

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

Date: April 14, 2009

To: Council Member Lisa Goodman, Community Development Committee

Subject: Minneapolis Economic Recovery Strategy: Designating an area as the Minneapolis Recovery Zone for purposes of the issuance of Recovery Zone Bonds in 2009 and 2010.

Recommendation: The CPED Director recommends that the City Council adopt the attached resolution designating the Minneapolis Recovery Zone for purposes of utilizing Recovery Zone Bond financing in 2009 and 2010.

Previous Directives: None.

Prepared by: Bob Lind and Becky Shaw of Business Finance

Approved by: Charles T. Lutz, Deputy Director CPED _____

Catherine A. Polasky, Director, Economic Development _____

Presenters in Committee: Bob Lind

Reviews

- Permanent Review Committee (PRC): Approval N.A. Date _____

Financial Impact

- Other financial impact: The issuance of revenue bonds for a project will generate revenue bond administrative fees that are used to support the small business assistance programs of the City of Minneapolis.

Community Impact

- Neighborhood Notification: N.A. As individual revenue bond projects are forwarded to the City Council for consideration, neighborhood notification is made.
- City Goals: Revenue bonds by providing financing for neighborhood commercial, mixed-use and industrial development enhance our goals of fostering business development, job retention and creation and increased tax base to support City services.

- Sustainability Targets: N.A.
- Comprehensive Plan: Individual revenue bond projects are in compliance with the policies of The Minneapolis Plan.
- Zoning Code: Projects are in compliance.
- Living Wage/Business Subsidy Agreement Yes ____ No X All conduit revenue bonds allocated under State Statute Chapter 474A, refunding bonds and 501(c)(3) bonds are exempt from the State Act. City bond financing is not subject to the City's local ordinance if the intent of the bond financing is not to create jobs.
- Job Linkage Yes ____ No ____ Although not required, we generally engage the business in completing a job linkage agreement and in working with other City workforce initiatives.

Supporting Information

The American Recovery and Reinvestment Act of 2009 (ARRA) made a number of changes to the tax code that pertain to tax-exempt revenue bonds. Taken as a whole, the changes in the stimulus bill mark the most significant revisions to the municipal bond market since the 1986 Tax Reform Act. A summary of the key bond-related provisions is attached at the end of this report.

A potential immediate opportunity for the City of Minneapolis and its businesses relates to the creation of two new categories of bonds. The two new categories are, (1) taxable tax-credit governmental bonds issued as Recovery Zone Economic Development Bonds ("RZEDBs"), and (2) private-activity bonds issued as Recovery Zone Facility Bonds ("RZFBs"). The RZEDBs are similar to the Build America Bonds in that the issuer can receive a direct pay credit from the Treasury Department equal to 45% of the interest payable, instead of the 35% permitted for a Build America Bond.

The ARRA introduces a number of new and somewhat unfamiliar concepts to the public finance arena and because of this, many aspects of the ARRA will require further guidance in the form of administrative action or guidance from the Treasury Department.

The proceeds of these two new categories of bonds are to be invested in "recovery zones". In order for the City of Minneapolis to take advantage of these new opportunities, the City needs to designate an area within the City as its Recovery Zone. The attached map would constitute the City's Recovery Zone.

According to the ARRA, the recovery zone must:

1. have significant poverty, unemployment, general distress, or rate of home foreclosures;
2. be any area for which a designation as an empowerment zone or renewal community is in effect; or
3. an area designated by the issuer as economically distressed by reason of the closure or realignment of a military installation pursuant to the Defense Base Closure and Realignment Act of 1990.

The proposed Minneapolis Recovery Zone is based on an overlaying of four existing designations:

- Minneapolis Empowerment Zone map
- CDBG Target Area map
- New Markets Tax Credit Eligibility Area map

- Neighborhood Stabilization Program Target Areas map

The resulting Minneapolis Recovery Zone area map picks up large areas of Minneapolis as being eligible for the issuance of RZEDBs and RZFBs.

What does this mean for Minneapolis?

The City issues bonds for a variety of projects throughout the year. The City issues G.O. or revenue bonds for its own governmental purposes. The issuance of RZEDBs could provide the City with a more economical alternative for financing its own governmental bonds.

The City also provides revenue bond financing for hospitals, nursing homes, manufacturing and industrial companies, nonprofit organizations and cultural entities, which may be either tax-exempt or taxable. The creation of RZFBs broadens our ability to issue tax-exempt revenue bonds for projects that previously would have been done on a taxable basis. For example, if a company were proposing to build a mixed-use commercial building within the Minneapolis Recovery Zone, we would now be able to issue tax-exempt revenue bonds at a lower interest rate for the project. The bonds would still need to be underwritten and the project would still need to show cash flow and the ability to repay the debt, but we would be able to offer an interest rate lower than conventional financing.

The City's ability to issue recovery zone bonds will be limited based on a national limit for the program. The RZEDBs have a national limit of \$10 billion and the RZFBs have a national limit of \$15 billion. Each state will receive a share of the allocation based on state's job employment losses from December, 2007 to December, 2008. This amount for the State of Minnesota has not yet been determined but it is expected that at a minimum Minnesota will receive a \$90 million allocation of RZEDBs and \$135 million of RZFBs issuance authority. Each state is then required to reallocate its allocation among the counties and large municipalities (cities over 100,000 in population) based on their employment losses.

The use of Recovery Zone Bonds is just one piece of our economic recovery efforts. As staff develops potential users for the bonds, we will bring forth the requests to the City Council just as we currently do for other forms of revenue bond financing. The need for a public hearing and City Council action will be the same as will the project's need to be underwritten and sold in the capital markets.

It is staff's recommendation that the attached map designating the Minneapolis Recovery Zone be approved.

Attachments: Resolution Designating the Recovery Zone

Summary of Municipal Bond Provisions of ARRA

Minneapolis Recovery Zone Map

Recovery Zone Map Showing the Four Layers

Recovery Zone Area City Council Report

Summary of Municipal Bond-Related Provisions in the American Recovery and Reinvestment Act of 2009

1. The Alternative Minimum Tax (AMT) would be repealed for all tax-exempt bonds issued in 2009 and 2010; thereby increasing the marketability of tax-exempt bonds to a wider universe of investors and also lowering the interest rate slightly by removing the interest rate penalty of AMT bonds;
2. Banks that invest/purchase tax-exempt bonds issued in 2009 and 2010 can deduct 80% of their interest deduction to the extent that the bank's tax-exempt holdings do not exceed 2% of assets. Will allow for greater participation in the bond market by local banks, thereby making bond financing available to a greater number of businesses;
3. The bank qualified small-issue limit was increased from \$10 million a year to \$30 million; and the limit would apply to the individual borrower instead of the issuer in the case of conduit bonds for 501(c)(3) nonprofits for 2009 and 2010. This provision greatly expands our availability of the bank qualified bank direct tax-exempt bond program for smaller nonprofits.
4. Creates a category of taxable bonds called Build America Bonds (BABs) that permits state and local issuers to issue taxable bonds in 2009 and 2010 to finance capital expenditures and choose one of two options: the issuer could receive a cash subsidy from the federal government or the bondholders could receive a federal tax credit. The subsidies and tax credits would be equal to 35% of the interest paid on the bonds.
5. The definition of what constitutes a manufacturing project was expanded to include the production of both tangible and intangible components for bonds issued in 2009 and 2010. Permits the issuance of tax-exempt revenue bonds for businesses that are high-tech, bio-tech and software development.
6. Additional funds made available for the issuance of Qualified Zone Academy Bonds and Clean Renewable Energy Bonds.
7. A new category of Qualified School Construction Bonds was created to finance the construction and rehabilitation of public school facilities.
8. The creation of two new categories of bonds, the Recovery Zone Economic Development Bonds and the Recovery Zone Facilities Bonds; the subject of the accompanying City Council report.

**Resolution Designating the City of Minneapolis
Recovery Zone for Purposes of Sections 1400U-1,
1400U-2 and 1400U-3 of the Internal Revenue
Code of 1986, as amended (the “Code”).**

WHEREAS, Section 1400U-1 of the Code authorizes the City of Minneapolis (the “City”) to designate a “recovery zone” for the purpose of issuing Recovery Zone Economic Development Bonds under Section 1400U-2 of the Code, and for the purpose of issuing Recovery Zone Facility Bonds under Section 1400U-3 of the Code; and

WHEREAS, the term “recovery zone” means (1) any area designated by the City as having significant poverty, unemployment, rate of home foreclosures, or general distress, (2) any area designated by the City as economically distressed by reason of the closure or realignment of a military installation pursuant to the Defense Base Closure and Realignment Act of 1990, and (3) any area for which a designation as an empowerment zone or a renewal community is in effect;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MINNEAPOLIS:

The City’s “recovery zone” for purposes of Sections 1400U-1, 1400U-2 and 1400U-3 of the Code is hereby designated to be the area denoted on the map attached to the council report accompanying this resolution, consisting generally of an overlaying of the following four existing designated areas in the City: (a) Minneapolis Empowerment Zone, (b) CDBG Target Area, (c) New Markets Tax Credit Eligibility Area, and (d) Neighborhood Stabilization Program Target Area.

The City Council hereby finds that the “recovery zone” described above meets the requirements of Section 1400U-1 of the Code, in that the area therein is already designated as an empowerment zone and/or is an area having significant poverty, unemployment, rate of home foreclosures, or general distress.