

Minneapolis Community Development Agency

Request for City Council Action

Date: June 24, 2003

To: Council Member Lisa Goodman, Community Development Committee

Refer to: MCDA Board of Commissioners

Prepared by Charles Curtis, Phone 612-673-5069

Approved by Lee Sheehy, MCDA Executive Director
Chuck Lutz, MCDA Deputy Executive Director _____

Subject: A Public Hearing and Request for Preliminary and Final Approval of up to \$3,000,000 in 501(c)(3) Bank Qualified Bank Direct Tax-exempt Minneapolis Community Development Agency Revenue Bonds, Series 2003, for Ronald McDonald House Charities, Upper Midwest.

Previous Directives: None

Ward: 2 621 Oak Street S.E.

Neighborhood Group Notification: Prospect Park-East River Road was notified.

Consistency with *Building a City That Works*: The Ronald McDonald House Charities, Upper Midwest, is consistent with Goal 4 of preserving and enhancing the urban institutions and amenities that define Minneapolis.

Comprehensive Plan Compliance: The existing facilities are in compliance with the Policies of The Minneapolis Plan.

Zoning Code Compliance: Existing facilities are 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

X Other financial impact (Explain): The issuance of revenue bonds will generate annual administrative fees that are used to support the small business assistance programs of the City.

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Living Wage/Business Subsidy: The project is a 501 (c)(3) conduit financing that is not subject to Living Wage / Business Subsidy.

Job Linkage: Does not apply.

Affirmative Action Compliance: The Ronald McDonald House Charities, Upper Midwest, will be in compliance by updating its Affirmative Action Plan prior to closing.

RECOMMENDATION:

City Council Recommendation: The Executive Director recommends that the City Council adopt the attached Resolution, a summary of which will be published, following a Public Hearing held on June 24, 2003, notice of which was published in Finance and Commerce on June 7, 2003, giving Preliminary and Final Approval to the issuance of up to \$3,000,000 in Tax-exempt 501 (c)(3) Bank Qualified Bank Direct Minneapolis Community Development Agency Revenue Bonds, Series 2003, for Ronald McDonald House Charities, Upper Midwest.

MCDA Board Recommendation: The Executive Director further recommends that the Minneapolis 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 \$3,000,000 in Tax-exempt 501 (c)(3) Bank Qualified Bank Direct Revenue Bonds, Series 2003, for Ronald McDonald House Charities, Upper Midwest.

Industrial Development Bonds (commonly known as IDBs 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 of 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 in the past due to the high costs of borrowing. Providing a streamlined application and documentation process results in lower borrowing costs for nonprofit organizations.

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 organization that 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. The bank approval process for the revenue bond program does not differ from conventional financing.

The issuance of bank qualified tax-exempt revenue bonds is limited to issuers who issue less than \$10 million a year in revenue bonds. Based on this limitation, the MCDA has the ability to issue bank qualified tax-exempt revenue bonds.

Background/Supporting Information

PROJECT LOCATION & DESCRIPTION:

The applicant is a Minnesota non-profit corporation providing housing units for families with children who are being treated at local hospitals.

The proposed project consists of the refinancing of a construction loan used for the construction of 15 additional units of housing located at 621 Oak Street S.E. The housing units are completely finished.

TYPE OF FINANCING:

<u>Sources:</u>	
Bond Proceeds	\$3,000,000
Equity	25,000
Total	<u>\$3,025,000</u>

<u>Uses:</u>	
Mortgage refinance	\$3,000,000
Expenses	25,000
Total	<u>\$3,025,000</u>

PRESENT EMPLOYMENT: 14

NEW EMPLOYMENT: 0

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

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. <u>Ronald McDonald House Charities: NA</u>
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. <u>Ronald McDonald House Charities: NA</u>
Development Standards	Compliance with the Land Use Plan Of the City's Comprehensive Plan. <u>Ronald McDonald House Charities: In compliance. Existing facility</u>
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. <u>Ronald McDonald House Charities: 14 existing jobs.</u>
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. <u>Ronald McDonald House Charities: NA</u>

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.

Ronald McDonald House Charities: 14 existing jobs. Interest savings will help provide increased community service.

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 and Mooty

UNDERWRITER:

Wells Fargo Brokerage Services, LLC

PARTICIPATING BANK:

To be selected

COUNCIL MEMBER INFORMED:

Ward 2

MINNESOTA DEPARTMENT OF TRADE AND ECONOMIC DEVELOPMENT APPROVAL:

Approval will be on file prior to closing.

Giving preliminary and final approval to and authorizing a project on behalf of Ronald McDonald House Charities, Upper Midwest (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 approximately \$3,000,000 (the “Bond”) to refinance a construction loan used for the construction of 15 units of housing for families with children who are being treated at local hospitals, attached to the Company’s existing facilities located at 621 Oak Street S.E. in the City (the “Project”).

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 interest rate not to exceed five percent (5.00%) per annum, shall have a final maturity date not later than December 1, 2013, 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 preliminary and final approval to the issuance by the Agency of the Bond in the principal amount of approximately \$3,000,000 for the purpose of financing the Project.

That the Bond is hereby designated as a “Program Bond” and is determined to be within the “Economic Development 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.