



Request for MCDA Board of Commissioners Action from the Department of Community Planning & Economic Development

Date: May 16, 2006

To: Council Member Lisa Goodman, Community Development Committee

Referral to: MCDA Board of Commissioners

Subject: A Public Hearing and Request for Preliminary and Final Approval of up to \$310,000 in 501(c)(3) Bank Qualified Bank Direct Tax-exempt Minneapolis Community Development Agency Revenue Bonds for the University Gateway Project.

Recommendation: City Council Recommendation: Adopt the attached Resolution, giving Preliminary and Final Approval to the issuance of up to \$310,000 in Tax-exempt 501(c)(3) Bank Qualified Bank Direct Minneapolis Community Development Agency Revenue Bonds, Series 2006 for the University Gateway Project.

MCDA Board Recommendation: 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 \$310,000 in Tax-exempt 501(c)(3) Bank Qualified Bank Direct Revenue Bonds, Series 2006, for the University Gateway Project.

Previous Directives: The building housing University Gateway Corporation was first financed by bonds issued by the City of Minneapolis in 1997. The \$25,000,000 in Series 1997A bonds were fixed rate bonds that were advance refunded in 2006 by bonds also issued by the City. The \$15,000,000 in Series 1997B bonds and \$7,500,000 in Series 2002 bonds were issued by the City as variable rate bonds.

Prepared by: Becky Shaw, Business Finance, CPED, 673-5066

Approved by: Chuck Lutz, Deputy CPED Director _____

Permanent Review Committee (PRC) Approval _____ Not Applicable X

Presenter in Committee: Becky Shaw, Business Finance

Financial Impact (Check those that apply)

- No financial impact (If checked, go directly to Background/Supporting Information).
- Action requires an appropriation increase to the Capital Budget or Operating Budget.
- Action provides increased revenue for appropriation increase.
- Action requires use of contingency or reserves.
- Business Plan: Action is within the plan. Action requires a change to plan.
- Other financial impact (Explain): The issuance of revenue bonds for the University Gateway project will generate revenue bond administrative fees of approximately \$775 a year that are used to support the small business assistance programs of the City of Minneapolis.
- Request provided to department's finance contact when provided to the Committee Coordinator.

Community Impact

Neighborhood Notification: The Prospect Park/East River Road Improvement Association and University District Improvement Association have been notified.

City Goals: The project promotes public and community partnership that enhance Minneapolis as the premier regional center for education.

Comprehensive Plan: The existing McNamara Alumni Center is in compliance with the policies of the Minneapolis Plan. Minneapolis has adopted a Growth Center plan for the University of Minnesota/SEMI area. The Alumni Center as an activity center for functions and celebrations and as the gateway to the University for visitors adds value to the University of Minnesota.

Zoning Code: The existing Alumni Center is in compliance.

Other: N.A.

Background/Supporting Information Attached

Project Location & Description:

The McNamara Alumni Center University of Minnesota is located at 200 Oak Street S.E. The Center is a 230,000 sq. ft., six story visitor and alumni center and office building. The University Gateway Corporation is a 501(c)(3) Corporation that was formed in 1997 to develop and own the McNamara Alumni Center. The Corporation is composed of the University of Minnesota Alumni Association, the University of Minnesota Foundation and the University of Minnesota Medical Foundation.

The Note that is requested to be issued is to fund a standby cooling facility for the McNamara Alumni Center building. The McNamara Center is heated and cooled by the University & District Heating and Cooling facility. The center is host to over 300 events a year. With the new standby cooling system concerns over canceling major events due to district cooling system interruptions are alleviated.

Type of Financing:

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. In 2003, City 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 has resulted in lower borrowing costs for nonprofits.

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 borrowing costs for the nonprofit organizations that work with a city (issuer) on the issuance of bank qualified bank direct bonds. Tax-exempt revenue bonds are underwritten and collateralized just like any conventional bank loan. The bank approval process for the revenue bond program does not differ from conventional financing.

The issuance of bank qualified bank direct 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 bank direct tax-exempt revenue bonds.

The bank qualified bank direct tax-exempt revenue bonds University Gateway are being underwritten and purchased by Wells Fargo Bank. The University Gateway Corporation has requested an issuance of a \$310,000 20-year tax-exempt Note.

Sources:

Bank Qualified Revenue Bonds	<u>\$310,000</u>
Total:	\$310,000

Uses:

Purchase of Cooling System	\$300,000
Issuance Costs	<u>10,000</u>
Total:	\$310,000

Present Employment: As owner of the facility, University Gateway Corporation does not employ anyone. The tenants in the building collectively employ over 800 individuals.

New Employment: None, an existing facility.

Assessor's Estimated Annual Tax Increase: Tax-exempt facility.

Affirmative Action Compliance: Project will update its Affirmative Action Plan.

CITY IRB POLICIES:

Job Component	Minimum standard of one (1) job per 1,000 square feet of building area. Alumni Center: The facility has 3.5 jobs per 1,000 square feet of building area.
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.

Development Standards	<p>Alumni Center: In compliance.</p> <p>Compliance with the Land Use Plan of the City's Comprehensive Plan.</p>
Equipment Financing	<p>Alumni Center: In compliance.</p> <p>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.</p>
Restaurant/Bank	<p>Alumni Center: In compliance.</p> <p>IRB financing is allowed for a restaurant or a bank if it is built or rehabilitated in an CPED 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.</p>
Tax-exempt Institution	<p>Alumni Center: N.A.</p> <p>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.</p>
<u>IRB CAP:</u>	<p>Alumni Center: N.A.</p> <p>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 there under as a non-profit organization.</p>
<u>BOND COUNSEL:</u>	Gray Plant Mooty
<u>UNDERWRITER:</u>	Wells Fargo Bank

RESOLUTION
of the
CITY OF MINNEAPOLIS

By _____

Giving preliminary and final approval to and authorizing the financing of a project on behalf of University Gateway Corporation (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 obligations for various purposes; and

Whereas, it has been proposed that the Agency issue a revenue bond in the amount of \$310,000 (the "Bond") to finance the acquisition and installation by the Company of air conditioning equipment for the Company's University Gateway facility (which includes an alumni and visitor center and rental office building) located at 200 Oak Street SE in the City; 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 a fixed interest rate expected to not exceed 5.50% per annum, shall have a final maturity date not later than December 1, 2026, 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 a principal amount of \$310,000 for the purpose of financing the equipment described above.

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.

Certified as an official action of the City Council:

RECORD OF COUNCIL VOTE (X INDICATES VOTE)													
COUNCIL MEMBER	AYE	NAY	NOT VOTING	ABSENT	VOTE TO OVERRIDE	VOTE TO SUSTAIN	COUNCIL MEMBER	AYE	NAY	NOT VOTING	ABSENT	VOTE TO OVERRIDE	VOTE TO SUSTAIN
President Ostrow							Goodman						
							Lilligren						
Zerby							Schiff						
Samuels							Niziolek						
Johnson							Benson						
Johnson Lee							Colvin Roy						
Zimmermann							Lane						

PASSED _____
 VETOED _____

DATE

APPROVED NOT APPROVED

ATTEST _____

RESOLUTION
of the
MINNEAPOLIS COMMUNITY DEVELOPMENT AGENCY

By _____

Relating to the Minneapolis Community Development Agency Revenue Bond (University Gateway Corporation Project) Series 2006; authorizing the issuance thereof pursuant to Minnesota Statutes, Sections 469.152 to 469.1651, as amended.

Be It Resolved by the Board of Commissioners (the "Board") of the Minneapolis Community Development Agency (the "Agency"), as follows:

Section 1. Definitions.

1.01. In this Resolution the following terms have the following respective meanings unless the context hereof or use herein clearly requires otherwise:

"Act" means Minnesota Statutes, Sections 469.152 to 469.1651, as amended;

"Agreement" means the Lease Agreement to be entered into between the Agency and the Company relating to the Bond;

"Bond" means the Revenue Bond (University Gateway Corporation Project), Series 2006 to be issued by the Agency pursuant to this Resolution in the principal amount of \$310,000;

"Bond Documents" means the Agreement, the Pledge Agreement and the Bond;

"City" means the City of Minneapolis, Minnesota;

"Company" means University Gateway Corporation, a Minnesota nonprofit corporation, its successors and assigns;

"Holder" means the registered holder of the Bond;

"Pledge Agreement" means the Pledge Agreement to be entered into between the Agency and the Holder relating to the Agreement and the Bond;

"Project" means the acquisition and installation of air conditioning equipment for the Company's University Gateway facility (which includes an alumni and visitor center and rental office building) located at 200 Oak Street SE in the City;

"Resolution" means this resolution of the Agency.

Section 2. Findings.

2.01. It is hereby found and declared that:

(a) based upon representations made to the Agency by representatives of the Company as to the nature of the Project as described in the Agreement, the Project constitutes a project authorized by the Act;

(b) the purpose of the Project is and the effect thereof is to promote the provision of nonprofit facilities;

(c) the financing of the Project, the issuance and sale of the Bond, the execution and delivery of the Bond Documents and the performance of all covenants and agreements of the Agency contained in the Bond Documents and of all other acts and things required under the Constitution and laws of the State of Minnesota to make the Bond Documents valid and binding obligations of the Agency in accordance with their terms are authorized by the Act;

(d) it is desirable that the Bond be issued by the Agency upon the terms set forth herein and that the Agency pledge its interest in the Agreement and grant a security interest therein to the Holder as security for the payment of the principal of, premium, if any, and interest on the Bond;

(e) the payments contained in the Agreement are fixed and are required to be revised from time to time as necessary, so as to produce income and revenue sufficient to provide for prompt payment of the principal of, premium, if any, and interest on the Bond when due, and the Agreement also provides that the Company is required to pay all expenses of the operation and maintenance of the Project,

including, but not limited to, adequate insurance thereon and all taxes and special assessments levied upon or with respect to the Project and payable during the term of the Agreement;

(f) under the provisions of the Act, the Bond is not to be payable from nor charged upon any funds of the Agency or City other than the revenue pledged to the payment thereof; the Agency and City are not subject to any liability thereon; no Holder of the Bond shall ever have the right to compel any exercise of the taxing power of the Agency or City to pay the Bond or the interest thereon nor to enforce payment thereof against any property of the Agency or City; the Bond, premium, if any, and interest thereon shall not constitute an indebtedness of the Agency or City within the meaning of any constitutional, charter or statutory limitation and shall not constitute or give rise to a pecuniary liability of the Agency or City or a charge against their general credit or taxing powers and shall not constitute a charge, lien or encumbrance, legal or equitable, upon any property of the Agency or City;

(g) the execution and delivery of the Bond Documents shall not conflict with or constitute, on the part of the Agency, a breach of or a default under any existing agreement, indenture, mortgage, lease or other instrument to which the Agency is subject or is a party or by which it is bound; provided that this finding is made solely for the purpose of estopping the Agency from denying the validity of the Bond Documents by reason of the existence of any facts contrary to this finding;

(h) no litigation is pending or, to the best knowledge of the members of this Board, threatened against the Agency questioning the organization of the Agency or the right of any officer of the Agency to hold his or her office or in any manner questioning the right and power of the Agency to execute and deliver the Bond or otherwise questioning the validity of the Bond or the execution, delivery or validity of the Bond Documents or questioning the pledge of revenues to payment of the Bond or the right of the Agency to make available the proceeds of the Bond to the Company;

(i) all acts and things required under the Constitution and the laws of the State of Minnesota to make the Bond Documents the valid and binding limited obligations of the Agency in accordance with their terms shall have been done upon adoption of this Resolution and execution of the Bond Documents; provided that this finding is made solely for the purpose of estopping the Agency from denying the validity of the Bond Documents by reason of the existence of any facts contrary to this finding; and

(j) the Agency is duly organized and existing under the Constitution and the laws of the State of Minnesota and is authorized to issue the Bond in accordance with the Act.

Section 3. Authorization and Approval of Documents.

3.01. Authorization. The Agency is authorized by the Act to issue revenue bonds and enter into revenue agreements to finance the acquisition, construction, installation and equipping of facilities constituting a "project" as defined in the Act, and to make all contracts, execute all instruments and do all things necessary or convenient in the exercise of such authority.

3.02. Approval of Documents. Pursuant to the foregoing, there have been prepared copies of the following documents, all of which are now or shall be placed on file in the office of the Agency:

- (a) the Agreement;
- (b) the Pledge Agreement; and
- (c) the Bond.

The forms of the documents listed above are approved, with such variations, insertions and additions as are deemed appropriate by the parties and approved by the Agency.

Section 4. Execution of Bond Documents.

4.01. Upon the completion of the Bond Documents approved in Section 3.02 hereof and the execution thereof by the other parties thereto, the Executive Director (or Deputy Executive Director) and the Finance Officer (or Assistant Finance Officer) shall execute the same on behalf of the Agency, and the foregoing persons and other officers of the Agency shall execute such other certifications, documents or instruments as bond counsel shall require, subject to the approval of the Agency, and all certifications, recitals and representations therein shall constitute the certificates, recitals and representations of the Agency. Execution of any instrument or document by one or more appropriate officers of the Agency shall constitute and shall be deemed the conclusive evidence of the approval and authorization by the Agency and the Board of the instrument or document so executed.

Section 5. The Bond.

5.01. Form and Authorized Amount. The Bond shall be issued substantially in the form on file with the Agency on the date hereof with such appropriate variations, omissions and insertions as are permitted or required by this Resolution. The terms of the Bond are set forth therein, and such terms, including, but not

limited to, provisions as to interest rate, dates and amount of payment of principal and interest and prepayment privileges, are incorporated by reference herein. The Bond shall bear a fixed interest rate that does not exceed 5.50% per annum. The Bond shall mature on or before December 1, 2026.

5.02. Execution. The Bond shall be executed on behalf of the Agency by the persons described in Section 4.01 hereof. In case any officer whose signature shall appear on the Bond shall cease to be such officer before the delivery thereof, such signature shall, nevertheless, be valid and sufficient for all purposes.

5.03. Delivery and Use of Proceeds. Prior to delivery of the Bond, the documents referred to in Section 3.02 hereof shall be completed and executed in form and substance as approved by the Agency. The Agency shall thereupon deliver to the Holder the Bond together with a certified copy of this Resolution and such closing certificates as are required by bond counsel.

Section 6. Limitations of the Agency's and City's Obligations.

6.01. Notwithstanding anything contained in the Bond Documents, the Bond and any premium and interest thereon shall not constitute an indebtedness of the Agency or City within the meaning of any constitutional, charter or statutory limitation and shall not constitute or give rise to a pecuniary liability of the Agency or City or a charge against their general credit or taxing powers and shall not constitute a charge, lien, or encumbrance, legal or equitable, upon any property of the Agency or City, and no Holder of the Bond shall ever have the right to compel any exercise of the taxing power of the Agency or City to pay the Bond or the interest thereon or to enforce payment thereof against any property of the Agency or City. The agreement of the Agency to perform the covenants and other provisions contained in this Resolution or the Bond Documents shall be subject at all times to the availability of revenues furnished by the Company sufficient to pay all costs of such performance or the enforcement thereof, and neither the Agency or City nor any of their officers, employees or agents shall be subject to any personal or pecuniary liability thereon.

Section 7. Agency Representative.

7.01. The Finance Officer or Assistant Finance Officer of the Agency is hereby designated and authorized to act on behalf of the Agency for purposes of the Bond Documents.

Section 8. Governmental Program.

8.01. 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.

Section 9. Bank Qualification.

9.01. In order to qualify the Bond as a "qualified tax-exempt obligation" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), the Agency makes the following representations:

(a) The Agency hereby designates the Bond as a "qualified tax-exempt obligation" for purposes of Section 265(b)(3) of the Code;

(b) The reasonably anticipated amount of tax-exempt obligations (other than obligations described in clause (ii) of Section 265(b)(3)(C) of the Code) which will be issued by the Agency (and all subordinate entities whose obligations will be aggregated with those of the Agency) during this calendar year 2006 will not exceed \$10,000,000; and

(c) Not more than \$10,000,000 of tax-exempt obligations issued by the Agency during this calendar year 2006 have been designated as qualified tax-exempt obligations for purposed of Section 265(b)(3) of the Code.

RECORD OF COMMISSIONER VOTE													
Commissioner	Aye	Nay	NV	Abs	Ovrd	Sust	Commissioner	Aye	Nay	NV	Abs	Ovrd	Sust
Benson							Lilligren						
Colvin Roy							Ostrow						
Glidden							Remington						
Gordon							Samuels						
Hodges							Schiff						
Hofstede							Goodman, chair						
Johnson													
Vote: NV - Not Voting			Abs - Absent			Ovrd - Vote to Override			Sust - Vote to Sustain				

ADOPTED _____.

Chairperson

APPROVED
NOT APPROVED
VETOED _____.

Mayor