2006 REQUEST FOR STATE BONDING: TARGET CENTER DEBT

The Proposal: State of Minnesota issues bonds in an amount sufficient to retire the existing General Obligation Tax Increment Bonds ($71 million) and Revenue Bonds ($11 million) issued by the City of Minneapolis for the acquisition of the Target Center.

The Rationale: The Target Center is a facility with regional and statewide significance. It imposes a significant and unfair burden on the City's general purpose revenues and other resources. The City was the last available resort to retain the NBA franchise for the State of Minnesota in 1995.

The Impact on the City: The early retirement of the Target Center debt would allow the City to direct significant on-going revenues to the top priorities of the City public safety, public works, debt reduction, property tax relief, and/or additional capital improvements at the Target Center. For example, in 2007 the City would realize approximately $2.6 million in general purpose revenues (entertainment taxes of $1.0 million and parking revenues of $2.1 million less $500,000 for the Target Center capital improvement reserve). The City would realize another $400,000 in additional general property taxes if the tax increment district is decertified. By 2024, the amount of general purpose revenues is projected to increase to $6 million per year (entertainment taxes and parking revenues less capital improvement reserve)

MEMORANDUM
MINNEAPOLIS FINANCE DEPARTMENT

August 20, 2003

To: City Council and Mayor

From: Patrick P. Born, Finance Officer

Re: Revised Target Center Finance Plan

On August 22, 2003 the City Council will consider an ordinance that clarifies funding for the Neighborhood Revitalization (NRP) program through 2009. This ordinance makes possible an amendment to the Target Center finance plan. This memorandum proposes an amendment to the finance plan based on the proposed ordinance.

The amended finance plan can only be implemented if the ordinance is adopted.

Current Finance Plan – Target Center

The finance plan for the Target Center was adopted by the City Council in 1995 when the Target Center was acquired. The finance plan was amended in 1999 to add parking fund revenues to meet a shortfall caused by declining property tax revenues. The current finance plan allocates the following revenues:

1. City property tax attributed to the base value portion of the tax increment during the term of the TIF district (2012) and through the term of the bonds issued by the City to acquire the Target Center (2024).
2. Tax increment from the Target Center (ending 2012).
3. Entertainment tax received by the City arising from the Target Center.
4. Transfers from the City's parking fund through 2024 according to a schedule adopted in 1999 by the City Council.
5. Payments from the Minnesota Amateur Sports Commission through 2009.
6. Interest earnings on money in the related accounts.

From these revenues the City will meet its contractual obligations for:

1. Debt service on bonds issued to finance capital costs related to the Target Center including the acquisition in 1995.
2. Capital maintenance.
3. Capital improvements.

The current finance plan does not allow the City to fund its contractual obligations for debt service and capital improvements. The Plan's revenues are less than debt service payments and no funds are available for capital improvements.

These shortfalls are due primarily to declines in tax increment revenues caused by 2001 state law changes to the property taxes and lack of growth in the entertainment tax. Recent analysis clarifies the near term capital improvement needs for the facility.

Proposed Amendment to the Finance Plan

Target Center is part of the common project. The proposed amendment to the finance plan adds common project tax increment in amount necessary to meet debt service shortfall and up to $14 million for near term capital improvements. The proposed ordinance allows common project revenues to pay common project-related contractual obligations including the debt service and capital improvement obligations of the Target Center.

The amended finance plan does not provide an assured source to fund the long term capital improvement needs of Target Center. The City should explore with the Timberwolves and Clear Channel, Target Center's tenant and manager, respectively, how these parties may assume the financial responsibility for capital improvements in the long term.

It is requested that the City Council authorize the City Coordinator and the CPED Director (or their designees) to negotiate with the Timberwolves and Clear Channel (i) the amount and nature of capital improvements to be financed from the amended finance plan for the Target Center, and (ii) the methods and sources to finance the long term capital improvement needs of the Target Center.

cc: John Moir, City Coordinator
Lee Sheehy, Director – CPED