

Request for MCDA Board of Commissioners Action from the Department of Community Planning & Economic Development - CPED

Date: May 12, 2009

To: Council Member Lisa Goodman,
Chair, Community Development Committee

Referral to: MCDA Board of Commissioners

Subject: Minneapolis Economic Recovery Strategy: A Public Hearing and Request for Approval Authorizing the Execution of Documents to Amend the Series 2005 Bonds for Hope Community, Inc.

Recommendation: City Council Recommendation: Adopt the attached Resolution, Authorizing the execution of various documents to amend the Series 2005 Bonds issued for Hope Community, Inc.

MCDA Board Recommendation: Forward this report to the Minneapolis Community Development Agency Board of Commissioners for their approval and adoption of the attached Resolution, authorizing the execution of various documents to amend the Series 2005 Bonds issued for Hope Community, Inc.

Previous Directives: In 2005, the City of Minneapolis had issued Tax-exempt Revenue Bonds for Home Community, Inc. in the amount of \$1,927,300; proceeds from the 2005 Bonds were used to refinance several properties owned by Hope Community.

Prepared by: Jessica Green, Business Finance (612) 673-5232
Approved by: Charles T. Lutz, Deputy Director CPED _____
Catherine A. Polasky, Director, Economic Development _____
Presenter in Committee: Jessica Green

Reviews

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

Financial Impact

- Other financial impact: The issuance of the Series 2005 Bonds for Hope Community, Inc. is currently generating revenue bond administrative fees of approximately \$4,300 per year that are used to support the small business assistance programs of the City of Minneapolis.

Community Impact

- Neighborhood Notification: The Ventura Village Neighborhood representatives have been notified of this project.
- City Goals: The project enhances the City's goals of A Safe Place to Call Home, One Minneapolis, and Connected Communities.
- Sustainability Targets: N.A.
- Comprehensive Plan: This project is in compliance with the policies of the Minneapolis Plan.
- Zoning Code: The project is in compliance.

- Living Wage/Business Subsidy Agreement Yes ____ No X All conduit revenue bonds allocated under State Statute Chapter 474A, refunding bonds and 501(c)(3) bonds are exempt from the State Act. City bond financing is not subject to the City's local Ordinance if the intent of the bond financing is not to create jobs.
- Job Linkage Yes ____ No X

Supporting Information

Project Location & Description:

Hope Community, Inc. (HCI) began in 1977 as a single home on Portland Avenue that provided shelter and related support to homeless women and children. During the 1980's, drug use and violence became a common problem for the area. At that time, Hope Community began exploring strategies to reclaim the neighborhood by building a safe community that nurtures children and families. Since then, HCI, with the help of numerous organizations and individuals, has worked to purchase and renovate several properties in the area and provide programs and services that promote multi-cultural community involvement, leadership, and engagement.

HCI currently offers numerous housing opportunities including 112 affordable rental units in 19 buildings, 4 affordable home-ownership units, and 17 market-rate rental units. In addition, several amenities are available to area residents including a community garden, a picnic pavilion, children's play areas, and a 9,500 square foot indoor community gathering space.

At this time, Hope Community, Inc. is requesting the tax-exempt obligations issued in 2005 be amended to allow for interest-only payments for a period of 24 months. The Series 2005 bonds were issued to refinance debt associated with the following properties:

- 1829 5th Ave South
- 616-618 East 22nd Street
- 1900 & 1914 Portland Avenue South

This interest-only period will alleviate strain on the company's cash flow and allow them time to evaluate and restructure current obligations. Western Bank, the Bond holder, has agreed to the proposed amendment. The outstanding principal balance on the Series 2005 Bonds is approximately \$1,720,000.

Type of Financing:

Industrial Development Bonds (commonly known as IDBs or tax-exempt revenue bonds) have been used by the City of Minneapolis since 1972 to finance the capital needs of many small companies and organizations. In 2002, the City developed a financing program to provide cost-effective tax-exempt financing for small 501(c)(3) nonprofit organizations. Tax-exempt revenue bonds have often not been a practical financing option for small organizations in the past due to the high cost of borrowing. Providing a streamlined application and documentation process has resulted in lower borrowing costs for non-profits.

Within the existing federal tax code, there is the ability to issue bank qualified debt that local lenders can purchase and take advantage of the partial tax deductions on the interest earnings. With bank qualified status, banks are allowed to deduct 80% of their "carrying costs" associated with buying tax-exempt bonds. Banks get the dual benefit of tax-exemption and deductibility of carrying costs. This translates into lower borrowing costs for the nonprofit organizations that work with the City on the issuance of bank qualified debt. Bank qualified revenue bonds are underwritten and collateralized just like any conventional bank loan, but the interest rate to the borrower is lower due to the tax-exempt status.

The City of Minneapolis has had a Bank Qualified Revenue Bond Program since 2002, and since then the City has assisted almost 40 small nonprofit organizations in gaining access to capital. From 2002-2008, the City has been limited to the annual \$10 million limitation of bank qualified bond authority. However, the American Recovery and Reinvestment Act of

2009 (ARRA) increased this limit from \$10 million a year to \$30 million; and the limit now applies to the individual borrower instead of the issuer (City) in the case of conduit bonds for nonprofit organizations for 2009 and 2010. This provision in the ARRA greatly expands our availability of the bank qualified revenue bond program for nonprofits for the next two years.

At this time, no new financing is necessary. The Series 2005 Bonds are proposed to be amended to allow Hope Community to make interest only payments for a period of 24 months. Western Bank will continue to be the holder of the Bonds.

Present Employment: HCI has approximately 15 employees.

New Employment: HCI will retain all positions.

Assessor's Estimate Annual Tax Increase: Tax-exempt facility.

Affirmative Action Compliance: HCI currently has an affirmative action plan on file with the City.

CITY IRB POLICIES:

Job Component	Minimum standard of one (1) job per 1,000 square feet of building area. HCI: In compliance.
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. HCI: In compliance.
Development Standards	Compliance with the Land Use Plan of the City's Comprehensive Plan. HCI: 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. HCI: N.A.
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.

HCI: N.A.

Tax-exempt Institution

Refinancing is permitted when new jobs are created or when a significant number of jobs are preserved; any interest cost savings must directly reduce patient costs.

HCI: In compliance. All jobs will be preserved.

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:

Gray, Plant, & Mooty, P.A.

UNDERWRITER:

Western Bank

Resolution

of the

City of Minneapolis

Giving approval to and authorizing the amendment of a revenue note previously issued by the Minneapolis Community Development Agency on behalf of Hope Community, Inc. (the “Company”).

Whereas, pursuant to Laws of Minnesota 1980, Chapter 595, as amended (“Chapter 595”), the City Council of the City of Minneapolis, Minnesota (the “City”) established the Minneapolis Community Development Agency (the “Agency”) and granted certain powers and duties to the Agency; and

Whereas, pursuant to such granted powers, the Agency has been authorized to issue revenue obligations for various purposes; and

Whereas, the Agency has issued its \$1,927,300 Revenue Note (Hope Community, Inc. Project) Series 2005 (the “Note”) to (i) refinance two duplexes owned by the Company and located at 1900 Portland Avenue South and 616-618 E. 22nd Street in the City; (ii) refinance loans incurred to acquire unimproved property to be used for housing purposes located at 1914 Portland Avenue South and on the Northwest corner of the intersection of Portland Avenue South and East Franklin Avenue in the City; and (iii) refinance and substantially renovate a 25-unit apartment building located at 1829 Fifth Avenue South in the City; and

Whereas, the Company and Western Bank, the holder of the Note, have proposed an amendment to the Note; and

Whereas, the Agency expects to give approval to the amendment of the Note by a resolution to be adopted on the date hereof;

Now, Therefore, Be It Resolved by The City Council of The City of Minneapolis:

That the City Council hereby gives approval to the amendment by the Agency of the Note.

That the amended Note is hereby designated as a “Program Bond” and is determined to be within the “Housing Program” and the “Program,” all as defined in Resolution 88R-021 of the City adopted January 29, 1988, and as amended by Resolution 97R-402 of the City adopted December 12, 1997.

RESOLUTION

of the

MINNEAPOLIS COMMUNITY DEVELOPMENT AGENCY

Relating to the Minneapolis Community Development Agency Revenue Note (Hope Community, Inc. Project) Series 2005; authorizing the amendment thereof.

Be It Resolved by the Board of Commissioners (the "Board") of the Minneapolis Community Development Agency (the "Agency"), as follows:

Section 1. Definitions.

1.01. In this Resolution the following terms have the following respective meanings unless the context hereof or use herein clearly requires otherwise:

"Agreement" means the Loan Agreement entered into between the Agency and the Borrower relating to the Note;

"Borrower" means Hope Community, Inc., a Minnesota nonprofit corporation, its successors and assigns;

"City" means the City of Minneapolis, Minnesota;

"Holder" means the registered holder of the Note;

"Note" means the Revenue Note (Hope Community, Inc. Project), Series 2005 previously issued by the Agency in the principal amount of \$1,927,300;

"Note Documents" means the Agreement, the Pledge Agreement, the Regulatory Agreement and the Note;

"Pledge Agreement" means the Pledge Agreement entered into between the Agency and the Holder relating to the Agreement and the Note;

"Project" means the low to moderate income rental housing facilities and related land financed and refinanced with the proceeds of the Note, as further defined in the Agreement;

"Regulatory Agreement" means the Regulatory Agreement with respect to the Project between the Agency and the Borrower.

Section 2. Authorization and Approval of Amended Note.

2.01. Request. The Borrower and Western Bank, the Holder of the Note, have requested that the Agency authorize the amendment of the Note to provide for a two-year interest only period.

2.02. Approval of Amended Note. Pursuant to the foregoing, there has been prepared an Amended and Restated Revenue Note (Hope Community, Inc. Project) Series 2005 (the "Amended Note"), which is now or shall be placed on file in the office of the Agency.

The Amended Note is approved, with such variations, insertions and additions as are deemed appropriate by the parties and approved by the Agency.

2.03. Execution of Amended Note and Related Documents. Upon the completion of the Amended Note, the Finance Officer (or Assistant Finance Officer) shall execute the same on behalf of the Agency, and the foregoing persons and other officers of the Agency shall execute such other certifications, documents or instruments as Bond Counsel shall require, including any necessary amendments to the Note Documents, subject to the approval of the Agency, and all certifications, recitals and representations therein shall constitute the certificates, recitals and representations of the Agency. Execution of any instrument or document by one or more appropriate officers of the Agency shall constitute and shall be deemed the conclusive evidence of the approval and authorization by the Agency and the Board of the instrument or document so executed.

Section 3. Limitations of the Agency's and City's Obligations.

3.01. Notwithstanding anything contained in the documents relating to the Amended Note, the Amended Note and any premium and interest thereon shall not constitute an indebtedness of the Agency or City within the meaning of any constitutional, charter or statutory limitation and shall not constitute or give rise to a pecuniary liability of the Agency or City or a charge against their general credit or taxing powers and shall not constitute a charge, lien, or encumbrance, legal or equitable, upon any property of the Agency or City, and no Holder of the Amended Note shall ever have the right to compel any exercise of the taxing power of the Agency or City to pay the Amended Note or the interest thereon or to enforce payment thereof against any property of the Agency or City. The agreement of the Agency to perform the covenants and other provisions contained in the documents relating to the Amended Note shall be subject at all times to the availability of revenues furnished by the Borrower sufficient to pay all costs of such performance or the enforcement thereof, and neither the Agency or City nor any of their officers, employees or agents shall be subject to any personal or pecuniary liability thereon.

Section 4. Agency Representative.

4.01. The Finance Officer or Assistant Finance Officer of the Agency is hereby designated and authorized to act on behalf of the Agency for purposes of the documents relating to the Amended Note.

Section 5. Governmental Program.

5.01. The Amended Note is hereby designated as a "Program Bond" and is determined to be within the "Housing Program" and the "Program," all as defined in Resolution 88R-021 of the City adopted January 29, 1988, and as amended by Resolution 97R-402 of the City adopted December 12, 1997.