



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

Date: April 18, 2006

To: Council Member Lisa Goodman, Community Development Committee

Subject: Request for Preliminary Approval of up to \$10,000,000 in EZ Tax-exempt Revenue Bonds for City of Minneapolis Series 2006 for Real Asset Capital, LLC (Broadway Shopping Center) Project

Recommendation: The CPED Director recommends that the City Council Adopt the attached Resolution, giving Preliminary Approval to the issuance of up to \$10,000,000 in EZ Tax-exempt Revenue Bonds for the Real Asset Capital, LLC (Broadway Shopping Center) Project.

Previous Directives: None for this developer. The original Broadway Shopping Center was financed in 1983 with the issuance of \$3.8 million in tax-exempt revenue bonds.

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

Approved by: Chuck Lutz, Deputy Director CPED _____

Permanent Review Committee (PRC) Approval Not Applicable X

Note: To determine if applicable see <http://insite/finance/purchasing/permanent-review-committee-overview.asp>

Presenter in Committee: Becky Shaw, Business Finance, CPED

Financial Impact (Check those that apply)

- No financial impact (If checked, go directly to Background/Supporting Information).
- Action requires an appropriation increase to the Capital Budget or Operating Budget.
- Action provides increased revenue for appropriation increase.
- Action requires use of contingency or reserves.
- Business Plan: Action is within the plan. Action requires a change to plan.
- Other financial impact (Explain): The issuance of tax-exempt revenue bonds will generate administrative fees of \$25,000 per year that are used to support the small business assistance programs in the City.
- Request provided to department's finance contact when provided to the Committee Coordinator.

Community Impact (use any categories that apply)

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

City Goals: This project is consistent with the city's goals of leveraging economic development resources to maximize business development, job creation and transit access.

Comprehensive Plan: This project complies with the policies of the Minneapolis plan.

Zoning Code: The proposed project is in compliance.

Other: N.A.

Background/Supporting Information:

Real Asset Capital, LLC has contracted to acquire the Broadway Shopping Center located at the intersection of West Broadway and Lyndale Avenue North. The Broadway Shopping Center is located in the 5th Ward, bordering the 3rd Ward on its north side, and is a 20 year old, 62,000 square foot shopping center situated on 4.25 acres of land in north Minneapolis. It is being redeveloped to convert the blighted and run down shopping center site into a mixed use project for community services and a catalyst for additional redevelopment within the neighborhood. Since the project is located in one of the City of Minneapolis Empowerment Zones, Real Asset Capital, LLC is requesting the use of Empowerment Zone (EZ) Bonds. All EZ Bonds are issued tax-exempt.

The project consists of a five phase redevelopment of the Broadway Shopping Center site. Approval of this bond issue will be used for phase one of the project including the site acquisition and renovation. Phase one renovations provide for the retention of all the current 62,000 square feet of retail space. Improvements will be made to lighting, security, parking lot area and the updating of the building's overall appearance. Phase one of the project is expected to take 4 months to completion and will begin in Spring of 2007 pending approval of the bond issue.

Type of Financing:

It is proposed that the City of Minneapolis issue up to \$10 million in Empowerment Zone bonds. The Bonds will be a tax exempt floating rate issue, fully credit enhanced by a bank Letter of Credit. The Bonds will be interest only for the first 42 months. The bank issuing the Letter of Credit will be at least an AA rating to fully effectuate the floating rate interest rate savings. An Empowerment Zone Loan will be used for maintaining lender eligible debt coverage ratio thresholds.

Sources:

Series 2006 Bonds	\$10,000,000
EZ Loan	<u>650,000</u>
Total Sources:	\$10,650,000

Uses:

Acquisition	\$ 4,500,000
Renovation	<u>6,150,000</u>
Total Uses:	\$10,650,000

Approval of the issuance of EZ bonds for Real Asset Capital, LLC will be clearly outlined as a two step preliminary and final approval for this project. At this point we are requesting preliminary approval only. This will allow reimbursement of any expenses related to the project with revenue bond proceeds. Any expenses accrued by Real Asset Capital, LLC will be paid for by proceeds of the bond issue only after the date in which preliminary approval is obtained by City Council. Final Approval on the Broadway Shopping Center project will be requested at a later date.

Present Employment: Broadway Shopping Center currently employs 84 full time employees.

New Employment: Real Asset Capital, LLC estimates 220 new full time, living wage employees with the completion of this project.

Assessor's Estimate Annual Tax Increase: Estimate is pending.

Affirmative Action Compliance: Currently under review.

CITY IRB POLICIES:

Job Component	<p>Minimum standard of one (1) job per 1,000 square feet of building area.</p> <p>Real Asset Capital, LLC: Current facility is 62,000 square feet and employs 84 individuals. All jobs will be retained and 220 FT living wage jobs will be added at completion of the project. Almost 5 people will be employee per every 1,000 square feet of commercial space.</p>
Property Improvements	<p>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.</p> <p>Real Asset Capital, LLC: Total redevelopment expenditures projected at \$117 million. Acquisition and redevelopment of phase one is less than one tenth of project total cost.</p>
Development Standards	<p>Compliance with the Land Use Plan of the City's Comprehensive Plan.</p> <p>Real Asset Capital, LLC: In compliance.</p>
Equipment Financing	<p>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.</p> <p>Real Asset Capital, LLC: In compliance.</p>

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.

Real Asset Capital, LLC: 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.

Real Asset Capital: project is using EZ bonds. All 84 current jobs will be retained and 220 full time living wage jobs added.

BOND COUNSEL:

Faegre & Benson LLP

UNDERWRITER:

RBC Dain Rauscher