



Request for City Council Committee Action from the Finance & Property Services Department

Date: April 21, 2015

To: Council Member Lisa Goodman, Chair, Community Development & Regulatory Services Committee

Referral to: Council Member John Quincy, Chair, Ways & Means Committee

Subject: Laurel Village Project – Final Holding Rent Billing

Recommendation: Authorize a final holding rent billing for the Laurel Village Project in the amount of \$1,043,267.

Previous Directives:

- In 1992, 2003, 2008 and 2010 the City Council authorized the issuance of general obligation (G.O.) tax increment refunding bonds for the Laurel Village Project, which were subsequently issued in those years.
- In 1986 the Council authorized and the City issued \$26M in G.O. bonds to finance land acquisition and parking facilities for the Laurel Village Project
- There were many other directives dating back to the mid-1980's

Department Information

Prepared by: Mark Winkelhake, Manager, Development Finance, 612-673-5105

Presenter in Committee: Mark Winkelhake

Approved by: Kevin Carpenter, Finance Officer
Spencer Cronk, City Coordinator

Reviews

- Permanent Review Committee (PRC): N/A
- Civil Rights Approval: N/A
- Policy Review Group (PRG): N/A

Financial Impact

A final holding rent payment of \$1,043,267 by the owners of the Laurel Village Project will provide the City with enough funds to retire all of the outstanding G.O. bonds for the project on July 1, 2015. Tax increment that is collected from the Laurel Village TIF District in 2015 (projected to be \$1.47 million) will be available for other eligible purposes. These funds will be deployed through the City's normal budget process. At the end of 2015, the TIF District will be decertified and over \$75 million in taxable market value will be added to the City's general tax base for taxes payable in 2016.

Background

Laurel Village is a large rental housing project located on Hennepin Avenue between 11th Street North and 15th Street North. The project contains 727 apartment units located in seven buildings, approximately 55,200 sq. ft. of retail and office space, and 756 parking spaces located in five parking garages/ramps. The project was constructed in 1989-1991 with assistance from the City of Minneapolis and the Minneapolis Community Development Agency (the "MCDA"). The apartment buildings were financed through the City's issuance of housing revenue bonds. These buildings have been owned by a number of entities over the years, but are currently owned by The Travelers Companies (the "Building Owner").

The land and parking facilities for each building are owned by the City/MCDA and leased to the Building Owner under 75-year leases (1991- 2066). Land acquisition and parking construction costs were financed through the City's issuance of \$26 million in general obligation (G.O.) bonds in 1986. Debt service on the G.O. bonds is paid with tax increment generated by the Laurel Village TIF District (the "TIF District") and "holding rent" collected from the Building Owner (described below). The 1986 G.O. bonds have been refinanced a number of times over the years.

Holding Rent

In order to provide security for the G.O. bonds, the leases were amended in early 1993 to require a minimum amount of annual tax increment that must be generated by the TIF District each year from 1992 through 2015. These minimum amounts were set equal to the annual debt service payments on the G.O. bonds at that time. If the minimum amount of tax increment is not generated in any year, then the Building Owner must pay the City the shortfall (minimum amount less actual amount). This shortfall is to be paid to the City in the form of a "holding rent" payment, which is due in two equal installments on May 15 and October 15. From 1998 through 2014 the City has received over \$23.7 million in holding rent from the Building Owners. All payments have been made in a timely manner.

In 2003 the City refinanced the G.O. bonds, which resulted in lower annual debt service payments. Since that time, the City has annually collected more tax increment and holding rent than is needed to pay debt service on the G.O. bonds. City Finance staff informed the Building Owner in 2003 and again in 2010 that 1) all "excess" holding rent would be used to prepay outstanding G.O. bonds, and 2) when all of the G.O. bonds are retired, no further holding rent will be due.

Final Holding Rent Billing

Since excess holding rent has been used to prepay bonds, all of the outstanding G.O. bonds can be retired early on July 1, 2015. This can be accomplished with only a partial 2015 holding rent payment of \$1,043,267, instead of a full year's payment of \$2,366,966. F&PS staff believes that, notwithstanding the lack of any specific references in the legal documents about the impact of a refinancing of the bonds, the intent of the holding rent provisions is to cover bond debt service shortfalls if tax increment is insufficient and such payments should terminate once the bonds are retired. The City Attorney's Office supports this position. Therefore, staff is seeking Council authorization for a final holding rent billing of \$1,043,267.

After the G.O. bonds are fully retired, tax increment that is collected from the Laurel Village TIF District in 2015 (projected to be \$1.47 million) will be available for other eligible purposes. These funds will be deployed through the City's normal budget process. At the end of 2015, the TIF District will be decertified and over \$75 million in taxable market value will be added to the City's general tax base for taxes payable in 2016.