



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

Date: May 14, 2013

To: Council Member Lisa Goodman, Community Development Committee

Subject: A Public Hearing and Request for Preliminary Approval of up to \$7,250,000 in Revenue Bonds for City of Minneapolis Series 2013 Educational Facility Lease Revenue Refunding Bonds (Seed Daycare/Harvest Preparatory/Best Academy Project)

Recommendation: The CPED Director recommends that the City Council adopt the attached Resolution giving Preliminary Approval to the issuance of up to \$7,250,000 in Revenue Bonds for City of Minneapolis Series 2013 Educational Facility Lease Revenue Refunding Bonds (Seed Daycare/Harvest Preparatory/Best Academy Project)

Previous Directives: The City of Minneapolis has issued bonds for Seed Academy in 1998 for the construction of classrooms, a gymnasium and an auditorium. The City of Minneapolis issued bonds in 2006 to refinance the outstanding balance of Minneapolis Series 1998 Bonds, and to fund additional capital improvements.

Prepared by: Becky Shaw, Business Development, CPED	
Approved by: Charles T. Lutz, Deputy Director CPED	_____
Catherine A. Polasky, Director, Economic Development	_____
Presenters in Committee: Becky Shaw (612) 673-5066	

Reviews

• Permanent Review Committee (PRC): Approval: NA Date:

Financial Impact

• Action is within the CPED Business Plan

- Other financial impact: The issuance of refunding revenue bonds for the project will generate revenue bond administrative fees of approximately \$16,200 per year that are used to support the small business assistance programs of the City of Minneapolis.

Community Impact

- Neighborhood Notification: Northside Residents Redevelopment Council has been notified.
- City Goals: The project is consistent with multiple city goals: Livable Communities, Healthy Lives; and Many People, One Minneapolis
- Sustainability Targets: NA
- Comprehensive Plan: This proposed project is in compliance with the policies of the Minneapolis Plan for sustainable growth.
- Zoning Code: The proposed project is in compliance with zoning regulations.
- Living Wage/Business Subsidy Agreement Yes _____ No X All conduit revenue bonds allocated under Statute 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

Project Location & Description: 1300 Olson Memorial Highway

Seed Daycare/Harvest Preparatory/Best Academy (commonly referred to as Seed Academy) is a non-profit 501 (c)(3) corporation with a mission to instruct, empower, enable and guide African American children to achieve superior academic, social and moral development.

Seed Daycare was founded in 1988 by Eric and Ella Mahmoud for preschool children aged 33 months – 5 years. The mission of Seed Daycare was simple; to teach preschoolers to read, do basic math and develop language skills to succeed in Kindergarten and beyond. As the preschoolers grew and entered the public school system, parents were concerned that their children were not being challenged enough. Out of this desire to get more out of education, the Harvest Preparatory School was formed as a private school in 1991. In 1998, Harvest Preparatory School was approved by the State Department of Family and Children Services as a charter school. With the charter school designation, Harvest Preparatory is sponsored by the Minneapolis Public Schools and currently serves 428 students. In 2007, Seed Academy expanded again to form gender-specific Science, Technology, Engineering and Math (STEM) programs as well as culturally-specific East African educational programs known collectively as Best Academy. Best Academy currently enrolls 466 children, and has a waiting list to get in. In 2012, the Minneapolis Board of Education unanimously approved a proposal to partner with Eric Mahmoud to open four Mastery Schools over the next 10 years. The first school opened in the fall of 2012 and currently enrolls 136 students in Kindergarten through 2nd grade. Though noteworthy in terms of Seed Academy's growth and success, the Mastery Schools will not be financed by this transaction.

The City of Minneapolis issued Revenue Bonds in 1998 totaling \$4,600,000 to finance the renovation of and addition to an existing facility located at 1300 Olson Memorial Highway.

The City of Minneapolis issued \$5,950,000 tax-exempt and \$1,050,000 taxable Revenue Bonds in 2006 to refund the outstanding balance of Series 1998 bonds, to repay outstanding debt, to finance capital improvements, and to fund operating reserves. Series 2006 Bonds were issued to Seed Daycare with Harvest Preparatory as a lessee of the facility. The Interest Rates on the bonds were set to gradually

increase over time, starting at 3.75% and increasing to 8%. The weighted average of the outstanding series of 2006 Bonds is currently at approximately 6.41% interest.

School districts receive a significant portion of their funding from the State of Minnesota in the form of twice-monthly payments, less 10% that is held back until June 30th at the end of the school year. In 2009 due to a poor budget forecast and to meet short-term cash flow needs, the State of Minnesota increased the holdback percentage to around 20% in districts with the largest cash reserves in Minnesota. Minneapolis Public Schools were included in the holdback increase, which had a significant effect on smaller charter schools independent of the Minneapolis Public School budget system since they were not able to tap the Public Schools' large reserve accounts. In 2010, the State of Minnesota increased the holdback again to 25-30%. In 2011, at its peak, the holdback was increased to almost 40% of payments being withheld until the end of the school year. Many charter schools, including Seed Academy, were caught off guard by the holdback increase and found themselves in a difficult cash crunch. Outside lenders were not able to collateralize future payments from the State, making short term financing extremely difficult. As the State holdback increased, Harvest Preparatory and Best Academy's rent payments to Seed Daycare fell behind. Seed Daycare made its June 30, 2010 bond payments by drawing against the reserve account for the Series 2006 Bonds. Seed Daycare was able to make interest and principal payments on its bonds, but reduced the reserve account below the allowable level under the Indenture of Trust.

On April 6, 2011, Wells Fargo Bank, as trustee under the Indenture of Trust, with consent of the bondholders, entered into a Forbearance Agreement with Seed Academy/Harvest Prep. Since the agreement was entered, John Torvik has been hired as the Chief Financial Officer for Seed Academy, monthly conference calls have been held by the trustee for bondholders and an in depth cash flow forecast and financial analysis has been performed by the finance team associated with Seed Academy. Through this detailed analysis, the team has been able to identify opportunities for efficiencies and cost savings in operations. The restructuring defined below will also help remediate the vulnerabilities of the existing debt structure.

In addition to the proposed debt restructuring, in 2012 Minnesota legislature made adjustments to the aid payment schedule specific to charter schools, preventing the same holdback scenario from happening again. All held funds have been restored to charter schools, and the currently holdback amount is set at 13.5% to be paid on June 30th at the end of each school year.

Type of Financing:

At this time, Series 2013 Bond financing is being requested for refunding the outstanding 2006 Bonds, and to fund the Debt Service Reserve to its fully required amount. It is proposed that the City of Minneapolis issue up to \$6,300,000 Series 2013A Tax-exempt Revenue Bonds and up to \$570,000 Series 2013B Taxable Revenue Bonds to fund the reserve. The Series 2013 bonds will be repaid from a pledge of State Lease Aid and other revenues from Harvest Prep and Best Academy through a Pledge Agreement. The underwriting team of Dougherty & Company, has reviewed the last three years audited financial statements for each school as well as the actual lease/rent payments made by those schools. With current enrollment at both Harvest Prep and Best Academy, the schools are eligible for Lease Aid from the State of Minnesota of approximately \$980,000 annually. Annual debt service for the Series 2013 bonds will be a maximum of \$602,875, providing more than sufficient revenue and operating income capacity to repay the proposed debt service on the Series 2013 bonds. To protect the 2013B Taxable Bond reserve fund, Seed Academy has secured a working capital line of credit from Non-Profits Assistance Fund to utilize in the event of unforeseen circumstances.

The bonds will be set at a fixed interest rate of approximately 5-5.5%. The bonds will be unrated and sold to suitable Qualified Institutional Investors and Accredited Investors only.

Sources and Uses of funds are as follows:

Sources

Tax-Exempt Series 2013 Bonds	\$6,300,000.00
Taxable Series 2013 Bonds	570,000.00
Transfer of cash from DSR Funds	<u>344,796.88</u>
Total Sources:	\$7,214,796.88

Uses

Deposit to Current Refunding Fund	\$5,823,411.25
Debt Service Reserve	602,875.00
Payoff Existing Debt	500,000.00
Cost of Issuance	160,000.00
Underwriter's Discount	127,095.00
Rounding Amount	<u>1,415.63</u>
Total Uses:	\$7,214,796.88

Present Employment: Full and part time positions reported to the IRS for the current calendar year:

- Best Academy 114
- Harvest Preparatory 85
- Seed Daycare 41

New Employment: All current employment will be retained. No new jobs are anticipated as a result of this refunding. New positions are added as enrollment increases.

Assessor's Estimate Annual Tax Increase: Tax-exempt facility

Affirmative Action Compliance: Materials have been submitted to Civil Rights. The Revenue Bonds will not close until an acceptable Affirmative Action Plan has been approved.

CITY IRB POLICIES:

Job Component

Minimum standard of one (1) job per 1,000 square feet of building area.

Seed Academy: This is an educational facility where the utilization of space by employees will be much greater than one per thousand square feet of space.

Property Improvements

For private activity IRBs consisting of industrial/manufacturing projects, 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. This IRB policy does not apply to nonprofit organizations issuing 501(c)(3) tax-exempt revenue bonds.

Seed Academy: Not applicable.

Development Standards

Compliance with the Land Use Plan of the City's Comprehensive Plan.

Seed Academy: 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.

Seed Academy: Not applicable.

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.

Seed Academy: Not applicable.

Tax-exempt Institution

Refinancing is permitted when new jobs are created or when a significant number of jobs are preserved.

Seed Academy: All 240 jobs will be retained.

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: Briggs & Morgan

UNDERWRITER: Dougherty & Company, LLC

REFERRED TO (NAME OF COMMITTEE)
DATE

RESOLUTION

of the

CITY OF

MINNEAPOLIS

By: _____

Reciting a proposal for the issuance of Educational Facility Lease Revenue Refunding Bonds (Seed Daycare/Harvest Preparatory Charter School/Best Academy Project) pursuant to the Minnesota Municipal Industrial Development Act, authorizing the submission of an application for approval of said project to the Minnesota Department of Employment and Economic Development and authorizing the preparation of necessary documents and materials in connection therewith.

WHEREAS, the City, by the Constitution, the laws of the State of Minnesota, and its Charter, including Minnesota Statutes, Sections 469.152 to 469.1655, as amended (the "Act"), is authorized to issue and sell its revenue bonds for the purpose of financing industrial development within the boundaries of the City and to enter into agreements necessary or convenient in the exercise of the powers granted by the Act; and

WHEREAS, Seed Daycare, a Minnesota nonprofit corporation having federal income tax-exempt 501(c)(3) status (the "Borrower"), has proposed that the City issue its lease revenue bonds, to be issued in one or more series, in the aggregate principal amount not to exceed \$7,250,000 (the "Bonds") to finance a project consisting of (a) the refinancing of the outstanding principal amount of the City's Educational Facility Lease Revenue Refunding Bonds (Seed Daycare/Harvest Preparatory Charter School Project), Series 2006A, and Taxable Education Facility Lease Revenue Refunding Bonds (Seed Daycare/Harvest Preparatory Charter School Project), Series 2006B, the proceeds of which were used to refinance and finance the expansion, renovation, and equipping of the Borrower's daycare and public (charter) school facilities located at 1300 Olson Memorial Highway in the City and (b) refinancing certain taxable indebtedness of the Borrower, the proceeds of which were used to finance capital improvements to and equipping of the Borrower's existing educational facilities (the "Project"). The Project will be owned by the Borrower and, except for that portion used for the Borrower's daycare program, leased to and operated by Harvest Preparatory Charter School, Inc. and Best Academy, Inc., each a Minnesota nonprofit corporation having federal income tax-exempt 501(c)(3) status as a public (charter) school; and

WHEREAS, the full faith and credit of the City will not be pledged to the Project or for the payment of the principal of, premium, if any, and interest on the Bonds; and

WHEREAS, the Borrower's proposal calls for the City to loan the proceeds realized upon the sale of the Bonds to the Borrower pursuant to a revenue agreement wherein the Borrower will be obligated to make payments at the times and in the amounts sufficient to provide for the prompt payment of principal of, premium, if any, and interest on the Bonds and all costs and expenses of the City incident to the issuance and sale of the Bonds; and

WHEREAS, the undertaking of the proposed Project and the issuance of the Bonds to finance the cost thereof will further promote the public purposes and legislative objectives of the Act by the expansion of public charter school facilities in the City; and

WHEREAS, as required by the Act and Section 147(f) of the Internal Revenue Code of 1986, as amended (the "Code") a public hearing on the issuance of the Bonds to finance the Project was held on May 14, 2013 following duly published notice thereof; and

WHEREAS, no public official of the City has either a direct or indirect financial interest in the Project nor will any public official either directly or indirectly benefit financially from the Project;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Minneapolis:

(a) Findings. The City hereby finds, determines, and declares as follows:

(a) The City is authorized under the Act to assist the revenue producing project referred to herein, and to issue and sell the Bonds, as hereinafter defined, for the purpose, in the manner, and upon the terms and conditions set forth in the Act and in this Resolution.

(b) On the basis of information available to the City it appears, and the City hereby finds, that the Project constitutes properties, real and personal, used or useful in connection with one or more revenue producing enterprises within the meaning of Subdivision 2(b) of Section 469.153 of the Act; that the Project furthers the purposes stated in Section 469.152; that the availability of the financing under the Act and the willingness of the City to furnish such financing will be a substantial inducement to the Borrower to undertake the Project, and that the effect of the Project, if undertaken, will be to assist in the prevention of the emergence of blighted and marginal land, to help prevent chronic unemployment, to help the surrounding area retain and eventually improve the tax base, to provide the range of service and employment opportunities required by the population, to help prevent the movement of talented and educated persons out of the State and to areas within the State where their services may not be as effectively used, and to promote more intensive development and use of land within the City and surrounding communities.

2. Preliminary Approval. The City hereby gives preliminary approval to the proposal of the Borrower that the City undertake the Project, and the financing therefor, pursuant to the Act and to issue the Bonds in the principal amount not to exceed \$7,250,000.

3. DEED Application. The financing of the Project by the issuance of the Bonds by the City is subject to, among other things, (a) the approval of the Project by the City and the Minnesota Department of Employment and Economic Development ("DEED") and the Finance Officer of the City is hereby authorized and directed to submit the proposal for the Project to DEED, (b) final approval by the City, the Borrower and the purchaser of the Bonds as to the ultimate details of the financing, and (c) review and approval of the proposed Project by Bond Counsel.

4. Payment of Costs. The Borrower has agreed and it is hereby determined that any and all costs incurred by the City in connection with the financing of the Project whether or not the Project is carried to completion and whether or not approved by the City will be paid by the Borrower.

5. Bond Documents. Briggs and Morgan, Professional Association, acting as bond counsel, is authorized to assist in the preparation and review of necessary documents relating to the Project, to consult with the Borrower and the purchaser of the Bonds as to the maturities, interest rates and other terms and provisions of the Bonds and as to the covenants and other provisions of the necessary documents and submit such documents to the City for final approval.

6. Limited Obligation. Nothing in this Resolution or the documents prepared pursuant hereto shall authorize the expenditure of any municipal funds on the Project other than the revenues derived from the Project or otherwise granted to the City for this purpose. The Bonds shall not constitute a charge, lien, or encumbrance, legal or equitable, upon any property or funds of the City except the revenue and proceeds pledged for the payment thereof, nor shall the City be subject to any liability thereon. No holders of the Bonds shall ever have the right to compel any exercise of the taxing power of the City to pay the outstanding principal on the Bonds or the interest thereon, or to enforce payment thereon against any property of the City, except such property as may be expressly pledged for the security of the Bonds. The Bonds shall recite in substance that the Bonds, including the interest thereon, is payable solely from the revenue and proceeds pledged to the payment thereof. The Bonds shall not constitute a debt of the City within the meaning of any constitutional or statutory limitation.

7. Reimbursement. In anticipation of the approval of the Project by the State of Minnesota, Department of Employment and Economic Development and all other necessary entities and the issuance of the Bonds to finance all or a portion of the Project, and in order that completion of the Project will not be unduly delayed when approved, the City hereby authorizes the Borrower, in accordance with the provisions of the Act and subject to the terms and conditions imposed by the Lender, to provide for the acquisition, construction, and equipping of the Project by such means as shall be available to the Borrower and in the manner determined by the Borrower, and without advertisement for bids as may be required for the construction and acquisition of other municipal facilities; the City hereby ratifies, affirms, and approves all actions heretofore taken by the Borrower consistent with and in anticipation of such authority; and the Borrower is hereby authorized to make such expenditures and advances toward payment of that portion of the costs of the Project to be financed from the proceeds of the Bonds as the Borrower considers necessary, including the use of interim, short-term financing, subject to reimbursement from the proceeds of the Bonds if and when delivered but otherwise without liability on the part of the City.