

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

Date: November 17, 2009

To: Council Member Lisa Goodman, Community Development Committee  
Council Member Paul Ostrow, Ways & Means/Budget Committee

**Subject:** A Public Hearing and Request for Preliminary Approval of up to \$1,700,000 In Taxable City of Minneapolis, Limited Tax-Supported Development Revenue Bonds, Series 2010, for Kelly Brothers Properties, LLC to be issued through the Minneapolis Common Bond Fund.

**Recommendation:** The CPED Director recommends that the City Council adopt the attached Resolution giving Preliminary Approval to the issuance of up to \$1,700,000 in Taxable Limited Tax Supported Development Revenue Bonds, Common Bond Fund Series 2010, for Kelly Brothers Properties, LLC to be issued through the Common Bond Fund and designating the bonds as bonds entitled to the security provided by Ordinance No. 87-OR-084, Chapter 424, Tax Reserve and Pledge Ordinance.

**Previous Directives:** None

Prepared by: Charles Curtis 673-5069
Approved by: Charles T. Lutz, Deputy Director CPED _____
Catherine A. Polasky, Director, Economic Development _____
Presenters in Committee: Charles Curtis

## Reviews

- Permanent Review Committee (PRC): NA

## Financial Impact

- Other financial impact: The issuance of revenue bonds for the Kelly Brothers Properties, LLC will generate revenue bond administrative fees of approximately \$6375 a year that are used to support the small business assistance programs of the City of Minneapolis.

## Community Impact

- Neighborhood Notification: Seward Neighborhood has been notified of the proposed project
- City Goals: The proposed project promotes the City's goal to make the City of Minneapolis a Premier Destination by promoting economic leadership and by promoting private business investment in the City.
- Sustainability Targets: NA
- Comprehensive Plan: The proposed plan is in compliance the Minneapolis Plan
- Zoning Code: The proposed plan is in compliance.
- Living Wage/Business Subsidy Agreement Yes \_\_\_\_\_ No  X
- Job Linkage Yes \_\_\_\_\_ No  X

**Supporting Information**

**Project Location & Description:** Kelly Brothers Properties, LLC is a real estate holding company made up of Steven and David Kelly, the owners of the operating company, Kelbro Company, doing business as Shamrock Group. The Shamrock Group is a service and manufacturing business founded in 1945 on Minneapolis' south side. It provides products and service to establishments that serve beverages, ice and require refrigeration storage for food/beverage products. The company currently owns and operates its business from a location at 2900 Fifth Avenue South. Steven Kelly and David Kelly, the current owners and operators of the company, are the second generation overseeing operations.

The proposed project is the acquisition and rehabilitation of a 38,000 square foot building located at 2450 Minnehaha Avenue South. The site will be a second location for the company and all current operations will continue at the 2900 Fifth Avenue South site. The new site will allow company offices to move out of temporary leased trailers that are now located on leased land on the south side of the 2900 Fifth Avenue South buildings. New state-of-the-art showrooms are planned for the new location. The company is also planning to increase ice production and add coffee items to its line of products.

**Type of Financing:** The proposed project calls for the issuance of taxable revenue bonds through the Minneapolis Common Bond Fund system, currently rated "A+" by Standard & Poor's.

The bonds will be secured by the property and equipment, one year's debt service reserve, a corporate guaranty of the operating company and the personal guaranties of the current owners.

Sources of Funds:

Revenue Bonds	\$1,700,000
Equity	<u>196,570</u>
Total	\$1,896,570

Uses of Funds:

Building Purchase	\$1,375,000
Improvements	445,770
Costs of Issuance	<u>75,800</u>
Total	\$1,896,570

**Present Employment:** 55 FTE plus 25 seasonal in the summer months

**New Employment:** 7 plus 20 additional seasonal in the summer months

**Assessor's Estimate Annual Tax Increase:** Under review

**Affirmative Action Compliance:** In process. An Affirmative Action plan will be completed prior to a request for Final Approval.

**CITY IRB POLICIES:**

Job Component

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

Kelly Brothers Properties: Projected jobs in the third year at the new location will meet the policy.

Property Improvements

For private activity IRBs consisting of industrial/manufacturing projects, 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. This

IRB policy does not apply to nonprofit organizations issuing 501(c)(3) tax-exempt revenue bonds.

Kelly Brothers Properties: In compliance

Development Standards

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

Kelly Brothers Properties: 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.

Kelly Brothers Properties: In compliance

Restaurant/Bank

IRB financing is allowed for a restaurant or a bank if it is built or rehabilitated in a 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.

Kelley Brothers Properties: 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.

Kelly Brothers Properties: NA

IRB CAP:

The project is not subject to the volume cap in that there is no volume limitation for Taxable Revenue Bonds.

FINANCIAL ADVISOR:

Dougherty and Company, LLC

BOND COUNSEL:

Gray, Plant & Mooty

UNDERWRITER:

Piper Jaffray

RBC Capital Markets

Review By CBF Coordinating Committee:

Under Final Review

# **Resolution of the City of Minneapolis**

Giving preliminary approval to a project on behalf of Kelly Brothers Properties, LLC and authorizing the issuance of revenue bonds or notes of the City of Minneapolis therefor; referring the proposed project to the Department of Employment and Economic Development for approval; and authorizing the preparation of necessary documents.

WHEREAS, under Sections 469.152 through 469.1651 of the Minnesota Statutes, as amended (the "Act"), the City of Minneapolis, Minnesota (the "City") is authorized to issue revenue bonds or notes for the purpose of providing financing for the acquisition, construction, rehabilitation and installation of projects consisting of real and personal properties used or useful in connection with a revenue-producing enterprise engaged in any business; and

WHEREAS, the City has assumed the obligations of the Minneapolis Community Development Agency (the "Agency") with respect to a certain common bond fund and intends to continue to issue revenue bonds to be secured thereby (the "Common Fund Bonds"); and

WHEREAS, the City has authority to issue Common Fund Bonds and is the successor to the Common Fund Bonds issued by the Agency; and

WHEREAS, in enacting the Act, the Legislature found that the welfare of the State of Minnesota requires the active promotion, attraction, encouragement and development of economically sound industry and commerce to prevent, as far as possible, the emergence of blight and areas of chronic unemployment and to prevent economic deterioration; and

WHEREAS, other factors necessitating such active promotion and development of industry and commerce within the City are the increasing movement of population and business to suburban areas, the steady and rapid increase in the amount and cost of governmental services required to meet the needs of the central City area and the need for more intensive development and use of land within the City to provide an adequate tax base to finance these costs; and

WHEREAS, the promotion, attraction, encouragement and development of economically sound industry and commerce provides employment opportunities for residents of the City and encourages land development, thereby increasing the tax base of the City and overlapping taxing districts; and

WHEREAS, Kelly Brothers Properties, LLC, a Minnesota limited liability company, and its affiliate, Kelbro Company, a Minnesota corporation d/b/a Shamrock Group (together, the "Company"), has proposed to acquire, improve and equip an existing building located at 2450 Minnehaha Avenue South in the City (hereinafter, the "Project"), to be used in the operation of its ice making and distribution and related businesses; and

WHEREAS, the Company has proposed that the City issue one or more series of its Common Fund Bonds (the "Bonds"), for the purpose of financing the Project, including certain incidental expenses thereto, in a principal amount expected to not exceed \$1,700,000, and the proposal calls for the proceeds realized upon the sale of the Bonds to be applied by the Company pursuant to a revenue agreement wherein the Company will be obligated to acquire, improve and equip the Project and to make payments under the revenue agreement at the times and in the amounts sufficient to provide for the prompt payments of principal of, premium, if any, and interest on the Bonds and all costs and expenses of the City incident to the issuance and sale of the Bonds; and

WHEREAS, the City has been advised by representatives of the Company that conventional, commercial financing to pay the capital cost of the Project has not been obtained and is available only on a limited basis and at such high costs and on such terms of borrowing that the economic feasibility of the Project would be significantly impaired, such that the Project might not be undertaken but for the availability of industrial development bond financing under the Act; and

WHEREAS, the City Council has been advised that the proposed bond issue has been submitted to the Mayor and the Planning Commission of the City at least fourteen (14) days prior to consideration hereof; and

WHEREAS, it is proposed that the Bonds would be further secured by Chapter 424 of the City Code of Ordinances; and

WHEREAS, the proposed Project consists of real and/or personal properties to be used in a revenue-producing enterprise engaged in business, as authorized by the Act; and

WHEREAS, the undertaking of the proposed Project and the issuance of the Bonds to finance the cost thereof will further promote the public purposes and legislative objectives of the Act by encouraging the location and retention of revenue-producing enterprises within the City, by increasing the tax base of the City and overlapping taxing jurisdictions, by providing additional or retaining existing employment opportunities for residents of the

City and surrounding area or by stimulating the development and redevelopment of marginal lands within the City; and

WHEREAS, except as may be authorized by Chapter 424 of the City Code of Ordinances, the full faith and credit of the City will not be pledged or responsible for the Project or for the payment of the principal of, premium, if any, and interest on the Bonds;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MINNEAPOLIS:

A. That it is hereby found and determined that the Project might not be undertaken but for the availability of industrial development bond financing under the Act.

B. That the undertaking of the Project and the issuance by the City of its Bonds pursuant to the Act in an approximate aggregate principal amount of \$1,700,000 or such other amount approved by the City not exceeding such sum by more than ten percent (10%), to finance the costs thereof, all as referred to above, is hereby authorized and approved by the City, subject to the approval of the Project by the Department of Employment and Economic Development of the State of Minnesota (the "Department") under the Act, and to the agreement of the City, the Company and the purchaser or purchasers of the Bonds on the detailed terms and conditions on which the Project will be acquired, improved and equipped and the Bonds will be issued, sold and secured.

C. That in accordance with Sections 469.152 through 469.1651, Minnesota Statutes, staff of the City is hereby authorized and directed to submit the proposal for undertaking the Project to the Department requesting approval of the Project. The Finance Officer, the City Attorney and other officers, employees and agents of the City are hereby authorized to provide the Department such preliminary information as may be required for this purpose. The City Attorney is also authorized, in cooperation Gray, Plant, Mooty, Mooty & Bennett, P.A., as bond counsel, to initiate preparation of such documents as may be appropriate to the Project in order that, when and if the Project is approved by the Department, it may be carried forward expeditiously.

D. That the adoption of this resolution by the City does not constitute a guarantee or a firm commitment that the City will issue the Bonds as requested by the Company. The City reserves the right, in its sole discretion, to withdraw from participation and accordingly not issue any Bonds to finance the Project at any time prior to the adoption of the resolution authorizing the issuance of such Bonds should the City so determine.

E. That the City shall not adopt a resolution authorizing the issuance of the Bonds until all persons and entities, including the Company, involved in the operations or ownership of the Project have complied with all requirements of and had their respective affirmative action plans and equal opportunity requirements approved by the affirmative action office of the City.

F. That if and when the Bonds are issued by the City such Bonds shall be designated by the City Council of the City as bonds entitled to the security provided by Chapter 424 of the City Code of Ordinances and that the Bonds hereby requested to be designated shall not exceed \$1,700,000 or such other amount approved by the City not exceeding such sum by more than ten percent (10%).

G. This Resolution shall constitute the official intent of the City to reimburse expenditures by the Company with respect to the Project, within the meaning of Section 1.150-2 of the Treasury Regulations.