

Minneapolis Community Development Agency

Request for City Council Action

Date: November 10, 2003

To: Council Member Lisa Goodman, Community Development Committee
Council Member Barbara Johnson, Ways and Means/Budget Committee

Refer to: MCDA Board of Commissioners

Prepared by Jack Kryst, Phone 612-673-5130

Approved by Lee Sheehy, MCDA Executive Director and Interim CPED Director
Patrick Born, Finance Officer
Jay Heffern, City Attorney

Subject: Status of Transfer of MCDA Assets and Liabilities to CPED

Previous Directives: Resolution 2003R-358, Approving certain policies and directing certain actions pertaining to the transfer of employees, assets and activities from the Minneapolis Community Development Agency to the City, directing the Director of the Department, the Finance Officer and the City Attorney to report back to City Council with recommendations on the transfer of certain MCDA assets and liabilities.

Ward: City Wide

Neighborhood Group Notification: N/A

Consistency with *Building a City That Works*: N/A

Comprehensive Plan Compliance: N/A

Zoning Code Compliance: N/A

Impact on MCDA Budget: (Check those that apply)

- No financial impact
- Action requires an appropriation increase to the MCDA Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Other financial impact (Explain):

Living Wage / Business Subsidy: N/A

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Job Linkage: N/A

Affirmative Action Compliance: N/A

Recommendation:

City Council Recommendation: Receive and File
MCDA Board: Receive and File

Background/Supporting Information

Laws of Minnesota 2003, Chapter 127, Article 12, Sections 31 through 34 (the "Authorizing Legislation") provides authority for the City of Minneapolis to establish within the City the Department of Community Planning and Economic Development ("CPED") and, among other things, to transfer assets and liabilities of the Minneapolis Community Development Agency ("MCDA") to the City.

On August 8, 2003, the City Council established CPED by ordinance and directed staff to report back to the City Council with recommendations for the transfer of various assets and liabilities.

A working group composed of staff from CPED, the Finance Department, and the City Attorney's Office has been reviewing and considering the steps necessary to provide for the orderly transfer of various assets and liabilities. Although there are a number of special cases (identified below) the staff-recommended approach in each of several categories of items is as follows:

Assets

Money and other Assets - As authorized in Section 31 of the Authorizing Legislation, cash and other assets/receivables such as loan and lease payments will be transferred by Council resolution and ratified by Board action. (With respect to receivables, the resolution may assign MCDA's right to receive payments to the City rather than assign, endorse or physically transfer every loan, lease, investment etc.) The resolution will identify the affected MCDA funds. It should be noted that for financial reporting purposes the MCDA has always been considered a component unit of the City of Minneapolis and that its financial assets and liabilities have always been reported as part of the City of Minneapolis Comprehensive Annual Financial Report (CAFR). A transferring resolution is expected to be before the Council in December. The effective date of transfer is expected to be January 1, 2004.

Investments - As authorized in Section 31 of the Authorizing Legislation, investments will be transferred by Council resolution and ratified by Board action. Approximately two-thirds of the MCDA investments are currently deposited in the City treasury pooled investment fund. Per Section 32, subd. 6 of the Authorizing Legislation, MCDA money and investments transferred to the City may be deposited in any fund or account of the

City. The balance of MCDA investments is being surveyed to determine which may require special action. Two items have thus far been identified for special handling:

Investments of the Common Bond Fund (the "CBF") - Created in 1982 to provide financing for industrial, manufacturing and other users; has issued over \$250 million in MCDA revenue bonds for over 70 projects. A working group of the CBF Coordinating Committee consisting of City staff, attorneys from Gray, Plant, Mooty, Mooty & Bennett and Faegre & Benson, financial advisors, and participating bank representatives is identifying the specific public actions necessary to transfer the holdings, obligations and operation of the CBF from the MCDA to the City by the end of 2003. Recommendations will be ready for Council action in December.

The Legacy Fund - A substantial portion of the proceeds of the sale of the City's interest in the Hilton Hotel was invested in equities (80% on 9/30/03). Since State law bars municipalities from the use of this investment instrument, the investment is held by the MCDA. Consistent with Council direction in the MCDA 2003 Budget Resolution, the Finance Department is restructuring this investment. The transfer of this asset would be dependent on the completion of a fiscally sound restructuring which will not be completed until sometime in 2004.

Personal Property – The transfer of personal property such as office furniture and equipment will be authorized by Council resolution per Section 31 of the Authorizing Legislation and implemented through a blanket bill of sale. The effective date of transfer is expected to be January 1, 2004. It is anticipated that technology such as computer hardware and software will have been separately transferred to BIS/Unisys either directly or via transfer to the City on or before that date.

Real Property - CPED Legal and Real Estate staff along with staff from the City Attorney's office have been working with the Examiner of Titles of Hennepin County and determined that MCDA real property can most easily be transferred to the City by use of one or more deeds. The transfer(s), which involves the compilation of a master list of properties to be included, would be authorized by Council and Board resolutions. There would additionally be need for title work at a currently estimated cost not-to-exceed \$10,000.

Although the transfer of property using a master deed process can likely be concluded before year-end, CPED Legal/Real Estate staff strongly recommends that the transfer should not occur until final decisions are made regarding the approval/authorization process for the disposition of City-owned land. In a separate report, the Real Estate Subgroup of the Policies/Procedures Working Group will be suggesting that discussion on this topic be concluded and a revised policy brought forward by April 2004. The CPED Legal/Real Estate recommendation is based upon the significant differences between the existing City and MCDA processes for sale of land and the need to react in a more expeditious way when transferring land for development purposes. The Policies/Procedures Working Group will be recommending that the MCDA disposition policy continue to be applied to the disposition of MCDA property through April 2004. If

that recommendation is accepted the transfer of MCDA property should not occur prior to the revised policy implementation date.

The list of properties transferred in this process will not be all-inclusive. There are complexities to the transfer of some properties, (e.g., notice/consent requirements, liability concerns, costs or time constraints) that may require them to be dealt with on a case-by-case basis. Visible examples of such items are:

- Target Center Arena
- MCDA owned theaters
- Property held as part of the Common Bond Fund

The working group together with project staff is in the process of reviewing MCDA holdings, projects and obligations to identify those that may fall into this category. Although it is expected that only a small number of the approximately 634 properties currently owned by the MCDA will fall into this category, the exact number is not yet known. Also not yet known is the date by which all such properties can prudently be transferred.

Projects, Programs, Districts, Developments - These are expected to be transferred by resolution pursuant to Section 31 of the Authorizing Legislation and are also being surveyed by CPED staff and the transfer work team for those that require special handling.

Among those requiring special handling are the Common Bond Fund which was discussed above and programs such as the Bank Qualified Bank Direct Revenue Bond Program that will continue to be conducted by the MCDA. Although we expect that tax increment districts in general will be transferred by resolution by year-end, there are some questions that remain regarding the Common Project, specifically the obligations and constraints that may stem from the insurance security provided for repayment of the 1990 bond issue that accompanied its creation. We expect clarification in time for the December actions.

Obligations

Notes, Bonds, Contracts and Other Obligations – The City has pledged not to do anything to impair the rights and remedies of any holders of MCDA notes or bonds. (See Minneapolis Code of Ordinances Section 422.160). But obligations transferred to the City may continue to be secured only by the MCDA assets that were pledged to them rather than the full faith and credit or taxing powers of the City (Authorizing Legislation Section 32, subd.7) A list of major economic obligations of the MCDA is being compiled but will need to be reviewed by a due diligence team including the City's Finance Officer and bond counsel. Although some of this review is underway it is not certain that it will be completed by year's end. Pursuant to Section 31 of the Authorizing Legislation we intend to present a resolution to the Council in December transferring all other MCDA obligations to the City, i.e. TIF Pay-go notes, NRP contracts, Citizen

Participation contracts, grant and loan agreements. Remaining obligations will be transferred under the same authority as soon thereafter as is appropriate.

Summary Table			
Item	Method	Effective	Exceptions
Money, Other Assets	Transfer Resolution	1/1/2004	Fund SPH0 (Legacy Fund) pending
Investments	Resolution	1/1/2004	Legacy Fund transfer is dependent on investment restructuring into 2004 Common Bond Fund will have separate action prior to 12/31/03
Personal Property	Transfer Resolution Bill of Sale	1/1/2004	None noted
Real Property	Transfer Resolution Master Deed	See note*	As noted for special handing e.g. Target Center Arena Theaters
Projects, Programs, Districts, Developments	Resolution	1/1/2004	Common Project pending MBIA clarification Bank Qualified Lending remains MCDA
Notes, Bonds Contract and Other Obligations	Resolution	1/1/2004	As noted for special handling
*CPED Legal/Real Estate strongly recommends prior revision of disposition policy and authorities.			