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

Date:	May 6, 2008
To:	Council Member Lisa Goodman, Community Development Committee
Referral to:	MCDA Board of Commissioners
Subject:	A Public Hearing and Request for Preliminary and Final Approval of up to $1,060,000 in 501(c)(3) Bank Qualified Bank Direct Tax-exempt Minneapolis Community Development Agency Revenue Bonds for the University Episcopal Center Project.

Recommendation: City Council Recommendation: Adopt the attached Resolution, giving Preliminary and Final Approval to the issuance of up to $1,060,000 in Tax-exempt 501(c)(3) Bank Qualified Bank Direct Minneapolis Community Development Agency Revenue Bonds, Series 2008 for University Episcopal Center Project.

MCDA Board Recommendation: Forward this report to the Minneapolis Community Development Agency Board of Commissioners for their approval and adoption of the attached Resolution giving Preliminary and Final Approval of up to $1,060,000 in Tax-exempt 501(c)(3) Bank Qualified Bank Direct Revenue Bonds, Series 2008, for University Episcopal Center Project.

Previous Directives: None. Project is requesting approval on the issuance of tax-exempt revenue bonds at this time.

Prepared by: Becky Shaw, Business Finance Phone: 612-673-5066
Approved by: Charles T. Lutz, Deputy Director CPED ________________
Catherine A. Polasky, Director, Economic Development ________________
Presenters in Committee: Becky Shaw

Reviews

- Permanent Review Committee (PRC): Approval _N.A._ Date ________________

Financial Impact

- Other financial impact: The issuance of revenue bonds for the University Episcopal Center Project will generate revenue bond administrative fees of approximately $2,650 a year that are used to support the small business assistance programs of the City of Minneapolis.

Community Impact

- Neighborhood Notification: The Neighborhood has been notified of this project.
- City Goals: This project promotes the City's five year goal to make lifelong learning second to none.
- Sustainability Targets: N.A.
- Comprehensive Plan: The proposed project is in compliance with the policies of the Minneapolis plan.
- Zoning Code: The proposed plan is in compliance.
- Living Wage/Business Subsidy Agreement Yes ____ No __X__ All conduit revenue bonds allocated under the State Statute 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:

University Episcopal Center started in 1907 as a Chaplaincy to students at the University of Minnesota providing spiritual and pastoral care, a physical space for discernment and fellowship and programs that enhance religion and education for University of Minnesota Students. The structure of the space to be refunded is somewhat complicated.

The University Episcopal Center owns the land at 331 17th Avenue SE. They have ground leased to 17th Avenue Housing LLC (Keeler Apartments) who in turn built a 5 story apartment complex complete with 10,000 square feet of office space. 17th Avenue Housing leases the 10,000 square feet of commercial space back to University Episcopal Center who sub leases that space to the University of Minnesota. The University of Minnesota uses the commercial space for the Office of International Programs where it employs 20 full time staff and 7-10 student employees per year.

University Episcopal Center remains owner of the land and landlord to the University of Minnesota while operating their Interfaith Student Partnership and Peer Ministry program out of a new location at nearby 310 Walnut Street SE. The issue of separation of church and state has been addressed by bond counsel – Kennedy & Graven, and it is appropriate to finance the refunding of office space for this organization.

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 2003, 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 costs of borrowing. Providing a streamlined application and documentation process has resulted in lower borrowing costs for nonprofits.

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 deduction on the interest earnings. With the bank qualified status, banks are allowed to deduct 80% of their "carrying costs" (interest paid on borrowed funds like deposits to purchase bonds) associated with buying tax-exempt bonds. Banks therefore can get the dual benefits of taxexemption and deductibility of carrying costs. This translates into lower borrowing costs for the nonprofit organizations that work with a city (issuer) on the issuance of bank qualified bank direct bonds. Tax-exempt revenue bonds are underwritten and collateralized just like any conventional bank loan. The bank approval process for the revenue bond program does not differ from conventional financing.

The issuance of bank qualified bank direct tax-exempt revenue bonds is limited to issuers who issue less than $10 million a year in revenue bonds. Based on this limitation, the MCDA has the ability to issue bank qualified bank direct tax-exempt revenue bonds.

The Bonds for University Episcopal Center will be underwritten and purchased by Park Midway Bank who currently holds the note on this property. This refinance will allow University Episcopal Center to build on their current banking relationship with Park Midway while securing a more favorable market interest rate. Doing so will pay off the City of Minneapolis in full and provide a significant cost savings to the organization.

Sources:	MCDA Bonds	$1,060,000
	Total Sources:	$1,060,000
Uses:	Park Midway Loan	$1,000,000
	Various Updates	47,500
	Issuance Costs	12,500
	Total Uses:	$1,060,000

Present Employment: UEC will retain 20 full time staff plus 10 student employees.

New Employment: All positions will be retained with this refunding.

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

Affirmative Action Compliance: University Episcopal Center is currently working with the City on updating their affirmative action plan.

CITY IRB POLICIES:

Job Component	Minimum standard of one (1) job per 1,000 square feet of building area. UEC: 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. UEC: In compliance.
Development Standards	Compliance with the Land Use Plan of the City's Comprehensive Plan. UEC: 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. UEC: N.A.
Restaurant/Bank	IRB financing is allowed for a restaurant or a bank if it is built or rehabilitated in an 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. UEC: 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. UEC: All jobs will be retained.
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:	Kennedy & Graven
UNDERWRITER:	Park Midway Bank

MCDA Bank Qualified Preliminary and Final Approval

RESOLUTION
of the
CITY OF MINNEAPOLIS

By ____

A resolution of the City Council of the City of Minneapolis approving the issuance of Revenue Refunding Bonds (University Episcopal Center Project), Series 2008, to be issued by the Minneapolis Community Development Agency under Minnesota Statutes, Sections 469.152-469.165, as amended, to refinance the acquisition, construction, and equipping of a portion of a building located at 331 17th Avenue SE in the City of Minneapolis

WHEREAS, the Minneapolis Community Development Agency (the "Issuer") is authorized by Minnesota Statutes, Sections 469.152 through 469.165, as amended (the "Act"), to issue revenue obligations to finance, in whole or in part, the cost of the acquisition, construction, reconstruction, improvement, betterment, or extension of a "project," defined in the Act, in part, as any properties, real or personal, used or useful in connection with a revenue producing enterprise, whether or not operated for profit, to be owned by a contracting party (as defined in the Act).

WHEREAS, the University Episcopal Center, a Minnesota nonprofit corporation (the "Borrower"), owns land located at 331 17th Avenue SE in Minneapolis, Minnesota, 55414, which it ground leased to 17th Avenue Housing LLC, a Minnesota limited liability company, of which J.A. Wedum Foundation, a Minnesota nonprofit corporation, is the sole member. 17th Avenue Housing LLC built a five-story apartment building (the "Building") on the land it leased from the Borrower and subleased 10,000 square feet of the ground floor of that building to the Borrower (the "Project"). The Borrower paid for the construction and equipping of the Project with financing obtained from a commercial bank (the "Prior Bank Loan"). The Borrower has subsequently subleased the Project to the Office of International Programs of the University of Minnesota, which uses the Project for office space.

WHEREAS, the Borrower has requested that the Issuer issue its Revenue Refunding Bonds (University Episcopal Center Project), Series 2008 (the "Bonds"), in the original aggregate principal amount not to exceed $1,060,000, and loan the proceeds derived from the sale of the Bonds to the Borrower pursuant to the terms of a Loan Agreement, to be dated on or after June 1, 2008 (the "Loan Agreement"), between the Issuer and the Borrower. The proceeds of the loan will be applied to the refinancing of the Prior Bank Loan. The Bonds are proposed to be purchased by Park Midway Bank, a Minnesota corporation (the "Lender").

WHEREAS, following a duly noticed public hearing held on May 6, 2008, the Board of Commissioners of the MCDA adopted a resolution on May 16, 2008, providing its approval for the issuance of the Bonds in an aggregate principal amount not to exceed $1,060,000.

WHEREAS, pursuant to Section 147(f) of the Internal Revenue Code of 1986, as amended (the "Code") and the Treasury Regulations promulgated thereunder, the City Council must approve the issuance of such Bonds.

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

The issuance of the Bonds in an aggregate principal amount not to exceed $1,060,000 by the Minneapolis Community Development Agency is hereby approved.

Certified as an official action of the City Council:

RECORD OF COUNCIL VOTE (X INDICATES VOTE)													
COUNCIL MEMBER	**AYE**	**NAY**	**NOT VOTING**	**ABSENT**	**VOTE TO OVERRIDE**	**VOTE TO SUSTAIN**	**COUNCIL MEMBER**	**AYE**	**NAY**	**NOT VOTING**	**ABSENT**	**VOTE TO OVERRIDE**	**VOTE TO SUSTAIN**
President Johnson							**Goodman**						
							Glidden						
Ostrow							**Schiff**						
Gordon							**Remington**						
Hofstede							**Benson**						
Samuels							**Colvin Roy**						
Lilligren							**Hodges**						

PASSED ______________________ ☐ **APPROVED** ☐ **NOT APPROVED** ☐
VETOED

DATE

ATTEST ______________________ ______________________

CITY CLERK **MAYOR** **DATE**

RESOLUTION

of the

MINNEAPOLIS COMMUNITY DEVELOPMENT AGENCY

By ____

A resolution of the Board of Commissioners of the Minneapolis Community Development Agency authorizing the issuance and sale of, and providing the form, terms, pledge of revenues, and findings, covenants, and directions relating to the Revenue Refunding Bonds (University Episcopal Center Project), Series 2008, to be issued by the Minneapolis Community Development Agency under Minnesota Statutes, Sections 469.152-469.165, as amended, to refinance the acquisition, construction, and equipping of a portion of a building located at 331 17th Avenue SE in the City of Minneapolis.

RESOLVED by the Board of Commissioners of the Minneapolis Community Development Agency (the "Board"):

Section 1. Background

1.01. The Minneapolis Community Development Agency (the "Issuer") is authorized by Minnesota Statutes, Sections 469.152 through 469.165, as amended (the "Act"), to issue revenue obligations to finance, in whole or in part, the cost of the acquisition, construction, reconstruction, improvement, betterment, or extension of a "project," defined in the Act, in part, as any properties, real or personal, used or useful in connection with a revenue producing enterprise, whether or not operated for profit, to be owned by a contracting party (as defined in the Act).

1.02. The University Episcopal Center, a Minnesota nonprofit corporation (the "Borrower"), owns land located at 331 17th Avenue SE in Minneapolis, Minnesota, 55414, which it ground leased to 17th Avenue Housing LLC, a Minnesota limited liability company, of which J.A. Wedum Foundation, a Minnesota nonprofit corporation, is the sole member. 17th Avenue Housing LLC built a five-story apartment building (the "Building") on the land it leased from the Borrower and subleased 10,000 square feet of the ground floor of that building to the Borrower (the "Project"). The Borrower paid for the construction and equipping of the Project with financing obtained from a commercial bank (the "Prior Bank Loan"). The Borrower has subsequently subleased the Project to the Office of International Programs of the University of Minnesota, which uses the Project for office space.

1.03. The Borrower has requested that the Issuer issue its Revenue Refunding Bonds (University Episcopal Center Project), Series 2008 (the "Bonds"), in the original aggregate principal amount not to exceed $1,060,000, and loan the proceeds derived from the sale of the Bonds to the Borrower pursuant to the terms of a Loan Agreement, to be dated on or after June 1, 2008 (the "Loan Agreement"), between the Issuer and the Borrower. The proceeds of the loan will be applied to the refinancing of the Prior Bank Loan. The Bonds are proposed to be purchased by Park Midway Bank, a Minnesota corporation (the "Lender").

1.04. The Borrower has represented to the Issuer that it is exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code"), as a result of the application of Section 501(c)(3) of the Code.

1.05. The loan repayments to be made by the Borrower under the Loan Agreement will be fixed so as to produce revenue sufficient to pay the principal of, premium, if any, and interest on the Bonds when due. The Issuer will assign its rights to the basic payments and certain other rights under the Loan Agreement to the Lender pursuant to the terms of an Assignment of Loan Agreement, to be dated on or after June 1, 2008 (the "Assignment of Loan Agreement"), between the Issuer, the Lender, and the Borrower.

1.06. Forms of the following documents have been submitted to the Issuer and are now on file with the Issuer: (i) the Bonds; (ii) the Loan Agreement; and (iii) the Assignment of Loan Agreement.

1.07. A notice of public hearing (the "Public Notice") was published in *Finance and Commerce* and the *Star Tribune*, the official newspaper and a newspaper of general circulation in the City of Minneapolis, with respect to: (i) the required public hearing under Section 147(f) of the Code; (ii) the required hearing under Section 469.154, subdivision 4, of the Act; and (iii) approval of the issuance of the Bonds. The Public Notice was published at least fifteen (15) days before a regularly scheduled meeting of the Issuer conducted on May 6, 2008. On such date, the Community Development Committee of the Minneapolis City Council conducted a public hearing on behalf of the Issuer at which a reasonable opportunity was provided for interested individuals to express their views, both orally and in writing, with respect to the proposed issuance of the Bonds.

Section 2. Issuance of the Bonds

2.01. The Board hereby finds, determines, and declares that:

(a) The issuance and sale of the Bonds, the execution and delivery by the Issuer of the Loan Agreement and the Assignment of Loan Agreement, and the performance of all covenants and agreements of the Issuer contained in the Loan Agreement and the Assignment of Loan Agreement are undertaken pursuant to the Act.

(b) The Project furthers the purposes stated in Section 469.152 of the Act and constitutes a "project," as defined in Section 469.153, subdivision 2(b) of the Act.

(c) The loan repayments to be made by the Borrower under the Loan Agreement are fixed to produce revenue sufficient to provide for the prompt payment of principal of, premium, if any, and interest on the Bonds issued under this resolution when due, and the Loan Agreement also provides that the Borrower is required to pay all expenses of the operation and maintenance of the Project, including, but without limitation, adequate insurance thereon and insurance against all liability for injury to persons or property arising from the operation thereof, and all lawfully imposed taxes and special assessments levied upon or with respect to the Project and payable during the term of the Loan Agreement.

(d) As provided in the Loan Agreement, the Bonds shall not be payable from nor charged upon any funds other than the revenue pledged to their payment, nor shall the Issuer be subject to any liability thereon, except as otherwise provided in this paragraph. No holder of the Bonds shall ever have the right to compel any exercise by the City of Minneapolis (the "City") or the Issuer of its taxing powers to pay any of the Bonds or the interest or premium thereon, or to enforce payment thereof against any property of the City or the Issuer except the interests of the Issuer in the Loan Agreement and the revenues and assets thereunder, which will be assigned to the Lender under the Assignment of Loan Agreement. The Bonds shall not constitute a charge, lien, or encumbrance, legal or equitable, upon any property of the City or the Issuer, except the interests of the Issuer in the Loan Agreement, and the revenues and assets thereunder, which will be assigned to the Lender under the Assignment of Loan Agreement. The Bonds shall recite that the Bonds are issued pursuant to the Act, and that the Bonds, including interest and premium, if any, thereon, are payable solely from the revenues and assets pledged to the payment thereof, and the Bonds shall not constitute a debt of the Issuer within the meaning of any constitutional or statutory limitations.

2.02. The Issuer hereby authorizes the issuance of the Bonds, in the principal amount, in the form, and with the terms set forth in the form of the Bonds now on file with the Issuer. The aggregate principal amount of the Bonds, the interest rate of the Bonds, the terms for adjustment of the interest rate on the Bonds, the date of the documents referenced in this resolution and the Bonds, and the terms of redemption of the Bonds may be established or modified with the approval of the Issuer. The execution and delivery of the Bonds shall be conclusive evidence that the Issuer has approved such terms as subsequently established or modified. The offer of the Lender to purchase the Bonds at the price of par plus accrued interest, if any, to the date of delivery at the interest rate or rates specified in the Bonds, is hereby accepted. The Deputy Director of the Department of Community Planning and Economic Development of the City and the Finance Officer of the City (collectively, the "Authorized Officers") are authorized and directed to prepare and execute the Bonds and the Bonds shall be delivered to the Lender. The Authorized Officers are hereby authorized to execute and deliver any agreements with any depository institution, including any representation letter or amendment to any existing representation letter, to provide for the registration of the Bonds in book-entry form.

2.03. The Loan Agreement and the Assignment of Loan Agreement are hereby approved in substantially the forms on file with the Issuer on the date hereof. The terms of the Loan Agreement and the Assignment of Loan Agreement may be established or modified with the approval of the Issuer. The execution and delivery of such documents shall be conclusive evidence that the Issuer has approved such terms as subsequently established or modified. The Authorized Officers are authorized and directed to execute and deliver the Loan Agreement and the Assignment of Loan Agreement. Copies of all of the documents necessary to the transaction herein described shall be delivered, filed, and recorded as provided herein and in the Loan Agreement.

2.04. The Authorized Officers and any other officers, employees, and agents of the Issuer selected to act in their stead are hereby authorized and directed to prepare and furnish to bond counsel and the Lender certified copies of all proceedings and records of the Issuer relating to the issuance of the Bonds including a certification of this resolution. Such officers, employees, and agents are hereby authorized to execute and deliver, on behalf of the Issuer, all other certificates, instruments, and other written documents that may be requested by bond counsel, the Lender, or other persons or entities in conjunction with the issuance of the Bonds. Without imposing any limitation on the scope of the preceding sentence, such officers, employees, and agents are specifically authorized to execute and deliver one or more financing statements, an arbitrage and rebate certificate, a receipt for the proceeds derived from the sale of the Bonds, an order as to the application of the proceeds of the Bonds, a general certificate of the Issuer, and an Information Return for Tax-Exempt Private Activity Bond Issues, Form 8038 (Rev. September 2007).

2.05. The Issuer hereby authorizes the Borrower to provide such security for payment of its obligations under the Loan Agreement and for payment of the Bonds as is agreed upon by the Borrower and the Lender and the Issuer hereby approves the execution and delivery of such security.

2.06. As required by the terms of Section 469.154 of the Act, the employees, officers, and agents of the Issuer are hereby authorized and directed to submit an application to the Minnesota Department of Employment and Economic Development for approval of the Project and the issuance of the Bonds.

Section 3. Miscellaneous

3.01. All agreements, covenants, and obligations of the Issuer contained in this resolution and in the above-referenced documents shall be deemed to be the agreements, covenants, and obligations of the Issuer to the full extent authorized or permitted by law, and all such agreements, covenants, and obligations shall be binding on the Issuer and enforceable in accordance with their terms. No agreement, covenant, or obligation contained in this resolution or in the above-referenced documents shall be deemed to be an agreement, covenant, or obligation of any member of the Board, or of any officer, employee, or agent of the Issuer in that person's individual capacity. Neither the members of the Board, nor any officer executing the Bonds, shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance of the Bonds.

3.02. Nothing in this resolution or in the above-referenced documents is intended or shall be construed to confer upon any person (other than as provided in the Bonds, the Loan Agreement, the Assignment of Loan Agreement, and the other agreements, instruments, and documents hereby approved) any right, remedy, or claim, legal or equitable, under and by reason of this resolution or any provision of this resolution.

3.03. If for any reason the Authorized Officers, or any other officers, employees, or agents of the Issuer authorized to execute certificates, instruments, or other written documents on behalf of the Issuer shall for any reason cease to be an officer, employee, or agent of the Issuer after the execution by such person of any certificate, instrument, or other written document, such fact shall not affect the validity or enforceability of such certificate, instrument, or other written document. If for any reason the Authorized Officers, or any other officers, employees, or agents of the Issuer authorized to execute certificates, instruments, or other written documents on behalf of the Issuer shall be unavailable to execute such certificates, instruments, or other written documents for any reason, such certificates, instruments, or other written documents may be executed by a deputy or assistant to such officer, or by such other officer of the Issuer as in the opinion of the City Attorney is authorized to sign such document.

3.04. The Bonds are hereby designated "Program Bonds" and are determined to be within the "Economic Development 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 August 12, 1997.

3.05. Effective Date. Be It Further Resolved that this resolution shall take effect upon publication.

RECORD OF COMMISSIONER VOTE													
Commissioner	**Aye**	**Nay**	**NV**	**Abs**	**Ovrd**	**Sust**	**Commissioner**	**Aye**	**Nay**	**NV**	**Abs**	**Ovrd**	**Sust**
Benson							**Lilligren**						
Colvin Roy							**Ostrow**						
Glidden							**Remington**						
Gordon							**Samuels**						
Hodges							**Schiff**						
Hofstede							**Goodman, chair**						
Johnson													
Vote: NV - Not Voting Abs - Absent Ovrd - Vote to Override Sust - Vote to Sustain													

ADOPTED ____________________. ____.

Chairperson

APPROVED
NOT APPROVED ____________________. ____.
VETOED

Mayor

Minneapolis Community Development Agency
Crown Roller Mill, 105 Fifth Ave. S.
Minneapolis, MN 55401
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