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

Date:	April 6, 2010
To:	Council Member Lisa Goodman, Community Development Committee
Referral to:	MCDA Board of Commissioners
Subject:	Minneapolis Economic Recovery Strategy: A Public Hearing and Request for Preliminary and Final Approval of up to $4.5 Million in Bank Qualified Bank Direct Tax-exempt 501(c)(3) Minneapolis Community Development Agency Revenue Bonds for the Tubman project.

Recommendation: City Council Recommendation: Adopt the attached Resolution, giving Preliminary and Final Approval to the issuance of up to $4,500,000 in Bank Qualified Bank Direct Tax-exempt 501(c)(3) Minneapolis Community Development Agency Revenue Bonds, Series 2010, for the Tubman 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 $4,500,000 in Bank Qualified Bank Direct Tax-exempt 501(c)(3) Minneapolis Community Development Agency Revenue Bonds, Series 2010, for the Tubman project.

Previous Directives: None.

Prepared by: Jessica Green, Business Finance (612) 673-5232
Approved by: Charles T. Lutz, Deputy Director CPED ________________
Catherine A. Polasky, Director, Economic Development ________________
Presenter in Committee: Jessica Green

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

Financial Impact
- Other financial impact: The issuance of revenue bonds for the Tubman project will generate revenue bond administrative fees of approximately $11,250 per year that are used to support the small business assistance programs of the City of Minneapolis.

Community Impact
- Neighborhood Notification: The Regina Neighborhood representatives have been notified of this project.
- City Goals: This project enhances the City's goal of A Safe Place to Call Home by providing safe shelter, legal advocacy and counseling services to women, children, and families.

- 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

Project Location & Description:

Tubman is a non-profit organization dedicated to providing safe shelter, legal services, mental and chemical health counseling, youth programming, and community education. With seven locations throughout Hennepin, Ramsey, and Washington Counties, Tubman is able to help over 50,000 people each year from the Twin Cities Metro area and beyond.

At this time, Tubman is requesting the issuance of up to $4,500,000 in Bank Qualified, Bank Direct Tax Exempt 501(c)(3) Revenue Bonds for the purpose of refinancing existing debt associated with the acquisition and construction of the company's Chrysalis Center location at 4432 Chicago Avenue South. Bond Proceeds will also be used to refinance acquisition costs and finance renovation costs for the Tubman Center East location at 1725 Monastery Way in Maplewood.

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. In 2002, the City developed a financing program to provide cost-effective tax-exempt financing for small 501(c)(3) nonprofit organizations. Tax-exempt revenue bonds have often not been a practical financing option for small organizations in the past due to the high cost of borrowing. Providing a streamlined application and documentation process has resulted in lower borrowing costs for non-profits.

Within the existing federal tax code, there is the ability to issue bank qualified debt that local lenders can purchase and take advantage of the partial tax deductions on the interest earnings. With bank qualified status, banks are allowed to deduct 80% of their "carrying costs" associated with buying tax-exempt bonds. Banks get the dual benefit of tax-exemption and deductibility of carrying costs. This translates into lower borrowing costs for the nonprofit organizations that work with the City on the issuance of bank qualified debt. 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.

The City of Minneapolis has had a Bank Qualified Revenue Bond Program since 2002, and since then the City has assisted almost 40 small nonprofit organizations in gaining access to capital. From 2002-2008, the City has been limited to the annual $10 million limitation of bank qualified bond authority. However, the American Recovery and Reinvestment Act of 2009 (ARRA) increased this limit from $10 million a year to $30 million; and the limit now applies to the individual borrower instead of the issuer (City) in the case of conduit bonds for nonprofit organizations for 2009 and 2010. This provision in the ARRA greatly expands our availability of the bank qualified revenue bond program for nonprofits for the next two years.

The proposed MCDA Revenue Bonds are to be underwritten and purchased by Bremer Bank.

<u>Sources of Funds:</u>		<u>Uses of Funds:</u>	
MCDA Bonds	$4,500,000	Refinance Chrysalis Center (Minneapolis)	$1,200,000

		Refinance Tubman Center East (Maplewood)	$2,000,000
		Tubman Center East Improvements	$1,300,000
Total:	$4,500,000		$4,500,000

Present Employment: Tubman has approximately 160 full and part time employees.

New Employment: Tubman will retain all positions.

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

Affirmative Action Compliance: Tubman currently has an affirmative action plan on file with the City.

CITY IRB POLICIES:

Job Component	Minimum standard of one (1) job per 1,000 square feet of building area. Tubman: 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. Tubman: In compliance.
Development Standards	Compliance with the Land Use Plan of the City's Comprehensive Plan. Tubman: 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. Tubman: 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. Tubman: 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. Tubman: In compliance. All jobs will be preserved.
<u>IRB CAP:</u>	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.
<u>BOND COUNSEL:</u>	Gray, Plant, & Mooty, P.A.
<u>UNDERWRITER:</u>	Bremer Bank

Resolution

of the

City of Minneapolis

Giving preliminary and final approval to and authorizing the financing of a project on behalf of Tubman (the “Company”), and authorizing the issuance of revenue bonds 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 revenue bonds on behalf of the Company in the aggregate amount of up to $4,500,000 (the “Bonds”), for a project consisting of the refinancing of the acquisition and construction of the Company’s building located at 4432 Chicago Avenue South in the City of Minneapolis, as well as refinancing acquisition costs and financing renovation costs of the Company’s building located 1725 Monastery Way in the City of Maplewood, which buildings are used in the Company’s business of helping women, children and families struggling with relationship violence, substance abuse and mental health issues, and providing safe shelter, legal advocacy and counseling services; and

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

Whereas, the Bonds shall bear interest at an initial interest rate expected to not exceed 6.00% per annum, shall have a final maturity date not later than December 31, 2030, 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 Bonds in an aggregate principal amount of up to $4,500,000 with respect to the project described above.

That the Bonds are hereby designated as “Program Bonds” and are determined to be within the “Economic Development 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 (Tubman Project) Series 2010; authorizing the issuance thereof pursuant to Minnesota Statutes, Sections 469.152 to 469.1651, 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, Sections 469.152 to 469.1651, as amended;

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

"Bonds" means the Revenue Bonds (Tubman Project), Series 2010A, 2010B and 2010C to be issued by the Agency pursuant to this Resolution in the aggregate principal amount of up to $4,500,000;

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

"City" means the City of Minneapolis, Minnesota;

"Company" means Tubman, a Minnesota nonprofit corporation, its successors and assigns;

"Holder" means the registered holder of the Bonds;

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

"Project" means the refinancing of the acquisition and construction of the Company's building located at 4432 Chicago Avenue South in the City of Minneapolis, as well as refinancing acquisition costs and financing renovation costs of the Company's building located 1725 Monastery Way in the City of Maplewood, which buildings are used in the Company's business of helping women, children and families struggling with relationship violence, substance abuse and mental health issues, and providing safe shelter, legal advocacy and counseling services;

"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 Company 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 nonprofit social service facilities;

(c) the financing of the Project, the issuance and sale of the Bonds, 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 Bonds 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 Bonds;

(e) the 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 Bonds when due, and the Agreement also provides that the Company is required to pay all expenses of the operation and maintenance of the properties included in the Project, including, but not limited to, adequate insurance thereon and all taxes and special assessments levied upon or with respect to the properties included in the Project and payable during the term of the Agreement;

(f) under the provisions of the Act, the Bonds are 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 Bonds shall ever have the right to compel any exercise of the taxing power of the Agency or City to pay the Bonds or the interest thereon nor to enforce payment thereof against any property of the Agency or City; the Bonds, 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 best 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 Bonds or otherwise questioning the validity of the Bonds or the execution, delivery or validity of the Bond Documents or questioning the pledge of revenues to payment of the Bonds or the right of the Agency to make available the proceeds of the Bonds to the Company;

(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 Bonds in accordance with the Act.

Section 3. Authorization and Approval of Documents.

3.01. Authorization. The Agency is authorized by the Act to issue revenue bonds and enter into revenue agreements to finance or refinance the acquisition, construction, installation and equipping of facilities constituting a “project” 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; and

(c) the Bonds.

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 Bonds.

5.01. Form and Authorized Amount. The Bonds 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 Bonds 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 Bonds shall bear an initial interest rate that does not exceed 6.00% per annum. The Bonds shall mature on or before December 31, 2030.

5.02. Execution. The Bonds 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 Bonds 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 Bonds, 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 Bonds 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 Bonds 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 Bonds 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 Company 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 Bonds are hereby designated as “Program Bonds” and are determined to be within the “Economic Development 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.