



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

**Date:** July 11, 2006

**To:** Council Member Lisa Goodman, Community Development

**Subject:** Request for Final Approval of up to \$11.5 million in 501 (c)(3) Tax-exempt Revenue Bonds for the MacPhail Center for Music Project.

**Recommendation:** Recommendation: The CPED Director recommends that the City Council adopt the attached Resolution giving Final Approval to the issuance of up to \$11.5 million in 501 (c)(3) Tax-exempt Revenue Bonds for the MacPhail Center for Music Project.

**Previous Directives:** A Public Hearing and Preliminary Approval on the MacPhail Center for Music Project were taken to the C.D. Committee Meeting on June 20, 2006 at 1:30pm. The action approved by full city council on June 30, 2006.

**Prepared by:** Becky Shaw **Phone:** 612-673-5066

**Approved by:**

Chuck Lutz, Deputy Director CPED \_\_\_\_\_

**Permanent Review Committee (PRC)** Approval  Not Applicable

**Note:** To determine if applicable see <http://insite/finance/purchasing/permanent-review-committee-overview.asp>

**Presenter in Committee:** Becky Shaw

### Financial Impact (Check those that apply)

- No financial impact (If checked, go directly to Background/Supporting Information).
- Action requires an appropriation increase to the  Capital Budget or  Operating Budget.
- Action provides increased revenue for appropriation increase.
- Action requires use of contingency or reserves.
- Business Plan:  Action is within the plan.  Action requires a change to plan.
- Other financial impact (Explain): The issuance of revenue bonds for the MacPhail Center for Music Project will generate revenue bond administrative fees of approximately \$27,000 a year that are used to support the small business assistance programs of the City of Minneapolis.
- Request provided to department's finance contact when provided to the Committee Coordinator.

## Community Impact (use any categories that apply)

Neighborhood Notification: The Downtown West Neighborhood has been notified.

City Goals: The project promotes public and community partnerships that enhance Minneapolis as the premier regional center for education and arts.

Comprehensive Plan: The proposed project complies with the policies of the Minneapolis plan.

Zoning Code: The proposed project is in compliance.

Other:

## Background/Supporting Information:

MacPhail Center for Music is a non-profit corporation that has been a musical center for excellence in Minneapolis for almost 100 years. It opened in 1907 as MacPhail School of Violin and quickly expanded to teach other instruments and styles of music. MacPhail is currently one of the largest music schools in the nation. The current location in downtown Minneapolis is aged and lacks air conditioning and modern recording studios. The MacPhail Center intends on constructing a new 55,000 square foot facility to be located at 501 Second Street South. The facility will be a 6 story state-of-the-art music education and performing arts facility housing 55 studios, several classrooms and performance areas. It will be used as a venue for both music education and live performances. Ground breaking is planned for August 2006 with a projected completion of Fall 2007 to celebrate the Center's 100<sup>th</sup> Anniversary.

## Type of Financing:

The proposed financing of the facility comes from several funding sources. It is proposed that the City of Minneapolis issue up to \$11.5 million in Tax-exempt Revenue Bonds for this project. The Bonds will be secured by a Bank Letter of Credit and rated AA/A-1+ by Standard and Poor's rating agency. The proceeds of the Bonds will be loaned to the Center pursuant to the terms of a Loan Agreement and Indenture of Trust. Principle and Interest payments will be paid primarily from charitable contributions. In addition, the Center will contribute approximately \$10 million in equity from building proceeds and cash received from its capital campaign. The final large component is expected to be proceeds of a grant to the City from the State of Minnesota in the amount of up to \$5 million. These sources are anticipated to be sufficient for the acquisition, construction and equipping of the new Facility.

Sources:	State Bond Proceeds	\$ 5,000,000
	City of Minneapolis Revenue Bonds	\$ 11,500,000
	Equity	<u>\$ 10,000,000</u>
	Total Project Sources:	\$ 26,500,000
Uses:	Land Acquisition	\$ 800,000
	Construction	\$ 21,500,000
	Fees and Other Expenses	<u>\$ 3,200,000</u>
	Total Project Uses:	\$ 26,500,000

**Present Employment:** MacPhail Center currently employs 193 people.

**New Employment:** All positions will be retained with the construction of the new facility.

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

**Affirmative Action Compliance:** MacPhail is currently working with the City on their affirmative action plan.

**CITY IRB POLICIES:**

Job Component	Minimum standard of one (1) job per 1,000 square feet of building area.  MacPhail: N.A.
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.  MacPhail: 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.  MacPhail: In compliance
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.  MacPhail: 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.

MacPhail: 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:

Lindquist & Vennum, PLLP

UNDERWRITER:

Piper Jaffray & Co.