



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

Date: April 19, 2005

To: Council Member Lisa Goodman, Community Development Committee

Prepared by: Greg Davidson
612-673-5070

**Presenter in
Committee:** Greg Davidson
Sr. Economic Development Specialist

Approved by: Chuck Lutz, Deputy CPED Director _____

Subject: A Public Hearing and Request for Preliminary Approval to issue up to \$4.5 million in Tax-Exempt 501(c)(3) Revenue Bonds for the St. Olaf Residence, Inc.

RECOMMENDATION: The CPED Director recommends that the City Council adopt the attached resolution giving Preliminary Approval to the issuance of up to \$4.5 million in Tax-Exempt 501(c)(3) Revenue Bonds for the St. Olaf Residence, Inc.

Previous Directives:

St. Olaf Residence, Inc. of Minneapolis used \$4.4 million of tax-exempt revenue bonds in 1993 to renovate and add 48 new units of assisted living housing.

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 these tax-exempt refunding revenue bonds will generate revenue bond administrative fees of approximately \$11,250 annually for Minneapolis that are used to support the small business assistance programs of the City of Minneapolis. Additionally, St. Olaf will enter into a nursing home PILOT Agreement (Payment in Lieu of Taxes.) These payments for 2005-06 are estimate to be \$ 16,000 +/-.
The City Assessor's Office won't have a number until later this calendar year.
- Request provided to the Budget Office when provided to the Committee.

Community Impact (summary below)

Ward: The facility is located in Ward 3.

Notification: The Minneapolis Jordan neighborhood association has been notified.

City Goals: The proposed refunding is consistent with the Goal 7 to promote public and private partnerships to address disparities and support strong, healthy families and communities.

Comprehensive Plan: This refunding complies with the policies of the Minneapolis Plan.

Zoning Code: The project is in compliance, zoned R-4.

Living Wage/Job Linkage: This project is a 501(c)(3) conduit financing and is not subject to Living Wage/Business Subsidy. St. Olaf currently employs 140, with 100 FTE's.

Background/Supporting Information

St. Olaf Residence, Inc is a Minnesota nonprofit corporation, which operates a 95 bed nursing facility located at 2912 Fremont Avenue North in Minneapolis. North Oaks at 2929 Emerson is an attached 48 unit assisted living facility. St. Olaf Residence, Inc. commenced operations in 1963, and is affiliated with the Evangelical Lutheran Church in America (ELCA). St. Olaf Residence, Inc. is a off-spring of a church located next door, but has ceased any legal or liturgical relationship. The current affiliation with the Evangelical Lutheran Church in America is primarily for marketing purposes. The ELCA does no proselytizing, conducts no religious services and provides no financial support to St. Olaf. It is a non-denominational, ecumenical, nursing home residence.

It has been proposed that the City of Minneapolis (The City) issue revenue bonds, in the aggregate principal amount estimated to be \$4.5 million, (the "Bonds"), and loan the proceeds: (a) to refund all of the 1993 bonds, and (b) to finance renovations to living quarters and upgrade some of the mechanical services within the facility. This refunding will provide St. Olaf approximate annual savings of \$62,000 over the 30 year issuance. They will save nearly \$225,000 in 2005 by recalling the 1993 bonds. The excess cash flow will then be used to fund additional capital improvements and provide a cash-flow cushion.

Since St. Olaf Residence Inc. is a 501(c)(3) commercial borrowing entity, therefore they are permitted to use tax-exempt industrial revenue bonds rather than housing bonds

PROJECT LOCATION: St. Olaf Residence facilities are located in the Jordan neighborhood. Their main offices are at 2912 Fremont and the attached assisted living facility is 2929 Emerson Ave. North.

PROJECT DESCRIPTION:

The proceeds of these Bonds will pay-off the 1993 bonds and make renovations. This proposed refunding will re-issue bonds for a term of 30 years, at a fixed tax-exempt rate currently estimated at 5.75%. In order to take advantage of the current interest rate environment, St. Olaf would like to close this transaction as soon as possible given recent increases in interest rates.

The approximate \$400,000 of renovations will include refurbishing and upgrading residence rooms and common areas. The capital improvements funded by these bond proceeds, will be spent primarily at St. Olaf Residence, with a small portion funding improvements at North Oaks on Emerson. The improvements to be made include the following: carpeting, painting, concrete repair, security measures, electric beds, etc. These improvements will enhance the appearance and the surroundings for the residents and visitors.

The current funding structure is as follows.

TYPE OF FINANCING:

Sources: Principal amount of Tax Exempt 2005 Bonds \$4,200,000

TOTAL SOURCES \$4,200,000

Uses:

- Refund the Series 1993 bonds	\$3,665,000
- Capital improvements	400,000
- Fund a debt service reserve fund equal to the maximum annual debt service on these bonds and other soft costs for bond issuance.	135,000
TOTAL USES	\$4,200,000

PRESENT EMPLOYMENT:

Currently there are 100 Full Time Equivalent (FTEs) employees at the Minneapolis complex. St. Olaf will participate in the Minneapolis Job Linkage (job creation tracking) program should they hire additional staff.

NEW EMPLOYMENT:

Currently there are no plans to add any additional staff as a result of this project.

ASSESSOR'S ESTIMATED ANNUAL TAX INCREASE:

Project will enter into a PILOT (payment in lieu of Taxes) Agreement that will generate approximately \$ 16,000 a year of taxes for the City for the provision of police, fire and road maintenance as part of the nursing home PILOT program. (As of April 6, 2005 this \$16,000 is the estimate from the Assessor's office.)

AFFIRMATIVE ACTION COMPLIANCE:

St. Olaf has an affirmative action plan on file with the City. They will also participate in the prevailing wages of the city for the rehab work and participate in an apprenticeship program.

CPED IRB POLICIES:

Job Component

Minimum standard of one (1) job per 1,000 square feet of building area.
St. Olaf: Project complies.

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.
St. Olaf: Project complies.

Development Standards

Compliance with the Land Use Plan of the City's Comprehensive Plan.
St. Olaf: Project complies.

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.
St. Olaf: Project complies.

Restaurant/Bank

IRB financing is allowed for a restaurant or a bank if it is built or rehabilitated in a 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.
St. Olaf: 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.
St. Olaf: 100 fulltime (and 40 part-time) jobs will be preserved. Interest savings will assist in maintaining costs and quality of care.

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 there under as a non-profit organization.

BOND COUNSEL:

Gray, Plant & Mooty, LLP

UNDERWRITER:

Dougherty & Co. LLC

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Giving preliminary approval to the issuance of tax-exempt healthcare facilities revenue bonds under Minnesota Statutes, Sections 469.152 to 469.165, as amended, for the purpose of refinancing and financing improvements to an existing skilled nursing facility and assisted living facility, for the benefit of St. Olaf Residence, Inc.

WHEREAS, the City of Minneapolis, Minnesota (the "City") is authorized, pursuant to Minnesota Statutes, Sections 469.152 to 469.165, as amended (the "Act"), to issue revenue bonds to finance and refinance a "Project" as defined in the Act; and

WHEREAS, representatives of St. Olaf Residence, Inc., a Minnesota nonprofit corporation (the "Company"), has requested that the City issue tax-exempt healthcare facilities revenue bonds in the amount of approximately \$4,500,000 pursuant to the Act (the "Bonds"), for the purpose of loaning the proceeds thereof to the Company to (i) refund revenue bonds issued by the City in 1993 with respect to the Company's skilled nursing facility located at 2912 Fremont Avenue North in the City and the Company's assisted living facility located at 2929 Emerson Avenue North in the City (collectively, the "Project"), and (ii) finance various capital improvements to the Project in the amount of approximately \$500,000; and

WHEREAS, the Community Development Committee of the Minneapolis City Council, on behalf of the City held a public hearing on the proposed issuance of the Bonds after at least 14 days published notice thereof; and

WHEREAS, the City shall not be liable on the Bonds, and the Bonds shall not be a debt of the City within the meaning of any state constitutional provision or statutory limitation, and will not constitute or give rise to a charge against the general credit or taxing power of the City or a pecuniary liability of the City, nor shall the Bonds be payable out of any funds or properties other than those provided as security therefor;

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

That the issuance of the Bonds in order to refinance and finance improvements to the Project in a principal amount of approximately \$4,500,000 is preliminarily approved.

Be It Further Resolved that the foregoing preliminary approval of the issuance of Bonds shall be subject to final determination by the City of terms and conditions and shall not constitute an irrevocable commitment on the part of the City to issue the Bonds.

Be It Further Resolved that the staff of the Minneapolis Department of Community Planning and Economic Development is hereby authorized, in cooperation with bond counsel, to take all steps necessary and desirable to proceed to refinance and finance improvements to the Project pursuant to the Act.