



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

Date: December 12, 2006

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

Subject: Request for Authorization of Actions By City Staff Relating to the
Issuance of Tax-exempt Revenue Bonds in 2007.

Recommendation: **Recommendation: The CPED Director recommends that the City Council authorizes the City staff to take certain actions throughout 2007 in order to utilize tax-exempt revenue bond financing for various City industrial/manufacturing projects.**

Previous Directives: Since 1986, the City Council on an annual basis has authorized the appropriate City staff to take certain actions in regards to obtaining tax-exempt allocations from the State of Minnesota for Minneapolis revenue bond projects.

Prepared by: Bob Lind, CPED, Business Finance, 673-5068
Approved by: Charles T. Lutz, Deputy Director CPED _____
Presenters in Committee: Bob Lind

Reviews

- Permanent Review Committee (PRC): Approval N.A. Date _____

Financial Impact

- Other financial impact: Funds necessary to make the reservation deposits with the State of Minnesota for an allocation of tax-exempt bonding authority are paid by the company on whose behalf the bonds are issued. At no time are City funds at risk, the risk of not closing on the revenue bonds and thereby losing the reservation deposit is borne by the company. If the project does go forward and the bonds are issued, the City receives an annual administrative fee for the term of the bonds that is used to support the small business assistance programs of the City of Minneapolis.

Community Impact

- Neighborhood Notification: N.A.

- City Goals: The revenue bond programs are consistent with the City Goal of creating an environment that maximizes economic development opportunities.
- Comprehensive Plan: N.A.
- Zoning Code: N.A.
- Other: N.A.

Supporting Information

In 1993 Congress passed the 1993 Tax Bill which included a permanent extension of the authority to issue tax-exempt revenue bonds for industrial/manufacturing projects. This was the first time since the early 1980's that the use of tax-exempt financing for industrial/manufacturing projects was on more than a temporary year-to-year extension. Even with the permanent extension, the State volume cap and other restrictions on the use of tax-exempt bonds are still in place. The annual authorization put in place by this report is in response to the volume cap as imposed by the 1986 Tax Bill.

In order to maintain the issuance authority of the City of Minneapolis, CPED staff must perform several actions during the year. The two general areas of action are to inform the State, by certain deadlines, of intended actions on the issuance of revenue bonds, and to pay various Allocation Deposits to the State.

The payment of the various Allocation Deposits by the City of Minneapolis may involve the receipt and payout of funds with several potential entities, including the State, other entitlement issuers and bond applicants.

All necessary actions of the City will be based on actual bond applications under consideration, and on the requirement that City funds not be subject to any non-refund conditions without specific City Council authorization.

The use of tax-exempt revenue bonds for industrial/manufacturing projects should increase in 2007 and beyond due to a change in the capital expenditure limitation at the federal level. In May 2006 the House and Senate approved and the President signed the Tax Reconciliation Act. Included in the tax bill was an amendment accelerating an increase in the capital expenditure limit on small issue industrial development revenue bonds effective December 31, 2006. The increase raises the capital expenditure limit from \$10 million to \$20 million. This increase will help with a number of capital intensive businesses that would like to make major capital investments in equipment and real estate, but have been stymied by the \$10 million capital expenditure limitation. The increase to \$20 million will permit these projects to move ahead with capital investments. For additional information on this major change to the tax codes for revenue bond financing, see the link:

<http://www.cdfa.net/cdfa/cdfaweb.nsf/pages/legpressreleases.html>

It is recommended that the Minneapolis City Council authorize:

1. The establishment of an Accounts Receivable – Bond Commitment Fees – to allow CPED staff to perform all necessary transactions regarding State-required Allocation Deposit payments on behalf of the City of Minneapolis.

At no time will City funds be at risk in relation to these payments; net cost to the City of these transactions is zero. Any interest earnings on such deposits will be kept by the State.

Said Accounts Receivable – bond Commitment Fees – is to be established in Fund SED0 or such fund as is determined by the CPED Director. The maximum

payments are to be sufficient to secure necessary issuance authority. Authorized payment/reimbursement may involve the City, the State, bond applicants and other entitlement issuers.

2. The CPED Director is to inform the State of the City of Minneapolis' intent to issue bonds, to use Joint Power Agreements, to pay or refund Allocation Deposits, and all other notices necessary to ensure the ability of the City of Minneapolis to issue bonds throughout the year.
3. That full reimbursement to the City, of all Allocation Deposits, be required of bond applicants and of other entitlement issuers under Joint Power Agreements.
4. Staff is to charge bond applicants a pro rata share of legal and other expenses associated with the City's execution of Joint Power Agreements, if such bond is issued under bond issuance authority gained by the City with a Joint Powers Agreement.
5. The CPED Director is to negotiate and enter into Joint Power Agreements with other entitlement issuers, for the exchange of bond issuance authority to benefit the City of Minneapolis by increasing/decreasing bond issuance authority. Such Joint Power Agreements will allow for proper payment/receipt of fees and expenses required for the exchange of issuance authority. Payments will be made from such fund as may be determined by the CPED Director.
6. The CPED Director is to approve City of Minneapolis applications to State bond issuance authority pools and payments of any additional Allocation Deposits required.