

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

Date: November 17, 2009

To: Council Member Lisa Goodman, Community Development Committee
Council Member Paul Ostrow, Ways & Means/Budget Committee

Subject: A Request for Preliminary Approval of up to \$17,000,000
In Taxable and Tax-exempt City of Minneapolis, Limited Tax-Supported
Development Revenue Bonds, in two Series 2010, for Open Systems
International, Inc. (OSI) to be issued through the Minneapolis Common Bond
Fund under a Joint Partnership with Hennepin County.

Recommendation: **The CPED Director recommends that the City Council adopt the attached Resolution giving Preliminary Approval to the issuance of up to \$17,000,000 in Taxable and Tax-exempt Limited Tax Supported Development Revenue Bonds, Common Bond Fund, in two Series 2010, for Open Systems International, Inc. to be issued under a joint partnership with Hennepin County through the Common Bond Fund and designating the bonds as bonds entitled to the security provided by Ordinance No. 87-OR-084, Chapter 424, Tax Reserve and Pledge Ordinance.**

Previous Directives: None

Prepared by: Charles Curtis 612-673-5069
Approved by: Charles T. Lutz, Deputy Director CPED _____
Catherine A. Polasky, Director, Economic Development _____
Presenters in Committee: Charles Curtis

Reviews

- Permanent Review Committee (PRC): Not Applicable

Financial Impact

- Other financial impact: The issuance of revenue bonds for the Open Systems International, Inc. (OSI) will generate revenue bond administrative fees of approximately \$63,750 a year that are used to support the small business assistance programs of the City of Minneapolis.

Community Impact

- Neighborhood Notification: NA
- City Goals: NA
- Sustainability Targets: NA
- Comprehensive Plan: NA
- Zoning Code: NA
- Living Wage/Business Subsidy Agreement Yes _____ No X
- Job Linkage Yes _____ No X

Supporting Information

On May 28, 2004 the City Council authorized the execution of documents that would create a joint partnership with Hennepin County and the Hennepin County Housing and Redevelopment Authority to allow the use of Common Bond Fund financing throughout the entire area of Hennepin County.

Open Systems International, Inc. (OSI) is working to start construction in the Spring of 2010. In order to include the expenses incurred prior to 2010, such as the purchase of the land, OSI is requesting that the City of Minneapolis adopt a preliminary resolution in 2009. The preliminary resolution does not commit any parties to completing the proposed project, but simply allows costs to be included prior to a Final Approval by Hennepin County and the City of Minneapolis. In addition, final underwriting reviews will be completed prior to any request for Final Approval.

The City and County will execute a Joint Powers Agreement for the Open Systems International, Inc. project upon Final Approval, under which the County will reimburse the City for any deficiencies caused by the default of the borrower.

In addition, the City Council clarified that projects outside of the City of Minneapolis will not have to comply with various City of Minneapolis policies and programs, but will be subject to any requirements placed on the projects by the municipality in which the facility is located, in this case, the City of Medina.

Project Location & Description:

OSI is a privately held company currently located in leased space in Plymouth, Minnesota. The company has been in business for over fifteen years. The company provides advanced power automation systems, which includes specialized computer software, software development, training and support, as well as supplying computer hardware, to customer in the electric utility industry. OSI's customers are located throughout the world, with the majority in North America. Bahman Hoveida and Ron Ingram are the owners of the company.

OSI is proposing the purchase of vacant land located at the intersection of Highway 55 and Arrowhead Road in Medina, Minnesota. The company plans to build a facility of approximately 100,000 square feet that will incorporate technology labs, warehouse, training areas and general meeting/cafe/tertia space.

Present Employment: 187

New Employment: 58

CITY IRB POLICIES:

On May 28, 2004, the City Council clarified that projects outside of the City of Minneapolis will not have to comply with various City policies and programs, but will be subject to any requirements placed on the projects by the municipality in which the facility is located.

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.

OSI: In compliance

IRB CAP:

The tax-exempt portion of the project is subject to the State's limit on tax-exempt bond financing. An allocation for tax-exempt bonding authority will be requested from the State following Final Approval.

The taxable portion of the project is not subject to the volume cap in that there is no volume limit for taxable revenue bonds.

FINANCIAL ADVISOR:

Dougherty & Company, LLC

BOND COUNSEL:

Gray, Plant & Mooty

UNDERWRITER:

Piper Jaffray

RBC Capital Markets

REVIEW BY CBF COORDINATING

COMMITTEE:

Under Final review

Resolution
of the
City of Minneapolis

Giving preliminary approval to a project on behalf of Open Systems International, Inc. and preliminary approval to the issuance of revenue bonds of the City of Minneapolis therefor; referring the proposed project to the Department of Employment and Economic Development for approval; and authorizing the preparation of necessary documents.

WHEREAS, under Sections 469.152 through 469.1651 of the Minnesota Statutes, as amended (the "Act"), the City of Minneapolis, Minnesota (the "City") is authorized to issue revenue bonds for the purpose of providing financing for the acquisition, construction, rehabilitation and installation of projects consisting of real and personal properties used or useful in connection with a revenue- producing enterprise engaged in any business; and

WHEREAS, the City has assumed the obligations of the Minneapolis Community Development Agency (the "Agency") with respect to a certain common bond fund and intends to continue to issue revenue bonds to be secured thereby (the "Common Fund Bonds"); and

WHEREAS, the City has authority to issue Common Fund Bonds and is the successor to the Common Fund Bonds issued by the Agency; and

WHEREAS, in enacting the Act, the Legislature found that the welfare of the State of Minnesota requires the active promotion, attraction, encouragement and development of economically sound industry and commerce to prevent, as far as possible, the emergence of blight and areas of chronic unemployment and to prevent economic deterioration; and

WHEREAS, Open Systems International, Inc., a Minnesota corporation, or an affiliate thereof (the "Company"), has proposed to acquire land and construct and equip a building to be located at the northwest corner of the intersection of Highway 55 and Arrowhead Road in the City of Medina (hereinafter, the "Project"), to be used in the operation of its business providing software solutions for utilities in the electric, oil and gas, transport, and water industries; and

WHEREAS, the Company has proposed that the City issue one or more series of its Common Fund Bonds (the "Bonds"), for the purpose of financing the Project, including certain incidental expenses thereto, in a principal amount expected to not exceed \$17,000,000, and the proposal calls for the proceeds realized upon the sale of the Bonds to be applied by the Company pursuant to a revenue agreement wherein the Company will be

obligated to acquire, improve and equip the Project and to make payments under the revenue agreement at the times and in the amounts sufficient to provide for the prompt payments 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 City has been advised by representatives of the Company that conventional, commercial financing to pay the capital cost of the Project has not been obtained and is available only on a limited basis and at such high costs and on such terms of borrowing that the economic feasibility of the Project would be significantly impaired, such that the Project might not be undertaken but for the availability of industrial development bond financing under the Act; and

WHEREAS, it is proposed that the Bonds would be further secured by Chapter 424 of the City Code of Ordinances; and

WHEREAS, the Bonds will be issued pursuant to the Joint Powers Agreement, dated as of April 1, 2004, among the City, Hennepin County and the Hennepin County Housing and Redevelopment Authority; and

WHEREAS, the proposed Project consists of real and/or personal properties to be used in a revenue-producing enterprise engaged in business, as authorized by the Act; 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 encouraging the location and retention of revenue-producing enterprises within Hennepin County, by increasing the tax base of Hennepin County and overlapping taxing jurisdictions, and by providing additional or retaining existing employment opportunities for residents of the City and Hennepin County; and

WHEREAS, except as may be authorized by Chapter 424 of the City Code of Ordinances, the full faith and credit of the City will not be pledged or responsible for the Project or for the payment of the principal of, premium, if any, and interest on the Bonds;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MINNEAPOLIS:

A. That it is hereby found and determined that the Project might not be undertaken but for the availability of industrial development bond financing under the Act.

B. That the undertaking of the Project and the issuance by the City of its Bonds pursuant to the Act in an aggregate principal amount of up to \$17,000,000, to finance the costs thereof, all as referred to above, is hereby preliminarily authorized and approved by the City, subject to (i) the approval of the Project by the Department of Employment and

Economic Development of the State of Minnesota (the "Department") under the Act, (ii) the approval of the issuance of the Bonds by the City of Medina, Hennepin County and the Hennepin County Housing and Redevelopment Authority, and (iii) the agreement of the City, the Company and the purchaser or purchasers of the Bonds on the detailed terms and conditions on which the Project will be acquired, improved and equipped and the Bonds will be issued, sold and secured.

C. That in accordance with Sections 469.152 through 469.1651, Minnesota Statutes, following a public hearing with respect to the Project and the Bonds, the staff of the City is hereby authorized and directed to submit the proposal for undertaking the Project to the Department requesting approval of the Project. The Finance Officer, the City Attorney and other officers, employees and agents of the City are hereby authorized to provide the Department such preliminary information as may be required for this purpose. The City Attorney is also authorized, in cooperation Gray, Plant, Mooty, Mooty & Bennett, P.A., as bond counsel, to initiate preparation of such documents as may be appropriate to the Project in order that, when and if the Project is approved by the Department, it may be carried forward expeditiously.

D. That the adoption of this resolution by the City does not constitute a guarantee or a firm commitment that the City will issue the Bonds as requested by the Company. The City reserves the right, in its sole discretion, to withdraw from participation and accordingly not issue the Bonds to finance the Project.

E. That if and when the Bonds are issued by the City such Bonds shall be designated by the City Council of the City as bonds entitled to the security provided by Chapter 424 of the City Code of Ordinances and that the Bonds hereby requested to be designated shall not exceed \$17,000,000.

F. This Resolution shall constitute the official intent of the City to reimburse expenditures made by the Company with respect to the Project prior to the issuance of the Bonds, within the meaning of Section 1.150-2 of the Treasury Regulations.