



**Request for City Council Committee Action
From the Finance Department**

Date: November 30, 2009
To: Ways and Means/Budget Committee
Referral to:

Subject: Sale of Taxable Target Center Refunding Bonds

Recommendation: The City Council adopt a resolution authorizing the Chief Financial Officer (CFO) to accept bids and award General Obligation Taxable Tax Increment Refunding Bonds for the Target Center in compliance with applicable Minnesota Statutes.

Previous Directives:

November 9, 2009 – Authorization for issuing tax-exempt bonds for refunding Target Center bonds

Numerous previous actions authorized issuance of the current outstanding bonds related to the City's purchase of the Target Center

Prepared or Submitted by Michael Abeln, Director, Capital & Debt Mgmt, 673-3496

Approved by: Patrick Born, Chief Financial Officer _____

Steven Bosacker, City Coordinator _____

Presenters in Committee: Michael Abeln, Director, Capital & Debt Mgmt, 673-3496

<p>Financial Impact (Check those that apply)</p> <p><input checked="" type="checkbox"/> Other financial impact (Explain): Bond refunding for interest savings and restructuring debt in compliance with finance plan</p> <p><input checked="" type="checkbox"/> Request provided to the Budget Office when provided to the Committee Coordinator</p>

Background/Supporting Information (Resolution Attached)

The City currently has three series of tax-exempt bonds outstanding totaling \$58,330,000 related to the Target Center. All of the bonds are currently callable providing an opportunity to realize significant interest cost savings. In addition, consolidating the three bond series into one series will reduce administrative burden and fees. Refunding the bonds will also allow the City to create a maturity structure that better fits the parameters of the revised finance plan. Details regarding the series/maturities to be refunded follow.

- A) General Obligation Refunding Bonds (Sports Arena Project), Series 1996. These bonds were issued in the original amount of \$67,555,000 and have a current outstanding balance of \$49,735,000 with a final maturity date of October 1, 2024. The interest rates on the remaining bonds range from 5.00% to 5.20%.
- B) Revenue Bonds (Arena Acquisition Project), Series 1995-A. These bonds were issued in the original amount of \$6,100,000 and have a current outstanding balance of \$4,140,000 with a final maturity date of October 1, 2024. These bonds are in variable rate mode so the interest rates fluctuate with market conditions.
- C) Revenue Bonds (Arena Acquisition Project), Series 1995-B. These bonds were issued in the original amount of \$6,550,000 and have a current outstanding balance of \$4,455,000 with a final maturity date of October 1, 2024. These bonds have a fixed interest rate of 5.50%.

On November 13, 2009, the City Council passed a resolution authorizing the issuance of tax-exempt refunding bonds for facilitating the refunding of the above described bonds. Since this resolution was passed, new information has been received regarding the need for and potential timing of future capital improvements to the Target Center from both the City's perspective as well as from the current users of the facility. Issuance of tax-exempt refunding bonds significantly limits the amount of capital investment that can be paid for by the private users of the facility over the life of the bonds. The Finance Department in conjunction with Convention Center management, CPED and bond counsel has determined that it would be more practical and risk averse to issue taxable refunding bonds now to allow more flexibility for private capital improvements.

Because of the current interest rate environment, there is still savings potential to be realized by issuing taxable bonds versus the current bonds outstanding. The estimated net present value benefit calculated by our financial advisor is approximately \$2 M or 3.24% over the life of the bonds. The City would most likely reach thresholds that would cause us to have to issue taxable bonds at some point in the future for the Target Center due to the private activity limitations described above. Issuing taxable bonds at a later date may be more costly due to the low taxable interest rates available now.

Recommendation:

The Finance Department recommends the City Council adopt the attached resolution authorizing the CFO to accept bids and award the General Obligation Taxable Tax Increment Refunding Bonds to the lowest qualified bidder. The tentative sale date for the refunding bonds is being planned for December 8, 2009. The CFO will report the results back to the City Council after completion of the transaction.