

Minneapolis Community Development Agency

## Request for City Council Action

Date: June 10, 2003

To: Council Member Lisa Goodman, Community Development Committee

Refer to: MCDA Board of Commissioners

Prepared by Charles Curtis, Phone 612-673-5069

Approved by Lee Sheehy, MCDA Executive Director  
Chuck Lutz, MCDA Deputy Executive Director \_\_\_\_\_

**Subject:** A Public Hearing and Request for Preliminary and Final Approval of up to \$1,950,000 in 501(c)(3) Bank Qualified Bank Direct Tax-exempt Minneapolis Community Development Agency Revenue Bonds for Series 2003 for The City of Lakes Waldorf School.

**Previous Directives:** None for this project.

**Ward: 6**

**Neighborhood Group Notification:** Whittier has been notified.

**Consistency with *Building a City That Works*:** The City of Lakes Waldorf School project is consistent with Goal 4 of preserving and enhancing the urban institutions and amenities that define Minneapolis.

**Comprehensive Plan Compliance:** The existing facility is in compliance with the Policies of The Minneapolis Plan.

**Zoning Code Compliance:** Existing facility is in compliance

**Impact on the MCDA Budget:**

No financial impact

Action requires an appropriation increase to the MCDA 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.

Crown Roller Mill,  
105 Fifth Ave. S., Suite 200  
Minneapolis, MN 55401-2534  
Telephone: (612) 673-5095  
TTY: (612) 673-5154  
Fax: (612) 673-5100  
www.mcda.org

**Living Wage/Business Subsidy:** The project is a 501 (c)(3) conduit financing that is not subject to Living Wage / Business Subsidy.

**Job Linkage:** Does not apply.

**Affirmative Action Compliance:** The City of Lakes Waldorf School will be in compliance by updating its Affirmative Action Plan prior to closing.

**RECOMMENDATION:**

**City Council Recommendation:** The Executive Director recommends that the City Council adopt the attached Resolution, a summary of which will be

published, following a Public Hearing held on June 10, 2003, notice of which

was published in Finance and Commerce on May 17, 2003, giving Preliminary and Final Approval to the issuance of up to \$1,950,000 in Tax-exempt 501 (c)(3) Bank Qualified Bank Direct Minneapolis Community Development Agency Revenue Bonds, Series 2003 for The City of Lakes Waldorf School.

**MCDA Board Recommendation:** The Executive Director further recommends that the Minneapolis City Council 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 \$1,950,000 in Tax-exempt 501 ( c )(3) Bank Qualified Bank Direct Revenue Bonds, Series 2003, for The City of Lakes Waldorf

School.

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

#### PROJECT LOCATION & DESCRIPTION:

The Waldorf education method is based on an internationally acclaimed curriculum that addresses the whole child: head, heart, and hands. Each Waldorf School is independent but certified in the education methods of Waldorf.

The City of Lakes Waldorf School is a Minnesota 501 ( c )(3) nonprofit organization that owns a 1.6 acre site with a four story office building located at 2344 Nicollet Avenue. The City of Lakes has renovated the building to fit its school needs. The building is approximately 50,000 square feet in size. The City of Lakes Waldorf School occupies the lower and first levels and part of the second floor for its nonsectarian K through 8 classes. Watershed High School (a component of the Minneapolis public school system) occupies the balance of the second floor. The third floor is leased to a variety of nonprofit tenants and a small office is leased to a doctor.

The proposed project consists of the refinancing of its current outstanding mortgage. The resulting mortgage rate will result in significant savings in debt service.

#### TYPE OF FINANCING:

<u>Sources:</u>	
Bond Proceeds	\$1,950,000
<u>Uses:</u>	
Mortgage refinance	\$1,915,000
Costs of issuance	35,000
Total	<u>\$1,950,000</u>

PRESENT EMPLOYMENT: 31.75 FTE

NEW EMPLOYMENT: 0

ASSESSOR'S ESTIMATED

ANNUAL TAX INCREASE:

Tax-exempt organization

AFFIRMATIVE ACTION COMPLIANCE:

An updated Affirmative Action Plan will be in place.

MCDA IRB POLICIES:

Job Component

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

The City of Lakes Waldorf School: NA

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.

The City of Lakes Waldorf School: NA

Development Standards

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

The City of Lakes Waldorf School:  
In compliance. Existing facility

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.

The City of Lakes Waldorf School: 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.

The City of Lakes Waldorf School: 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.

The City of Lakes Waldorf School:  
Interest savings will be reflected in tuition

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:

Kennedy & Graven, Chartered

UNDERWRITER:

Midwest Healthcare Capital

PARTICIPATING BANK:

To be selected

COUNCIL MEMBER INFORMED:

Ward 6

MINNESOTA DEPARTMENT OF  
TRADE AND ECONOMIC  
DEVELOPMENT APPROVAL:

Approval will be on file prior to closing.

Giving preliminary and final approval to and authorizing a project on behalf of City of Lakes Waldorf School (the “Borrower”), and authorizing the issuance of a revenue obligation 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 bonds or other obligations for the purpose of providing financing or refinancing for the acquisition, construction and installation of projects consisting of properties, real or personal, used or useful in connection with a revenue-producing enterprise, whether or not operated for profit; and

Whereas, it has been proposed that the Agency issue a revenue obligation (the “Note”) in an amount not to exceed \$1,950,000 in one or more series to finance and refinance the following costs: (i) refinance certain outstanding indebtedness of the Borrower incurred to acquire a building located at 2344 Nicollet Avenue, Minneapolis Minnesota for use in the educational purposes of the Borrower and finance construction of certain improvements to the building and the acquisition and installation of equipment therein (the “Project”); and (ii) the costs of issuing the Obligations.

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

Whereas, the Note shall bear interest at an interest rate not to exceed five percent (5.00%) per annum, shall have a final maturity date not later than June 1, 2023, and shall have such other terms as required or permitted by the Agency’s resolution, which terms are 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 Note in the principal amount not to exceed \$1,950,000 for the purpose of financing and refinancing the Project.

That the Note 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.