)(3) for its exempt purposes and is classified thereunder as a non-profit organization.

BOND COUNSEL & CORPORATE COUNSEL:

Gray, Plant, & Mooty, P.A.

UNDERWRITER:

Northland Securities, Inc.

PRIVATE LENDER:

Bremer Bank

**Resolution
of the
City of Minneapolis**

Giving preliminary and final approval to and authorizing the financing of a project on behalf of Augustana Chapel View Homes, Inc. (the "Company"), and authorizing the issuance of a revenue bond of the Minneapolis Community Development Agency therefor.

Whereas, pursuant to Laws of Minnesota 1980, Chapter 595, as amended ("Chapter 595"), the City Council of the City of Minneapolis, Minnesota (the "City") established the Minneapolis Community Development Agency (the "Agency") and granted certain powers and duties to the Agency; and

Whereas, pursuant to such granted powers, the Agency has been authorized to issue revenue obligations for various purposes; and

Whereas, it has been proposed that the Agency issue a revenue bond in an amount not to exceed \$7,000,000 (the "Bond") to (i) refund revenue bonds previously issued by the City in 2004 with respect to the Company's senior housing facility known as 1510 Apartments located at 1510 11th Avenue South in the City and the Company's senior housing facility known as Park Center North located at 1425 Tenth Avenue South in the City, and (ii) the acquisition and installation of approximately \$1,200,000 of elevator improvements for certain senior housing facilities on the Company's Minneapolis campus, including the 1510 Apartments facility described above as well as the senior housing facility known as Park Center Apartments located at 1020 East 17th Street and 1509 Tenth Avenue South; and

Whereas, the property included in the Project will be owned by the Company, which is a Minnesota nonprofit corporation;

Whereas, the Agency expects to give final approval to the issuance of the Bond by a resolution to be adopted on the date hereof; and

Whereas, the Bond shall bear interest at an interest rate expected to not exceed 5.00% per annum, shall have a final maturity date not later than January 1, 2033, and shall have such other terms as required or permitted by the Agency's resolution, which terms are to be incorporated herein by reference;

Now, Therefore, Be It Resolved by The City Council of The City of Minneapolis:

That the City Council hereby gives preliminary and final approval to the issuance by the Agency of the Bond in a principal amount not to exceed \$7,000,000 for the purpose of financing the Project.

That the Bond is hereby designated as a "Program Bond" and is determined to be within the "Housing Program" and the "Program," all as defined in Resolution 88R-021 of the City adopted January 29, 1988, and as amended by Resolution 97R-402 of the City adopted December 12, 1997.

RESOLUTION

of the

MINNEAPOLIS COMMUNITY DEVELOPMENT AGENCY

Relating to the Minneapolis Community Development Agency Revenue Bond (Augustana Chapel View Homes, Inc. Project) Series 2012; authorizing the issuance thereof pursuant to Minnesota Statutes, Chapter 462C, as amended.

Be It Resolved by the Board of Commissioners (the "Board") of the Minneapolis Community Development Agency (the "Agency"), as follows:

Section 1. Definitions.

1.01. In this Resolution the following terms have the following respective meanings unless the context hereof or use herein clearly requires otherwise:

"Act" means Minnesota Statutes, Chapter 462C, as amended;

"Agreement" means the Loan Agreement to be entered into between the Agency and the Borrower relating to the Bond;

"Bond" means the Revenue Bond (Augustana Chapel View Homes, Inc. Project) Series 2012 to be issued by the Agency pursuant to this Resolution in the principal amount of up to \$7,000,000;

"Bond Documents" means the Agreement, the Pledge Agreement and the Bond;

"Borrower" means Augustana Chapel View Homes, Inc., a Minnesota nonprofit corporation, its successors and assigns;

"City" means the City of Minneapolis, Minnesota;

"Holder" means the registered holder of the Bond;

"Pledge Agreement" means the Pledge Agreement to be entered into between the Agency and the Holder relating to the Agreement and the Bond;

"Program" means the Agency's Chapter 462C Housing Program relating to the Bond and the Project;

"Project" means (i) the refunding of revenue bonds previously issued by the City in 2004 with respect to the Company's senior housing

facility known as 1510 Apartments located at 1510 11th Avenue South in the City and the Company's senior housing facility known as Park Center North located at 1425 Tenth Avenue South in the City, and (ii) the acquisition and installation of approximately \$1,200,000 of elevator improvements for certain senior housing facilities on the Company's Minneapolis campus, including the 1510 Apartments facility described above as well as the senior housing facility known as Park Center Apartments located at 1020 East 17th Street and 1509 Tenth Avenue South;

"Resolution" means this resolution of the Agency.

Section 2. Findings.

2.01. It is hereby found and declared that:

(a) based upon representations made to the Agency by representatives of the Borrower as to the nature of the Project as described in the Agreement, the Project constitutes a project authorized by the Act;

(b) the purpose of the Project is and the effect thereof is to promote the provision of affordable elderly housing facilities;

(c) the financing of the Project, the issuance and sale of the Bond, the execution and delivery of the Bond Documents and the performance of all covenants and agreements of the Agency contained in the Bond Documents and of all other acts and things required under the Constitution and laws of the State of Minnesota to make the Bond Documents valid and binding obligations of the Agency in accordance with their terms are authorized by the Act;

(d) it is desirable that the Bond be issued by the Agency upon the terms set forth herein and that the Agency pledge its interest in the Agreement and grant a security interest therein to the Holder as security for the payment of the principal of, premium, if any, and interest on the Bond;

(e) the loan payments contained in the Agreement are fixed and are required to be revised from time to time as necessary, so as to produce income and revenue sufficient to provide for prompt payment of the principal of, premium, if any, and interest on the Bond when due, and the Agreement also provides that the Borrower is required to pay all expenses of the operation and maintenance of its facilities, including, but not limited to, adequate insurance thereon and all taxes and special assessments levied upon or with respect to its facilities and payable during the term of the Agreement;

(f) under the provisions of the Act, the Bond is not to be payable from nor charged upon any funds of the Agency or City other than the

revenue pledged to the payment thereof; the Agency and City are not subject to any liability thereon; no Holder of the Bond shall ever have the right to compel any exercise of the taxing power of the Agency or City to pay the Bond or the interest thereon nor to enforce payment thereof against any property of the Agency or City; the Bond, premium, if any, and interest thereon shall not constitute an indebtedness of the Agency or City within the meaning of any constitutional, charter or statutory limitation and shall not constitute or give rise to a pecuniary liability of the Agency or City or a charge against their general credit or taxing powers and shall not constitute a charge, lien or encumbrance, legal or equitable, upon any property of the Agency or City;

(g) the execution and delivery of the Bond Documents shall not conflict with or constitute, on the part of the Agency, a breach of or a default under any existing agreement, indenture, mortgage, lease or other instrument to which the Agency is subject or is a party or by which it is bound; provided that this finding is made solely for the purpose of estopping the Agency from denying the validity of the Bond Documents by reason of the existence of any facts contrary to this finding;

(h) no litigation is pending or, to the actual knowledge of the members of this Board, threatened against the Agency questioning the organization of the Agency or the right of any officer of the Agency to hold his or her office or in any manner questioning the right and power of the Agency to execute and deliver the Bond or otherwise questioning the validity of the Bond or the execution, delivery or validity of the Bond Documents or questioning the pledge of revenues to payment of the Bond or the right of the Agency to loan the proceeds of the Bond to the Borrower;

(i) all acts and things required under the Constitution and the laws of the State of Minnesota to make the Bond Documents the valid and binding limited obligations of the Agency in accordance with their terms shall have been done upon adoption of this Resolution and execution of the Bond Documents; provided that this finding is made solely for the purpose of estopping the Agency from denying the validity of the Bond Documents by reason of the existence of any facts contrary to this finding; and

(j) the Agency is duly organized and existing under the Constitution and the laws of the State of Minnesota and is authorized to issue the Bond in accordance with the Act and Chapter 422 of the City Code of Ordinances.

Section 3. Authorization and Approval of Documents.

3.01. Authorization. The Agency is authorized by the Act to issue revenue bonds and loan the proceeds thereof to finance (or refinance) the acquisition, construction, installation and equipping of facilities constituting a "development" as defined in the Act, and to make all contracts, execute all

instruments and do all things necessary or convenient in the exercise of such authority.

3.02. Approval of Documents. Pursuant to the foregoing, there have been prepared copies of the following documents, all of which are now or shall be placed on file in the office of the Agency:

- (a) the Agreement;
- (b) the Pledge Agreement;
- (c) the Bond; and
- (d) the Program.

The forms of the documents listed above are approved, with such variations, insertions and additions as are deemed appropriate by the parties and approved by the Agency.

Section 4. Execution of Bond Documents.

4.01. Upon the completion of the Bond Documents approved in Section 3.02 hereof and the execution thereof by the other parties thereto, the Executive Director (or Deputy Executive Director) and the Finance Officer (or Assistant Finance Officer) shall execute the same on behalf of the Agency, and the foregoing persons and other officers of the Agency shall execute such other certifications, documents or instruments as bond counsel shall require, subject to the approval of the Agency, and all certifications, recitals and representations therein shall constitute the certificates, recitals and representations of the Agency. Execution of any instrument or document by one or more appropriate officers of the Agency shall constitute and shall be deemed the conclusive evidence of the approval and authorization by the Agency and the Board of the instrument or document so executed.

Section 5. The Bond.

5.01. Form and Authorized Amount. The Bond shall be issued substantially in the form on file with the Agency on the date hereof with such appropriate variations, omissions and insertions as are permitted or required by this Resolution. The terms of the Bond are set forth therein, and such terms, including, but not limited to, provisions as to interest rate, dates and amount of payment of principal and interest and prepayment privileges, are incorporated by reference herein. The Bond shall bear an interest rate that is expected to not exceed 5.00% per annum. The Bond shall mature on or before January 1, 2033.

5.02. Execution. The Bond shall be executed on behalf of the Agency by the persons described in Section 4.01 hereof. In case any officer whose signature shall appear on the Bond shall cease to be such officer before the delivery thereof, such signature shall, nevertheless, be valid and sufficient for all purposes.

5.03. Delivery and Use of Proceeds. Prior to delivery of the Bond, the documents referred to in Section 3.02 hereof shall be completed and executed in form and substance as approved by the Agency. The Agency shall thereupon deliver to the Holder the Bond together with a certified copy of this Resolution and such closing certificates as are required by bond counsel.

Section 6. Limitations of the Agency's and City's Obligations.

6.01. Notwithstanding anything contained in the Bond Documents, the Bond and any premium and interest thereon shall not constitute an indebtedness of the Agency or City within the meaning of any constitutional, charter or statutory limitation and shall not constitute or give rise to a pecuniary liability of the Agency or City or a charge against their general credit or taxing powers and shall not constitute a charge, lien, or encumbrance, legal or equitable, upon any property of the Agency or City, and no Holder of the Bond shall ever have the right to compel any exercise of the taxing power of the Agency or City to pay the Bond or the interest thereon or to enforce payment thereof against any property of the Agency or City. The agreement of the Agency to perform the covenants and other provisions contained in this Resolution or the Bond Documents shall be subject at all times to the availability of revenues furnished by the Borrower sufficient to pay all costs of such performance or the enforcement thereof, and neither the Agency or City nor any of their officers, employees or agents shall be subject to any personal or pecuniary liability thereon.

Section 7. Agency Representative.

7.01. The Finance Officer or Assistant Finance Officer of the Agency is hereby designated and authorized to act on behalf of the Agency for purposes of the Bond Documents.

Section 8. Governmental Program.

8.01. The Bond is hereby designated as a "Program Bond" and is determined to be within the "Housing Program" and the "Program," all as defined in Resolution 88R-021 of the City adopted January 29, 1988, and as amended by Resolution 97R-402 of the City adopted December 12, 1997.

Section 9. Bank Qualification.

9.01. In order to qualify the Bond as a "qualified tax-exempt obligation" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), the Agency makes the following representations:

(a) The Agency hereby designates the Bond as a "qualified tax-exempt obligation" for purposes of Section 265(b)(3) of the Code;

(b) The reasonably anticipated amount of tax-exempt obligations (other than obligations described in clause (ii) of Section 265(b)(3)(C) of the Code) which will be issued by the Agency (and all subordinate entities whose obligations will be aggregated with those of the Agency) during this calendar year 2012 will not exceed \$10,000,000; and

(c) Not more than \$10,000,000 of tax-exempt obligations issued by the Agency during this calendar year 2012 have been designated as qualified tax-exempt obligations for purposes of Section 265(b)(3) of the Code.