



**Request for City Council Committee Action  
From the Department of Community Planning & Economic Development**

Date: September 27, 2005

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

Prepared by: Charles Curtis, Senior Economic Development Specialist  
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Presenter in Committee: Charles Curtis, Senior Economic Development Specialist

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

**Subject:** A Public Hearing and Request for Preliminary and Final Approval of up to \$25,000,000 in Taxable Limited Tax Supported City of Minneapolis Development Revenue Bonds, Series 2005, to be issued through the Common Bond Fund at an interest rate not to exceed 7.5% to Retire Outstanding Common Bond Fund Tax-exempt Revenue Bonds, Series 2001G-3, and finance the acquisition of the Pantages, Orpheum and State Theatres by Hennepin Theatre Trust, a Minnesota nonprofit corporation, subject to the fulfillment of the terms and conditions of the Lease and related documents.

**RECOMMENDATION:**

The CPED Director recommends that the City Council:

1. Adopt the attached Resolution, giving Preliminary and Final Approval to the issuance of up to \$25,000,000 in Taxable Limited Tax Supported Development Revenue Bonds, Common Bond Fund, Series 2005, at an interest rate not to exceed 7.5% to be issued through the Common Bond Fund to Retire Outstanding Tax-exempt Common Bond Fund Revenue Bonds, Series 2001G-3, and finance the lease and acquisition of the Pantages, Orpheum and State Theatres by Hennepin Theatre Trust, a Minnesota nonprofit corporation, subject to the fulfillment of the terms and conditions of the Lease and related documents, and designating the bonds as bonds entitled to the security provided by Ordinance No. 87-OR-084, Tax Reserve and Pledge Ordinance.
2. Authorize the termination of the existing theatre Management Agreement with Historic Theatre Group, Ltd. and the Master Use Agreement with Hennepin Theatre Trust upon execution of the Lease and sale of the Taxable bonds.

3. Authorize cancellation of the restoration surcharge on tickets and pledge that such a surcharge will not be imposed exclusively on the ticket sales of the Pantages Theatre, the Orpheum Theatre and the State Theatre in the future.

**Previous Directives:** Current Outstanding Common Bond Fund Tax-exempt Revenue Bonds, Series 2001G-3, approved by the City Council on September 14, 2001 in the amount of \$22,225,000.

Authorization to negotiate exclusively with Hennepin Theatre Trust, Historic Theatre Group, LTD, and Clear Channel Entertainment (now SFX Entertainment, Inc. for the sale of the theatres was granted by the City Council on November 19, 2004.

Approval of a project Term Sheet was granted by the City Council on April 15, 2005.

**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
- Other financial impact: The issuance of revenue bonds will generate annual administrative fees 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: City Wide

Neighborhood Notification: NA

City Goals: The project is consistent with Goal 1 to increase the City's economic competitiveness and extend the benefits of the growing economy to Minneapolis residents and with Goal 4 to support development efforts that enhance unique urban institutions, features and amenities.

Comprehensive Plan: The facilities are consistent with the current Plan.

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**Community Impact (Continued)**

Zoning Code:	The facilities are in compliance.
Living Wage/Job Linkage:	NA
Other:	Affirmative Action is in compliance.

**Background/Supporting Information**

**PROJECT LOCATION AND DESCRIPTION:**

The project consists of the Lease and ultimate sale of the Pantages Theatre, located at 710 Hennepin Avenue, the Orpheum Theatre, located at 910 Hennepin Avenue, and the State Theatre, located at 805 Hennepin Avenue to Hennepin Theatre Trust (HTT), a Minnesota nonprofit corporation. The sale would only occur upon HTT's fulfillment of all of its obligations under the Lease. Historic Theater Group (HTG) would manage the theaters on behalf of HTT. Clear Channel Entertainment (CCE) would: (1) enter into a consulting agreement with HTT for presentation of a Broadway season; (2) provide financial guarantees described below; (3) have an ownership interest in HTG. CCE's financial guarantees are contained in a Guaranty Agreement, which together with the Lease, are attached to this report. Collectively, HTT, HTG and CCE are referred to as the "proposers."

Negotiation of the Lease terms was authorized by an April 15, 2005 City Council action. The Lease is based on the conditions of the term sheet, which was presented to a joint meeting of the Community Development and Ways & Means/Budget Committee on April 5.

**Key Provisions of the Lease**

- The three theatres would be leased to the HTT for a 30-year term. The Lease will remain in place even if the bonds are retired early.
- The tax-exempt bonds would be retired with taxable bonds through the City's Common Bond Fund (CBF) to allow significant private investment in the Theatres in a way which the tax-exempt bonds do not permit. The proposers are required to make monthly lease payments to the City to equal the annual debt service on the bonds.

- Since the City of Minneapolis will have ultimate liability for the Theatre debt should a default occur, the Guaranty Agreement with SFX Entertainment, Inc. provides, among other pledges, two Letters of Credit totaling \$11,250,000 to ensure proper maintenance and operation of the theatres. In addition a Letter of Credit for \$1,600,000 will be provided for the debt service reserve of the Series 2005 Bonds.
- All Costs of Issuance for the taxable bond issue will be paid directly by the proposers
- HTT, working with its manager, will be responsible for capital improvements to the theatres including a \$1.5 million investment in improvements in the first two years of the lease.
- HTT, working with its manager and consultant, must meet certain performance standards for the presentation of events; not meeting them will result in penalties or default.
- There is a \$10 million endowment requirement of HTT.
- Hennepin Theatre Trust has committed to providing arts education and community engagement at the theatre facilities.

Termination of Agreements Upon Lease Execution and Taxable Bond Issuance

Upon issuance of the taxable bonds and execution of the Lease, the existing Management Agreement with Historic Theatre Group, Ltd. and the Master Use Agreement with Hennepin Theatre Trust will terminate. In addition, the restoration surcharge on tickets will be cancelled, and no future surcharge will be imposed by the City.

**TYPE OF FINANCING: (Estimated)**

<u>Sources:</u>	Taxable Revenue Bonds	\$21,144,792
	Prior Debt Service Reserve	2,667,885
	Letter of Credit for Reserve	1,573,945
	Equity	<u>600,000</u>
	Total	\$25,986,622

<u>Uses:</u>	Deposit to Net Cash Escrow Fund	\$23,812,677
	Funding of Reserve Fund	1,573,945
	Costs of Issue	<u>600,000</u>
	Total	\$25,986,622

**PRESENT EMPLOYMENT:**

NA

**NEW EMPLOYMENT:**

NA

**ASSESSOR'S ESTIMATED ANNUAL TAX INCREASE:**

To be determined.  
The tax-exempt status of these Facilities under the proposed Lease Agreement are under review by the City Assessor.

**AFFIRMATIVE ACTION COMPLIANCE:**

Theatre Project: In compliance.

**IRB POLICIES:**

Job Component

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

Theatre Project: NA

Property Improvements

No more than 25% of the bond proceeds may be used for land acquisition. If purchasing an existing building, an amount equal to at least 15% of the acquisition cost must be spent on rehabilitation expenditures.

Theatre Project: NA  
Nonprofit organization

Development Standards

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

Theatre Project: 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 bonds proceeds may be used to finance movable equipment not constituting a fixture.

Theatre Project: NA

Restaurant/Bank

IRB financing is allowed for a restaurant or a bank if it is built in a Redevelopment Area. No more than 25% of the bond proceeds can be used to finance retail food and beverage establishments, automobile dealership or recreation or entertainment facilities.

Theatre Project: NA

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.

Theatre Project: NA

**IRB CAP:**

The project is not subject to the State of Minnesota revenue bond volume cap in that the bonds are taxable.

**BOND COUNSEL:**

Gray, Plant, Mooty, PA

**UNDERWRITER:**

Piper Jaffray  
RBC Dain Rauscher, Inc.

**COUNCIL MEMBER INFORMED:**

City Wide

**MINNESOTA DEPARTMENT OF EMPLOYMENT  
AND ECONOMIC DEVELOPMENT APPROVAL:**

An application will be submitted  
and will be on file prior to closing.