



**Request for MCDA Board of Commissioners Action
From the Department of Community Planning & Economic Development**

Date: July 27, 2004

To: Council Member Lisa Goodman, Community Development Committee

Refer to: MCDA Board of Commissioners

Prepared by: Charles Curtis, Financial Analyst, Phone 612-673-5069

Presenter in Committee: Charles Curtis, Financial Analyst

Approved by Chuck Lutz, Deputy CPED Director _____

Subject: A Public Hearing and Request for Preliminary and Final Approval of up to \$1,500,000 in 501 (c)(3) Bank Qualified Bank Direct Tax-exempt Minneapolis Community Development Agency Revenue Bonds Series 2004 for Newgate Education and Research Center, Inc

RECOMMENDATION: City Council Recommendation: Adopt the attached Resolution, giving Preliminary and Final Approval to the issuance of up to \$1,500,000 in Tax-exempt 501 (c)(3) Bank Qualified Bank Direct Minneapolis Community Development Agency Revenue Bonds, Series 2004 for Newgate Education and Research Center, Inc.

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 \$1,500,000 in Tax-exempt 501 (c)(3) Bank Qualified Bank Direct Revenue Bonds, Series 2004, for Newgate Education and Research Center, Inc.

Previous Directives: None for this proposed project.

Financial Impact (Check those that apply)

- No financial impact - or - Action is within current department budget.
(If checked, go directly to Background/Supporting Information)
- Action requires an appropriation increase to the Capital Budget
- Action requires an appropriation increase to the Operating Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves

- Other financial impact (Explain): The issuance of revenue bonds will generate annual administrative fees that are used to support the small business assistance programs of the City.
- Request provided to the Budget Office when provided to the Committee Coordinator

Community Impact

Ward: 1

Neighborhood Notification: Como Neighborhood has been notified.

City Goals: The proposed project meets the City Goal to create an environment that maximizes economic development opportunities within Minneapolis by focusing on the City's physical and human assets.

Comprehensive Plan: The proposed project is in compliance with the Policies of the Minneapolis Plan.

Zoning Code: The existing facilities are in compliance.

Living Wage/Job Linkage: Does not apply

Other: An Affirmative Action Plan has been approved.

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. Drawing on the work of other development agencies across the country, the MCDA has 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 costs of borrowing. Providing a streamlined application and documentation process results in lower borrowing costs for nonprofit organizations.

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 deduction on the interest earnings. With the bank qualified status, banks are allowed to deduct 80% of their "carrying costs" (interest paid on borrowed funds like deposits to purchase bonds) associated with buying tax-exempt bonds. Banks therefore can get the dual benefits of tax-exemption and deductibility of carrying costs. This translates into lower borrower costs for the nonprofit organization that work with a city (issuer) on the issuance of bank qualified bonds. Tax-exempt revenue bonds are underwritten and collateralized just like any conventional loan. The bank approval process for the revenue bond program does not differ from conventional financing.

The issuance of bank qualified tax-exempt revenue bonds is limited to issuers who issue less than \$10 million a year in revenue bonds. Based on this limitation, the MCDA has the ability to issue bank qualified tax-exempt revenue bonds.

Background/Supporting Information

Newgate Education and Research Center, Inc. is located at 2900 East Hennepin Avenue.

The organization's mission is to provide education, vocational training, personal counseling, employment placement and other support services to citizens who are in need of and can benefit from the organization's resources.

The proposed refinancing is for the addition of an 8,600 square foot auto body repair, detailing and mechanical repair facility. The facility was completed in 2003.

TYPE OF FINANCING:

<u>Sources:</u>	
Bond Proceeds	\$1,500,000
Equity	<u>327,928</u>
Total	\$1,827,928

<u>Uses:</u>	
Mortgage refinance	\$1,500,000
Land	307,194
Various issuance costs	<u>20,734</u>
Total	\$1,827,928

PRESENT EMPLOYMENT: 10 FTE 20 Students

NEW EMPLOYMENT: 0

ASSESSOR'S ESTIMATED ANNUAL TAX INCREASE: Tax-exempt organization

AFFIRMATIVE ACTION COMPLIANCE: An Affirmative Action Plan has been approved.

MCDA IRB POLICIES:

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

Newgate.: NA Non-profit education facility

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.

Newgate.: NA

Development Standards Compliance with the Land Use Plan Of the City's Comprehensive Plan.

Newgate.: In compliance.
Existing facilities

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.

Newgate.: NA

Restaurant/Bank

IRB financing is allowed for a restaurant or a bank if it is built or rehabilitated in an MCDA 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.

Newgate: NA

Tax-exempt Institution

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

Newgate: Interest savings will allow additional program activities.

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:

Gray, Plant & Mooty

UNDERWRITER:

None. Direct placement

PARTICIPATING BANK:

St. Anthony Park Bank

COUNCIL MEMBER INFORMED:

Yes Ward 1

**Community Planning & Economic Development
Planning Division**
350 South 5th Street, Room 210
Minneapolis, MN 55415-1385



MEMORANDUM

DATE: July 2, 2004

TO: Bob Lind, 673-5068
Manager, CPED Business Finance Department

FROM: Jennifer Bever, 673-3859
Principal City Planner – East Sector, CPED Planning

CC: Charles Curtis, Financial Analyst II, 673-5069

SUBJECT: Newgate Education and Research Center, Inc.

Attached are the comments and findings of the Planning Division of the Minneapolis Community Planning & Economic Development Department related to the Newgate Education and Research Center, Inc. request for a bank qualified bank direct revenue bond.

**MINNEAPOLIS CPED, PLANNING DIVISION REPORT
REVENUE BONDS**

DATE: July 2, 2004

PROJECT NAME: Newgate Education and Research Center, Inc.

ADDRESS: 2900 East Hennepin Avenue

SUBMITTED BY: CPED Business Finance

CONTACT PERSON and PHONE: Bob Lind, 673-5068

WARD: 1 NEIGHBORHOOD ORGANIZATION: Como

PROJECT DESCRIPTION: Request for bank qualified bank direct revenue bond in the amount of \$1,425,000. Project refinances an existing private sector mortgage that was used to construct an auto body repair, detailing and mechanical repair facility in April 2003.

COMPREHENSIVE PLAN:

2. The Market in the City

2.1 Minneapolis will increase its share of economic prosperity in the region.

Implementation Steps

Support efforts that build skills and connect residents to living-wage jobs.

2.2 Minneapolis will support the existing economic base by providing adequate land and infrastructure to make city sites attractive to businesses willing to invest in high job density and low impact, light industrial activity.

Implementation Steps

Identify appropriate areas for the retention and expansion of existing industry and the development of new industry in specific industrial and business park opportunity areas.

Encourage heavy industry to locate at appropriate sites, such as those that have with immediate freeway access, are distant from natural or cultural amenities, and with no significant residential uses in the immediate vicinity.

2.5 Minneapolis will focus resources and efforts on building a skilled and employable work force in livable wage occupations.

Implementation Steps

Promote the work readiness of city residents and the development of skills that respond to emerging opportunities in advanced technological firms that pay livable wages.

Create vocational and occupational training for job seekers in partnership with corporate citizens and educational institutions.

2.8 Minneapolis will develop the existing economic base by emphasizing business retention and expansion.

Implementation Steps

Encourage existing capital equity pools to serve the business and financial needs of disadvantaged populations and to publicize the availability of such resources.

4. Marketplaces: Neighborhoods

- 4.1 Minneapolis will encourage reinvestment along major urban corridors as a way of promoting growth in all neighborhoods.**
- 4.3 Minneapolis will support development in Commercial Corridors where it enhances the street's character, improves its ability to accommodate automobile traffic and foster pedestrian movement, and expands the range of goods and services offered.**

Implementation Steps

Support a mix of uses on Commercial Corridors--such as retail sales, office, institutional, higher density residential (including Major Housing Sites where designated), and clean low-impact light industrial--where compatible with the existing and desired character of the street.

Reduce the impact of non-residential uses on neighboring residential areas by considering appropriate access, buffering between incompatible uses and regulating hours of operation.

- 4.4 Minneapolis will continue to provide a wide range of goods and services for city residents, to promote employment opportunities, to encourage the use and adaptive reuse of existing commercial buildings, and to maintain and improve compatibility with surrounding areas.**

5. Learning

- 5.4 Minneapolis will promote and expand opportunities for adult learning that recognize our diverse communities of interest.**

Implementation Steps

Promote opportunities for on the job training offered by employers as a means for residents to acquire new skills.

Encourage the development of job readiness skills for adults.

- 5.5 Minneapolis will build on the educational activities of colleges, universities and technical schools in the Twin Cities region.**

9. City Form

- 9.25 Minneapolis will prioritize growth in light industrial land uses to increase the tax base and create jobs for city residents.**

Implementation Steps

Identify appropriate areas for the retention and expansion of existing industry and the development of new industry in specific industrial and business park opportunity areas.

Promote light industrial uses as the preferred use of industrial land, but discourage warehouse or distribution uses in areas where truck traffic will negatively impact residential neighborhoods.

FUTURE RELATED ACTIONS: None anticipated.

COMMENTS AND FINDINGS: RECOMMENDATION:

The Minneapolis Plan (TMP) identifies East Hennepin Avenue as a Community Corridor. The project site is across the street from Mid-City Industrial Area, a designated Industrial Business Park Opportunity Area.

Community Corridor streets are characterized as carrying a heavy volume of traffic with a land use pattern that is primarily residential with intermittent commercial uses clustered at intersections in a pattern of nodes. Commercial land uses along these streets is not typically auto-oriented and the building form and massing are traditional in scale.

Industrial Business Park Opportunity Areas are characterized by having immediate access to the regional freeway network, limited or restricted adjacent residential land uses, and location preference to higher job density and light industrial uses. The city will continue to identify appropriate areas for the retention and expansion of existing industry as well as the development of new industry. Businesses in these designated industrial areas operate competitively and successfully in the larger regional economy, create minimal impacts for their neighbors, and contribute to the economic health of individual residents and neighborhoods.

Newgate Education and Research Center, Inc. is a non-profit auto body repair-training center whose focus is to train underemployed or unemployed persons in the field of auto-body repair. Newgate accepts donations of used vehicles for program participants to work on in order to develop auto-body repair skills. Participants in the program do not pay tuition and the reconditioned vehicles are then made available to single mothers who are participating in the

welfare to work program through a local women's organization.

The site is currently zoned I-2, medium industrial, and allows for vocational schools; major automobile repair is a conditional use in the district. The organization currently operates as a permitted use in the current zoning classification as a vocational school and received a conditional use permit in 2002 to allow for major automobile repair. Furthermore, zoning adjacent to the project site along the north, east and south is I-2 and those surrounding land uses are industrial. Directly west of the site is an existing University of Minnesota multi-family residential development. While it is not optimal to have residential uses directly adjacent to industrial, the University of Minnesota has the right to develop its property as it wishes and is not subject to the plans and processes of the local municipality. The location of the multi-family development helps to buffer the single-family residences farther west from existing industrial uses along the eastern portion of East Hennepin Avenue such as Newgate Education and Research Center, Inc.

The East Hennepin Avenue Community Corridor is unique in that it serves as the border to the Mid-City Industrial Area. The land use pattern for the street contains housing, commercial and some industrial along the western portion but changes abruptly at 29th Avenue SE. Up to 29th Avenue SE, the pattern along East Hennepin Avenue shows commercial and industrial uses to the north and residential uses to the south. At 29th Avenue SE, East Hennepin Avenue shows industrial uses both north and south and is practically an extension of the Mid-City Industrial Area. The Mid-City Industrial Area is a designated Industrial Business Park Opportunity Area in the comprehensive plan because it has excellent freeway access via I-35W and Highway 280 and is isolated from residential uses. Newgate Education and Research Center, Inc. is an appropriate use for this portion of East Hennepin Avenue and helps to fulfill the City's goals in that the organization provides employment and builds skills and readies people for the workforce.

The CPED Planning Division finds that the purpose for the request for a bank qualified bank direct revenue bond for Newgate Education and Research Center, Inc. appears to be consistent with the City's comprehensive plan.

Giving preliminary and final approval to and authorizing a project on behalf of Newgate Education and Research Center, 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 \$1,500,000 (the “Bond”) to refinance a building used as an auto body repair, detailing and mechanical repair training facility, and located at 2904 East Hennepin Avenue in the City (the “Project”); and

Whereas, the Project is and 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 initial interest rate not to exceed five percent (5.00%) per annum, shall have a final maturity date not later than December 1, 2024, 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 \$1,500,000 for the purpose of refinancing the Project.

That the Bond is hereby designated as a “Program Bond” and is 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.