

Request for City Council Action

Date: May 20, 2002

To: Council Member Lisa Goodman, Community Development Committee,
Refer to: MCDA Board of Commissioners

Prepared by: Charles Curtis, Phone 612-673-5069

Approved by Chuck Lutz, MCDA Interim Executive Director _____

Subject: A Public Hearing and Request for Preliminary and Final Approval of up to \$1,200,000 in 501(c)(3) Bank Direct Tax-exempt Minneapolis Community Development Agency Revenue Bonds, Series 2002, for Resource, Inc.

Previous Directives: None for this project. Common Bond Fund Series 2000-2G was issued for another separate project for Resource, Inc.

Ward: 6

Neighborhood Group Notification: Representatives of Phillips have been notified.

Consistency with *Building a City That Works*: The Resource, Inc. project is consistent with Goal 4 of preserving and enhancing the urban institutions and amenities that define Minneapolis.

Comprehensive Plan Compliance: The Resource, Inc. project complies with the policies of The Minneapolis Plan.

Zoning Code Compliance: Existing facility is in compliance.

Impact on the MCDA Budget:

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: The issuance of 501(c)(3) tax-exempt revenue bonds will generate annual administrative fees that are used to support the small business assistance programs of the City

Living Wage/Business Subsidy: Does not apply.

Job Linkage: Does not apply.

Affirmative Action Compliance: The project will comply with the affirmative action requirements of the City by filing an updated Affirmative Action Plan from its 2000 compliance.

RECOMMENDATION:

City Council Recommendation: The Interim Executive Director recommends that the City Council adopt the attached Resolution, a summary of which will be published, following a Public Hearing held on May 20, 2002, notice of which was published in Finance and Commerce on May 4, 2002, giving Preliminary and Final Approval to the issuance of up to \$1,200,000 in Tax-exempt 501(c)(3) Bank Direct Minneapolis Community Development Agency Revenue Bonds, Series 2002, for Resource, Inc.

MCDA Board Recommendation: The Interim Executive Director further recommends that the City Council 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 \$1,200,000 in Tax-exempt 501(c)(3) Bank Direct Revenue Bonds, Series 2002, for Resource, Inc.

Industrial Development Bonds (commonly known as IDB's 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 by other development agencies across the country, the MCDA 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 or projects in the past due to the amount of red tape and high borrowing costs. By providing a streamlined application and documentation process, the red tape is significantly reduced resulting in lower borrowing costs for nonprofit organizations able to use the Bank Qualified Tax-exempt Loan Program.

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 bonds. Banks therefore can get the dual benefits of tax-exemption and deductibility of carrying costs. This translates into lower borrower costs for the nonprofit organizations who work with a city (issuer) on the issuance of bank qualified bonds. Tax-exempt revenue bonds are underwritten and collateralized just like any conventional loan for the same project. The bank approval process for the revenue bond program does not differ from conventional financing.

For those of us who were around prior to the 1986 Federal Tax Bill, there was a time when almost all revenue bond financing was bank qualified and much of the revenue bond debt was privately placed with local banks. Today, the issuance of bank qualified tax-exempt revenue bonds is limited to issuers who issue less than \$10 million a year in revenue bonds. This exemption was always a stumbling block for large cities like Minneapolis in that we routinely issue much more than \$10 million a year. The key to

making the Bank Qualified Tax-exempt Loan Program work was in finding a legal issuer within the municipality of Minneapolis that would be under the \$10 million limitation. Based on discussions with bond counsel at Gray, Plant & Mooty, the MCDA (and there may be other legal entities as well) has the ability to issue bank qualified tax-exempt revenue bonds as long as on an annual basis it stays below the \$10 million limitation. By carefully monitoring on an annual basis the issuance of governmental bonds that would count against the \$10 million limitation, the MCDA would be in a position to issue a number of bank qualified tax-exempt loans for a number of small 501(c)(3) nonprofit organizations at interest rates that would be up to 300 basis points lower than commercial bank rates.

It is the goal of the MCDA to make available each year \$10 million in bank qualified tax-exempt revenue bonds for a number of 501(c)(3) nonprofit organizations, with no one project exceeding \$2 million. Based on the dollar size of the projects and whether or not there are other governmental bonds that would count against the \$10 million limitation, the MCDA would anticipate being able to provide financing for 4-8 projects each year. The types of projects that would typically be financed on a tax-exempt basis include educational facilities, health care facilities, retirement, nursing or other long-term facilities, YMCA-type facilities, and office buildings for use by the staff of the nonprofit entity.

Resource, Inc.'s project will be the first such Bank Direct Revenue Bond project.

The participating bank is First Commercial Bank of Bloomington.

Background/Supporting Information

PROJECT LOCATION & DESCRIPTION:

Resource, Inc. is a private nonprofit, United Way Agency, that enables people with disabilities, people who are disadvantaged and people in transition to achieve greater social and economic independence. The Agency's main office is at 1900 Chicago Avenue.

Resource, Inc. operates over 40 specialized programs in the areas of vocational rehabilitation, employment, chemical dependency and mental health.

The proposed project consists of the acquisition and rehabilitation of a 15 unit apartment building located at 1826 Chicago Avenue.

The Apartment building consists of twelve (12) 3-bedroom apartments and three (3) 2-bedroom apartments. The units will be used for relatively short time periods by various individuals participating in programs offered by Resource, Inc. (an example would be a person in treatment programs for chemical dependency for 6 to 8 weeks).

The project will comply with the City's Affordable Housing Policy requiring that 20% of the units be affordable to (and occupied by) households at or less than 50% of the median.

TYPE OF FINANCING:

Sources:

Bond Proceeds	\$1,200,000
Equity	140,000
Total	<u>\$1,340,000</u>

Uses:	
Purchase Building	\$1,175,000
Equipment	127,000
Cost of Issuance	38,000
Total	<u>\$1,340,000</u>

Note: Copies of the following bond documents are on file with the Minneapolis Community Development Agency and can be reviewed by contacting Virginia Parent, Board Coordinator, at 612-673-5136.

1. Loan Agreement
2. Pledge Agreement

PRESENT EMPLOYMENT: 250

NEW EMPLOYMENT: 3

ASSESSOR'S ESTIMATED ANNUAL TAX INCREASE: Tax-exempt agency

AFFIRMATIVE ACTION COMPLIANCE: An updated Affirmative Action Plan will be in place.

MCDA IRB POLICIES:

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

Resource, Inc.: NA Apartment acquisition

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.

Resource, Inc.: NA Nonprofit agency

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

Resource, Inc.: 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.

Resource, Inc.: NA

Restaurant/Bank

IRB financing is allowed for a restaurant or a bank if it is built or rehabilitated in an MCDA 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.

Resource, Inc.: 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.

Resource, Inc.: NA

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:

Dougherty & Company, LLC

PARTICIPATING BANK:

First Commercial Bank of Bloomington

MN DEPARTMENT OF TRADE AND
ECONOMIC DEVELOPMENT
APPROVAL:

Approval will be secured prior to closing.

Giving final approval to and authorizing a project on behalf of RESOURCE, Inc. (the "Company"), and authorizing the issuance of a revenue bond of the Minneapolis Community Development Agency therefor.

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 bonds for the purpose of providing financing for the acquisition, construction and installation of projects consisting of properties, real or personal, used or useful in connection with a revenue-producing enterprise, whether or not operated for profit; and

Whereas, it has been proposed that the Agency issue a revenue bond in the amount of not to exceed \$1,200,000 (the "Bond") to finance the acquisition, renovation and furnishing of an apartment building to be used by clients of the Company's human service programs (the "Project"); and

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, 2022, 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 final approval to the issuance by the Agency of the Bond in the principal amount of not to exceed \$1,200,000 for the purpose of financing the Project.

That the Bond is hereby designated as a "Program Bond" and is determined to be within the "Housing 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.