



**Request for MCDA Board of Commissioners Action
From the Department of Community Planning & Economic Development**

Date: April 6, 2004

To: Council Member Lisa Goodman, Community Development Committee

Refer to: MCDA Board of Commissioners

Prepared by: Bob Lind, Manager, Business Finance, Phone 612-673-5068

Presenter in

Committee: Bob Lind

Approved by: Chuck Lutz, Deputy CPED Director _____

Subject: A Public Hearing and Request for Preliminary and Final Approval of up to \$1,500,000 in 501(c)(3) Bank Qualified Bank Direct Tax-exempt Minneapolis Community Development Agency Revenue Bonds for Minnesota Technology Education Corporation (Minnesota Transitions Charter School Project).

RECOMMENDATION: City Council Recommendation: Adopt the attached Resolution, following a Public Hearing held on April 6, 2004, notice of which was published in Finance & Commerce on March 20, 2004, giving Preliminary and Final Approval to the issuance of up to \$1,500,000 in Tax-exempt 501(c)(3) Bank Qualified Bank Direct Minneapolis Community Development Agency Revenue Bonds, Series 2004 for Minnesota Technology Education Corporation (Minnesota Transitions Charter School 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 \$1,500,000 in Tax-exempt 501(c)(3) Bank Qualified Direct Revenue Bonds, Series 2004, for Minnesota Technology Education Corporation (Minnesota Transitions Charter School Project).

Previous Directives: None. At this time the project is requesting both preliminary and final approval on the issuance of revenue bonds.

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

X Other financial impact (Explain): The issuance of revenue bonds for the Minnesota Transitions Charter School Project will generate annual administrative fees of about \$3,750 a year that are used to support the small business assistance programs of the City.

___ Request provided to the Budget Office when provided to the _____ Committee Coordinator

Community Impact

Ward: Project located at 2526 27th Ave. S. in Ward 9.

Neighborhood Notification: On March 17, 2004 the Seward Neighborhood Organization was notified of this project.

City Goals: The project meets the City Goals of helping to maintain the physical infrastructure of the City as well as the goal of promoting community and private partnerships to support families and communities.

Comprehensive Plan: The Communications Technology School is located in the Seward Industrial/Business Park Opportunity Area, and its location in a light-industrial district could be beneficial to the development of the Industrial/Business Park land use feature.

Zoning Code: Current zoning is I1, Industrial/Business Park Opportunity Area.

Living Wage/Job Linkage: The proposed project is a 501(c)(3) conduit financing that is not subject to Living Wage/Business Subsidy.

Background/Supporting Information

The Minnesota Technology Education Corporation has requested approval of Bank Qualified Bank Direct Tax-exempt 501(c)(3) Revenue Bond financing for the Minnesota Transitions Charter School at 2526 27th Ave. S. in the 9th Ward.

The project consists of the acquisition and renovation of the building at 2526 27th Ave. S. to be used as a K-12 charter school. The renovations will provide additional classrooms and more recreational space.

Minnesota Transitions Charter School operates technology-oriented programs for K-12 students. The charter school serves primarily low-income inner city students, many living within the Minneapolis Empowerment Zone areas. Over 60% of the students are low-income.

It is estimated that the purchase/refinancing of the building will run about \$645,000 with the building renovations estimated at \$675,000.

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. Drawing on the work of other development agencies across the country, CPED has 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 results in lower borrowing costs for nonprofit organizations.

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 revenue bonds. Banks therefore can get the dual benefits of tax-exemption 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 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 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 \$10 million in bank qualified tax-exempt revenue bonds each year.

It is expected that the Bank Qualified Bank Direct Revenue Bond of about \$1.5 million will be placed with Western Bank for a 20-year term, with the initial interest rate fixed at 4.55% for the first ten years, with a re-pricing in the 10th and 15th years.

Sources:

| | |
|--|-------------|
| Bank Qualified Bank Direct Revenue Bonds | \$1,500,000 |
|--|-------------|

Uses:

| | |
|-------------------------|--------------------|
| Acquisition of Building | \$ 645,000 |
| Renovation Costs | 675,000 |
| Debt Service Reserve | 150,000 |
| Issuance Costs | <u>30,000</u> |
| | <u>\$1,500,000</u> |

PRESENT EMPLOYMENT:

60 teachers, teacher assistants and other Support personnel.

NEW EMPLOYMENT:

None expected as a result of the rehab work.

ASSESSOR'S ESTIMATED ANNUAL TAX INCREASE:

Tax-exempt facilities.

AFFIRMATIVE ACTION COMPLIANCE:

Project will have on file an approved affirmative action plan with the City.

CPED IRB POLICIES:

Job Component

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

Minnesota Transitions: 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.

Development Standards

Minnesota Transitions: In compliance.

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

Minnesota Transitions: The Communications Technology School is located in the Seward Industrial/Business Park Opportunity Area, and its location in a light-industrial district could be beneficial to the development of the Industrial/Business Park land use feature.

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.

Minnesota Transitions: 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.

Minnesota Transitions: N.A.

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

UNDERWRITER:

Western Bank

**MINNEAPOLIS CPED-PLANNING DIVISION REPORT
REVENUE BONDS**

DATE: March 25, 2004

PROJECT NAME: Minnesota Transitions Charter School

ADDRESS: 2526 27th Avenue South

SUBMITTED BY: CPED-Business Development

REVIEWED BY: Mike Larson, Senior Planner

CONTACT PERSON AND PHONE: Bob Lind--673-5068

WARD: 9

NEIGHBORHOOD ORGANIZATION: Seward Neighborhood Group

PROJECT DESCRIPTION:

The Minnesota Technology Education Corporation will be acquiring and rehabbing a building located at 2526 27th Ave. S. to operate a K-12 charter school. The renovations will provide additional classroom and recreational space for the school. Minnesota Transitions Charter School operates technology-oriented programs for primarily low-income inner city students, many of whom live within the Minneapolis Empowerment Zone area. Over 60% of the students are low-income.

It is estimated that the purchase/refinance of the building will run about \$645,000 with the building renovations estimated at \$675,000. The Bank Qualified Bank Direct Revenue Bond is being placed with Western Bank for a 20 year term, with the initial interest rate fixed at 4.55% for the first ten years, with a re-pricing in the 10th and 15th years.

COMPREHENSIVE PLAN:

The site is located in the Seward *Industrial/Business Park Opportunity Area*. Current zoning, I1, reflects this designation. Schools are a permitted use with this zoning classification. Comprehensive Plan policies relevant to this project relate to industrial land use and employment as well as the promotion of learning and skill development.

- 5.1 Minneapolis will encourage the growth of partnerships and learning opportunities that prepare students for the world of work.**

Implementation Steps

Continue to work with a wide range of business and educational organizations to develop student skills and expand experiences they need to become contributing members of the community.

- 9.8 Minneapolis will prioritize growth in light industrial land uses to increase the tax base and create jobs for city residents.**

Implementation Steps

Identify appropriate areas for the retention and expansion of existing industry and the development of new industry in specific industrial and business park opportunity areas.

FUTURE RELATED ACTIONS: The applicant will have to apply for zoning and building permits.

COMMENTS AND FINDINGS: As opposed to a traditional high school, Minnesota Transitions Charter School could be considered workforce development, as its students will be exposed to technology in ways that traditional students might not be. High skilled industries require a well educated work force. The site's location in a light-industrial district could be considered beneficial to the development of the *Industrial/Business Park* land use feature. The City should be encouraged the school to make linkages to area employers for learning and training experiences. Furthermore, the City should encourage area businesses to support the activities of the school.

RECOMMENDATION: The City Planning Department recommends approval of the issuance of the revenue bonds.

City Resolution

Giving preliminary and final approval to and authorizing a project on behalf of Minnesota Technology Education Corporation (the “Company”), and authorizing the issuance of a revenue bond of the Minneapolis Community Development Agency therefore.

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, it has been proposed that the Agency issue a revenue bond in the amount of approximately \$1,500,000 (the “Bond”) to finance the acquisition and renovation of a building to be used as a K-12 charter school, and located at 2526 27th Avenue South in the City (the “Project”); and

Whereas, the Project will be owned by the Company and leased to Minnesota Transitions Charter School, a Minnesota nonprofit corporation;

Whereas, the Agency expects to give final approval to the issuance of the Bond by a resolution to be adopted on the date hereof; and

Whereas, the Bond shall bear interest at an initial interest rate not to exceed five percent (5.00%) per annum, shall have a final maturity date not later than December 1, 2024, and shall have such other terms as required or permitted by the Agency’s resolution, which terms are to be incorporated herein by reference;

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

That the City Council hereby gives preliminary and final approval to the issuance by the Agency of the Bond in the principal amount of approximately \$1,500,000 for the purpose of financing the Project;

That the Bond is hereby designated as a “Program Bond” and is 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 December 12, 1997.

