

Request for City Council Action

Date: July 29, 2003

To: Council Member Lisa Goodman, Community Development Committee

Prepared by Bob Lind, Manager, Business Finance, Phone 612-673-5068

Approved by Lee Sheehy, MCDA Executive Director
Chuck Lutz, MCDA Deputy Executive Director _____

Subject: A Public Hearing and Request for Preliminary Approval of up to \$15 Million in 501(c)(3) Tax-exempt Revenue Bonds Series 2003 for the Children's Theatre Company Project.

Previous Directives: None. At this time Children's Theatre is requesting preliminary approval on the issuance of revenue bonds for their project.

Ward: 6th

Neighborhood Group Notification: On July 11, 2003 the Whittier Alliance was notified of this proposed revenue bond project.

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

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

Zoning Code Compliance: The proposed project 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 tax-exempt revenue bonds will generate annual administrative fees that are used to support the small business assistance programs of the City.

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

Job Linkage: Does not apply to revenue bond financing. The Agency will work with the Children's Theatre Company on a job linkage agreement.

Affirmative Action Compliance: The Children's Theatre Company will complete its Affirmative Action Plan prior to the bond closing.

RECOMMENDATION:

City Council Recommendation: The Executive Director recommends that

the City Council adopt the attached Resolution following a Public Hearing held on July 29, 2003 notice of which was published in Finance and Commerce on July 12, 2003, giving Preliminary Approval to the issuance of up to \$15 million of City of Minneapolis Tax-exempt 501(c)(3) Revenue bonds, Series 2003, for the Children's Theatre Company Project.

Background/Supporting Information

PROJECT LOCATION & DESCRIPTION:

The Children's Theatre Company, a Minnesota nonprofit formed in 1965, has requested the use of tax exempt revenue bond financing for their project. The proposed project is located at their current facility at 2400 Third Avenue South in the Whittier neighborhood.

The proposed project consists of a 42,000 sq. ft. addition to and renovation of the theatre. The 42,000 sq. ft. addition consists of a new 280-seat flexible stage theater and accompanying lobby, classrooms, rehearsal space and backstage facilities. Also included are a number of renovations to the existing space and various building code upgrades.

TYPE OF FINANCING:

It is anticipated that the tax-exempt revenue bonds will be structured as seven-day variable rate demand obligations secured by a bank letter of credit. The total project costs are \$24 million, with \$5 million coming from a State of Minnesota grant, up to \$15 million from the issuance of the tax-exempt revenue bonds and the balance financed by pledges collected to date.

Sources:

| | |
|------------------|---------------------|
| Revenue Bonds | \$15,000,000 |
| State Grant | 5,000,000 |
| Equity - Pledges | 4,000,000 |
| Total | <u>\$24,000,000</u> |

Uses:

| | |
|---------------------------------|---------------------|
| Construction & Renovation Costs | \$23,100,000 |
| Professional & Issuance Costs | 900,000 |
| Total | <u>\$24,000,000</u> |

PRESENT EMPLOYMENT: 90 F.T.E.s

NEW EMPLOYMENT: 30 F.T.E.s

ASSESSOR'S ESTIMATED ANNUAL TAX INCREASE: Tax-exempt facility.

AFFIRMATIVE ACTION COMPLIANCE: Affirmative Action Plan will be on file with the City prior to bond closing.

MCDA IRB POLICIES:

Job Component Minimum standard of one (1) job per 1,000 square feet of building area.
Children's Theatre: N.A.

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.

Children's Theatre: In compliance.

Development Standards

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

Children's Theatre: 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.

Children's Theatre: In compliance.

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.

Children's Theatre: 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.

Children's Theatre: N.A.

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:

Faegre & Benson

UNDERWRITERS:

RBC Dain Rauscher, Inc.
Wells Fargo Brokerage Services, LLC

PROVIDING PRELIMINARY APPROVAL
OF THE CHILDREN'S THEATRE COMPANY EXPANSION
PROJECT AND THE ISSUANCE AND SALE OF UP TO \$15,000,000 REVENUE BONDS
(THE CHILDREN'S THEATRE COMPANY PROJECT), SERIES 2003

RESOLVED BY THE CITY COUNCIL OF THE CITY OF MINNEAPOLIS:

1. Authority. This City is authorized by Minnesota Statutes, Sections 469.152 to 469.165 (the "Act") to issue and sell its revenue bonds for the purpose of financing the cost of acquisition and construction of authorized projects and to enter into contracts necessary or convenient in the exercise of the powers granted by the Act.

2. Proposal. The Children's Theatre Company, a Minnesota nonprofit corporation (the "Borrower"), has requested that the City issue up to \$15,000,000 in principal amount of Revenue Bonds (The Children's Theatre Company Project), Series 2003 (the "Bonds") pursuant to the Act to provide money to be loaned to the Borrower to finance part of the costs of constructing an addition to and renovating Children's Theatre at 2400 Third Avenue South (the "Project"). The Project is to be operated by the Borrower on land leased by it. The Project is further described in an Application for approval of the Project which is proposed to be submitted to the Minnesota Department of Employment and Economic Development, a copy of which is on file in the office of the City Clerk.

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

(a) The Project furthers the purposes and policies of the Act.

(b) The City, through the Community Development Committee, held a public hearing on July 29, 2003 relating to the Project after publication of notice as required by law, and, in the opinion of bond counsel, based on representations of the Borrower, the Bonds will be qualified 501(c)(3) bonds within the meaning of Section 145 of the Code, the interest on which will be exempt from Federal income tax.

(c) Under the provisions of Section 469.162 of the Act, the Bonds are not to be payable from nor charged upon any funds other than revenue pledged to the payment thereof; the City is not subject to any liability thereon; no holders 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 never constitute an indebtedness of the City, within the meaning of any constitutional, statutory or charter limitation and shall not constitute nor give rise to a pecuniary liability of the City or a charge against its general credit or taxing powers; the Bonds shall not constitute a charge, lien or encumbrance, legal or equitable, upon any property of the City; and each Bond shall recite in substance that the Bond, including interest thereon, is payable solely from the revenue pledged to its payment.

(d) Based on representations of the Borrower the Project as proposed would not be undertaken but for the availability of industrial revenue bond financing.

4. Application to Department of Employment and Economic Development. The application to the Commissioner of Employment and Economic

Development for approval of the Project is hereby approved and shall be submitted to the Commissioner in substantially the form on file.

5. Underwriters. The Borrower has entered into preliminary discussions with Wells Fargo Brokerage Services, LLC and RBC Dain Rauscher Inc. (the "Underwriters"), and the Underwriters have reported that the Project and the sale of bonds therefor are feasible.

6. Expenses. The Borrower has agreed to pay any and all costs incurred by the City in connection with the Project whether or not the Project is approved by the Minnesota Department of Employment and Economic Development and whether or not the Project is carried to completion.

7. Preliminary Approval. The Project is hereby given preliminary approval by the City subject to approval of the Project by the Minnesota Department of Employment and Economic Development and subject to final approval by this Council and by the purchasers of any bonds to be issued as to the ultimate details of the Project and as to the terms of the bonds.

8. Document Preparation. The Borrower, the City Clerk, the City Attorney, and other City officials are also authorized to initiate the preparation of a proposed Loan Agreement and such other documents as may be necessary or appropriate to the Project so that, when and if the proposed Project is approved by the Department and this Council gives its final approval thereto, the Project may be carried forward expeditiously.

9. Contracts. The Borrower is hereby authorized to enter into such contracts, in its own name and not as agent for the City, as may be necessary for the construction of the Project by any means available to it and in the manner it determines without advertisement for bids as may be required for the acquisition or construction of other municipal facilities, but the City shall not be liable on any such contracts.