



**Request for City Council Committee Action  
From the Department of Community Planning & Economic Development**

**Date:** November 7, 2005

**To:** Council Member Lisa Goodman, Community Development Committee

**Prepared by:** Becky Shaw, Business Finance, Phone 612-673-5066

**Presenter in Committee:** Becky Shaw, Business Finance, CPED

**Approved by:** Chuck Lutz, Deputy CPED Director \_\_\_\_\_

**Subject:** Request for Final Approval of up to \$7,000,000 in Revenue Bonds for City Minneapolis Series 2005 for Seed Academy Harvest Preparatory School Project

**RECOMMENDATION: The CPED Director recommends that the City Council Adopt the attached Resolution, giving Final Approval to the issuance of up to \$7,000,000 in 501(c)(3) Tax-exempt Revenue Bonds for Seed Academy Harvest Preparatory School Project.**

**Previous Directives:** The City of Minneapolis has issued revenue bonds for Seed Academy in 1998 for the construction of classrooms, a gymnasium and an auditorium. At this time Seed Academy is requesting final approval on the issuance of up to \$7 million to refinance the outstanding balance on the Minneapolis Series 1998 Bonds, and the funding of capital improvements.

**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 tax-exempt revenue bonds will generate administrative fees of \$16,200 per year that are used to support the small business assistance programs in the city.
- Request provided to the Budget Office when provided to the Committee Coordinator

**Community Impact** (Summarize below)

**Ward:** Seed Academy and Harvest Preparatory School is located at 1300 Olson Memorial Highway in the 5<sup>th</sup> Ward, within the Near North Neighborhood.

**Neighborhood Notification:** The Near North Neighborhood has been notified of this request.

**City Goals:** The proposed project is consistent with the City's goals of providing educational facilities and opportunities that help to make neighborhoods that are livable and safe.

**Comprehensive Plan:** The proposed project complies with the policies of the Minneapolis plan.

**Zoning Code:** The proposed project is in compliance.

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

**Background/Supporting Information**

Seed Academy and Harvest Preparatory School is a non-profit 501(c)(3) corporation. The school was founded in 1988 to provide childcare, educational programs and cultural enrichment to children under twelve years of age. In 1998 Harvest Preparatory School was approved by the State Department of Family and Children Services as a Charter School. With the Charter School designation, Harvest Preparatory School is sponsored by the Minneapolis Public Schools (Special School District #1), serving Kindergarten through Sixth Grade students.

**PROJECT LOCATION & DESCRIPTION:** 1300 Olson Memorial Highway

The project consists of refunding the outstanding Series 1998 Revenue Bonds, for the repayment of certain other indebtedness and for capital costs related to the project. Proceeds from the bonds will be used to refinance the Borrower's existing debt on the building that currently serves as the academic facility for the School, to provide capital improvements to that same building and to fund operating reserves. The building is approximately 106,872 square feet (including the basement) and was constructed in 1970. It is appraised at this time to be in sound physical condition with no major improvements necessary. Its remaining economic life is approximately 35 years.

**TYPE OF FINANCING:**

It is proposed that the City of Minneapolis issue up to \$7,000,000 in tax-exempt revenue Bonds, secured by a bank letter of credit.

**Sources:**

Series 2005A Bonds	\$5,535,000
Series 2005B Bonds	<u>940,000</u>
Total Sources	\$6,475,000

<u>Uses:</u>	
Refinance 1998 Bonds	\$4,263,000
Other Indebtedness	667,000
Renovations	700,000
Debt Service Reserve Fund	251,000
Letter of Credit Fees	240,000
Cost of Issuance	<u>354,000</u>
 Total Uses	 \$6,475,000

PRESENT EMPLOYMENT:

Seed Academy currently employs 65 full time employees. The 1998 Bonds reflected only 27 fulltime employees.

NEW EMPLOYMENT:

Seed Academy estimates 20 new full time employment opportunities will be created over the next year.

ASSESSOR'S ESTIMATED ANNUAL TAX INCREASE:

Tax-exempt facility

AFFIRMATIVE ACTION COMPLIANCE:

Seed Academy is working with the City to update their current affirmative action plan.

CITY IRB POLICIES:

Job Component

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

Seed Academy will have .80 jobs per 1000 square feet of building space. This is an educational facility where the utilization of space by people will be much greater than one per thousand square feet of space.

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.

Seed Academy: Refunding of outstanding bonds and improvements to existing facility.

Development Standards

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

	Seed Academy: Existing facility is 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.
	Seed Academy: In compliance
Restaurant/Bank	IRB financing is allowed for a restaurant or a bank if it is built or rehabilitated in an 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.
	Seed Academy: N.A.
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.
	Seed Academy: This is an educational facility. All jobs will be preserved and 20 new jobs added as a result of the refinancing and renovations to the building.
<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>	Best & Flanagan LLP
<u>UNDERWRITER:</u>	Miller Johnson Steichen Kinnard, Inc
<u>COUNCIL MEMBER INFORMED:</u>	Natalie Johnson Lee
<u>CITY COUNCIL PRELIMINARY APPROVAL:</u>	September 2, 2005

MINNESOTA DEPARTMENT OF  
EMPLOYMENT AND ECONOMIC  
DEVELOPMENT:

Approved October 7, 2005

DEVELOPMENT APPROVAL:

Application has been made and  
approved.

**RESOLUTION**  
**of the**  
**CITY OF MINNEAPOLIS**

By \_\_\_\_\_

CITY OF MINNEAPOLIS, MINNESOTA

RESOLUTION NO. \_\_\_\_\_

RESOLUTION AUTHORIZING THE ISSUANCE OF  
EDUCATIONAL FACILITY LEASE REVENUE REFUNDING BONDS  
(SEED DAYCARE/HARVEST PREPARATORY CHARTER SCHOOL PROJECT)  
AND AUTHORIZING THE EXECUTION OF VARIOUS  
DOCUMENTS IN CONNECTION THEREWITH

WHEREAS, in 1998 the City of Minneapolis, Minnesota (the “City”), issued its \$4,600,000 Revenue Bonds (Seed Academy Harvest Preparatory School Project) Series 1998 (the “1998 Bonds”); and

WHEREAS, the 1998 Bonds financed the expansion and renovation of property by Seed Daycare, a Minnesota nonprofit corporation (the “Company”), for use as a charter school at 1300 Olson Memorial Highway in the City (the “Project”) operated by Harvest Preparatory Charter School, a Minnesota nonprofit corporation (the “Harvest Prep”); and

WHEREAS, the Company incurred other debts in connection with the Project and its operation, including a \$244,000 subordinate secured note to Lien Tran, a \$76,800 unsecured note to Otto Bremer Foundation, a \$173,400 unsecured obligation to the Minnesota Non-Profit Assistance Fund and \$175,000 in expenses and settlement payments related to the acquisition of a portion of the Project pursuant to the eviction of Synergy Residential Academy (which are all referred to herein as the “Discharged Debt”); and

WHEREAS, the Company is unable to service its obligations in connection with the Project and its operation, and has determined to enter into a voluntary debt restructuring involving the issuance of bonds in the amount of not to exceed \$7,000,000 (the “Bonds”) to refund all the outstanding 1998 Bonds and to pay and discharge the Discharged Debt; and

WHEREAS, the Bonds will be in part a refunding of the 1998 Bonds, in part a deemed project under the Act (defined below) to discharge outstanding indebtedness previously incurred in connection with the acquisition or betterment of existing facilities, and in part a new money

financing to finance and reimburse the Company for certain costs of the Company for the further renovation of the Project:

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Minneapolis, Minnesota, as follows:

1. Authority. The City is, by the Constitution and laws of the State of Minnesota, including Minnesota Statutes, Sections 469.152 through 469.1651, as amended (the “Act”), authorized to issue and sell revenue bonds for the purpose of financing or refinancing development within the boundaries of the City, and to enter into agreements necessary or convenient in the exercise of the powers granted by the Act.

2. Authorization of Refinancing; Documents Presented. The Company has proposed that the City issue and sell its Educational Facility Lease Revenue Refunding Bonds (Seed Daycare/Harvest Preparatory Charter School Project), Series 2005 (the “Bonds”), to be issued in one or more series, in an amount not to exceed \$7,000,000, in substantially the form set forth in the Indenture mentioned below. A portion of the Bonds may be issued as taxable obligations. The Bonds will be issued pursuant to the Act and the proceeds thereof loaned to the Company to provide financing or refinancing of (1) the 1998 Bonds, which were used to finance the expansion and renovation of the Project, (2) the payment and discharge of other indebtedness incurred for the Project, and (3) the payment of and reimbursement for certain costs of the Company related to the further renovation of the Project. The Company will lease portions of the Project to Harvest Prep and to Hmong Academy, a Minnesota non-profit corporation (“Hmong Academy” and with Harvest Prep, the “Schools”) for operation as a public charter school. Forms of the following documents relating to the Bonds have been submitted to the City:

(a) a Loan Agreement (the “Loan Agreement”) between the City and Company, whereby the City agrees to make a loan to the Company of the gross proceeds of the sale of the Bonds and the Company agrees to refinance the Project and to pay amounts in repayment of the loan sufficient to provide for the full and prompt payment of the principal of, premium, if any, and interest on the Bonds; and

(b) an Indenture of Trust (the “Indenture”) between the City and Wells Fargo Bank, National Association, as trustee (the “Trustee”), authorizing the issuance of the Bonds and pledging certain revenues, including those to be derived from the Loan Agreement, as security for the Bonds, and setting forth proposed recitals, covenants and agreements relating thereto; and

(c) a Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture Financing Statements (the “Mortgage”) from the Company to the Trustee and U.S. Bank National Association (the “Bank”), by which the Company grants to the Trustee and the Bank a mortgage lien on and security interest in certain mortgaged property, as described therein, as further security for the payment of the Bonds and payments due under the Reimbursement Agreement (as defined below) and assigns to the

Trustee and the Bank its interests in all rents with respect to the mortgaged property (this document not to be executed by the City); and

(d) a Reimbursement Agreement (the “Reimbursement Agreement”) between the Company and the Bank, related to the issuance of an irrevocable standby letter of credit as further security for the payment of the Bonds (this document not to be executed by the City); and

(e) a Tax Regulatory Agreement (the “Tax Regulatory Agreement”) by and among the City, the Company, Harvest Prep and the Trustee; and

(f) a Bond Purchase Agreement (the “Bond Purchase Agreement”) by and among Miller Johnson Steichen Kinnard (the “Underwriter”), the Company, Harvest Prep and the City, providing for the purchase of the Bonds from the City by the Underwriter and setting the terms and conditions of purchase; and

(g) a Preliminary Official Statement (the “Official Statement”) describing the offering of the Bonds, and certain terms and provisions of the foregoing documents.

3. Findings. It is hereby found, determined and declared that:

(a) The Project constitutes a Project authorized by and described in the Act.

(b) On the basis of information available to the City it appears, and the City hereby finds, that the Project constitutes properties, real and personal, used or useful in connection with one or more revenue producing enterprises engaged in any business within the meaning of Subdivision 2(b) of Section 469.153 of the Act; that the refinancing of the existing properties of the Company through the discharge of the Discharged Debt is the discharge of outstanding indebtedness of a qualifying organization previously incurred in the acquisition or betterment of the Company’s existing facilities to the extent deemed necessary by the City and is deemed to constitute a project under said Subdivision 2(b); that the Project furthers the purposes stated in Minnesota Statutes, Section 469.152; that the effect of the Project is to encourage the development of economically sound industry and commerce, to assist in the prevention of the emergence of blighted and marginal land, to help prevent chronic unemployment, to help the City provide the range of education, service and employment opportunities required by the population, to help prevent the movement of talented and educated persons out of the state and to areas within the state where their services may not be as effectively used, and to promote more intensive development and use of land within the City.

(c) There is no litigation pending or, to the best of its knowledge, threatened against the City relating to the Bonds, Loan Agreement, Bond Purchase Agreement, Tax Regulatory Agreement or Indenture or questioning the due organization of the City or the

powers or authority of the City to issue the Bonds and undertake the transactions contemplated hereby.

(d) The execution, delivery and performance of the City's obligations under the Bonds, Indenture, Bond Purchase Agreement, Tax Regulatory Agreement and Loan Agreement do not and will not violate any order of any court or other agency of government of which the City is aware or to which the City is a party, or any indenture, agreement or other instrument to which the City is a party or by which it or any of its property is bound, or be in conflict with, result in a breach of, or constitute (with due notice or lapse of time or both) a default under any such indenture, agreement or other instrument.

(e) It is desirable that the Bonds be issued by the City upon the terms set forth in the Indenture, under the provisions of which the City's interest in the Loan Agreement will be pledged to the Trustee as security for the payment of principal of, premium, if any, and interest on the Bonds.

(f) The Loan Agreement provides for payments by the Company to the Trustee for the account of the City of such amounts as will be sufficient to pay the principal of, premium, if any, and interest on the Bonds when due. The Loan Agreement obligates the Company to pay for all costs of operation and maintenance of the Project, including adequate insurance, taxes and special assessments. A reserve fund has been established under the provisions of the Indenture in connection with the issuance of the Bonds.

(g) Under the provisions of the Act, and as provided in the Loan Agreement and Indenture, the Bonds are not to be payable from nor charged upon any funds of the City, other than amounts payable pursuant to the Loan Agreement and moneys in the funds and accounts held by the Trustee which are pledged to the payment thereof; the City is not subject to any liability thereon; no owners of the Bonds shall ever have the right to compel the exercise of the taxing power of the City to pay any of the Bonds or the interest thereon, nor to enforce payment thereof against any property of the City; the Bonds shall not constitute a charge, lien or encumbrance, legal or equitable, upon any property of the City (other than the interest of the City in the Loan Repayments to be made by the Company under the Loan Agreement); and each Bond issued under the Indenture shall recite that such Bond, including interest thereon, shall not constitute or give rise to a charge against the general credit or taxing powers of the City.

4. Approval of Forms; Execution. Subject to the approval of the City Attorney and to the provisions of paragraphs 8 and 9 hereof, the forms of the documents and exhibits thereto and all other documents listed in paragraph 2 hereof (the "Financing Documents") are approved substantially in the form submitted. Subject to the provisions of paragraph 8 hereof, the Financing Documents, in substantially the forms submitted, are directed to be executed in the name and on behalf of the City by the Finance Officer of the City. Subject to the provisions of paragraph 8 hereof, the Bonds are to be executed in the name of and on behalf of the City by the

Finance Officer of the City, and are to be delivered to the Trustee for authentication and delivery to the Purchaser. Any other City documents and certificates necessary to the transaction described above may be executed by the appropriate City officers. Copies of all of the documents necessary to the transaction herein described shall be delivered, filed and recorded as provided herein and in the Loan Agreement and Indenture.

5. Approval, Execution and Delivery of Bonds. The City shall proceed forthwith to issue the Bonds in the forms and upon the terms set forth in the Indenture, which terms are for this purpose incorporated in this resolution and made a part hereof; provided, however, that the initial aggregate principal amount of the Bonds shall not exceed \$7,000,000, the Bonds shall be in tax-exempt and taxable series in the amounts determined by the officials who execute the Bonds, the net effective interest rate of the tax-exempt bonds shall not be greater than 7.50% and the net effective interest rate of the taxable bonds shall not be greater than 10.00%. Subject to the foregoing, the principal amounts of the Bonds and of the tax-exempt and taxable series of the Bonds, the maturities, the interest rates thereon, and any provisions for the optional or mandatory redemption thereof shall all be as set forth in the final form of the Indenture to be approved, executed and delivered by the officials authorized to execute the Bonds in paragraph 4. The Underwriter has agreed pursuant to the provisions of the Bond Purchase Agreement, and subject to the conditions therein set forth, to purchase the Bonds at the purchase price set forth in the Bond Purchase Agreement, and said purchase price is hereby accepted. Said officials and other City officers are authorized and directed to prepare and execute the Bonds as prescribed in the Indenture and to deliver them to the Trustee, together with a certified copy of this Resolution and the other documents required by the Indenture, for authentication, registration and delivery to the Underwriter. As provided in the Indenture, each Bond shall contain a recital that it is issued pursuant to the Act, and such recital shall be conclusive evidence of the validity and regularity of the issuance thereof.

6. Official Statement. The City hereby consents to the preparation and distribution of the Official Statement for the Bonds; provided that it is understood that the City has relied upon the Company and Underwriter and legal counsel retained by them to assure the accuracy and completeness of the information set forth in the Official Statement and that therefore the City has not made, and will not make, any representations or warranties with respect to the information contained therein, except under the headings "The Issuer" and "Litigation" (the latter only to the extent it relates to the City).

7. Records and Certificates. The Finance Officer and other officers of the City are authorized and directed to prepare and furnish to the Underwriter certified copies of all proceedings and records of the City relating to the Bonds, and such other affidavits and certificates as may be required to show the facts relating to the legality of the Bonds as such facts appear from the books and records in the officers' custody and control or as otherwise known to them; and all such certified copies, certificates and affidavits, including any heretofore furnished, shall constitute representations of the City as to the truth of all statements contained herein.

8. Changes in Forms Approved; Absent and Disabled Officers. The approval hereby given to the various documents referred to above includes approval of such additional details

therein as may be necessary and appropriate and such modifications thereof, deletions therefrom and additions thereto as may be necessary and appropriate and approved by the City Attorney to the City, the appropriate City staff person or by the officers authorized herein to execute or accept, as the case may be, said documents prior to their execution; and said officers or staff members are hereby authorized to approve said changes on behalf of the City. The execution of any instrument by the appropriate officer or officers of the City herein authorized shall be conclusive evidence of the approval of such document in accordance with the terms hereof. In the event of absence or disability of the officers, any of the documents authorized by this Resolution to be executed may be executed without further act or authorization of the City Council by any of the Council Members or any duly designated acting official, or by such other officer or officers of the City as, in the opinion of the City Attorney, may act in their behalf.

9. Future Amendments. The authority to approve, execute and deliver future amendments to financing documents entered into by the City in connection with the issuance of the Bonds is hereby delegated to the Finance Officer, subject to the following conditions: (a) such amendments do not require the consent of the holders of the Bonds; (b) such amendments do not materially adversely affect the interests of the City; (c) such amendments do not contravene or violate any policy of the City; (d) such amendments are acceptable in form and substance to the City Attorney or other counsel retained by the City to review such amendments; and (e) the City has received an opinion of bond counsel to the effect that the amendments will not adversely affect the tax-exempt character of interest on the Bonds, if the Bonds are then tax-exempt obligations. The authorization hereby given shall be further construed as authorization for the execution and delivery of such certificates and related items as may be required to demonstrate compliance with the agreements being amended and the terms of this Resolution. The execution of any instrument by the Finance Officer, shall be conclusive evidence of the approval of such instruments in accordance with the terms hereof. In the absence of the Finance Officer, any instrument authorized by this paragraph to be executed and delivered may be executed by the officer of the City authorized to act in their place and stead.

10. Taxing Powers. Nothing in this resolution or in the documents prepared pursuant hereto shall authorize the expenditure of any municipal funds on the Project other than the revenues derived from the Project or otherwise granted by the City pursuant to the Indenture for this purpose. The Bonds shall not constitute a charge, lien or encumbrance, legal or equitable, upon any property or funds of the City except the revenue and proceeds pledged to the payment thereof, nor shall the City be subject to any liability thereon. The holders of the Bonds shall never have the right to compel any exercise of the taxing power of the City to pay the outstanding principal on the Bonds or the interest thereon, or to enforce payment thereof against any property of the City. The Bonds shall recite in substance that the Bonds, including interest thereon, are payable solely from the revenue and proceeds pledged to the payment thereof. The Bonds shall not constitute a debt of the City within the meaning of any constitutional or statutory limitation.

11. Indemnification by Company. It is understood and agreed that the Company shall indemnify the City against all liabilities, losses, damages, costs and expenses (including



**Comments on Proposal to Issue  
TAX EXEMPT REVENUE BONDS**

**DATE:** July 18, 2005

**PROJECT NAME:** Seed Academy

**ADDRESS:** 1300 Olson Memorial Highway

**CPED BUSINESS FINANCE STAFF:** Becky Shaw, 673-5066

**PLANNING DIVISION STAFF:** Thomas Leighton, 673-3853

**WARD:** 5      **NEIGHBORHOOD ORGANIZATION:** Northside Residents Redevelopment Council

**PROJECT DESCRIPTION:** Tax exempt revenue bonds of up to \$7 million.

**COMPREHENSIVE PLAN:**

Olson Memorial Highway is not a corridor that has a formal designation in The Minneapolis Plan as a commercial or community corridor. The subject property is near Heritage Park, which is designated as a Major Housing Site. Seed Academy school is on multiple parcels that are zoned R4 and R5. Schools are allowed as conditional uses in the R4 and R5 zoning districts.

**COMMENTS AND FINDINGS:**

The location and scale of Seed Academy is not inconsistent with city policy as represented by the policies in The Minneapolis Plan and the city's zoning code. I see no concerns from a planning perspective with the issuance of revenue bonds.