

City of Minneapolis Request for Committee Action

To: Community Development & Regulatory Services
Date: 11/15/2016
Referral: Ways & Means
From: Community Planning & Economic Development
Lead Staff: Mark Winkelhake, Director Development Finance (x5105)
Presented by: Mark Winkelhake
File Type: Action
Subcategory: City Policy

Subject:

Conduit Bonds Policy

Description:

Approving a Conduit Bonds Policy for the issuance of conduit bonds by either the City of Minneapolis or the Minneapolis Community Development Agency

Previous Actions:

None. This is the first comprehensive Conduit Bonds Policy of the City. Previously, conduit bonds were issued under separate economic development and housing policy and procedure manuals dating back as far as the 1980's.

Ward/Address:

Not Applicable

Background/Analysis:

The City of Minneapolis (the "City") and the Minneapolis Community Development Agency (the "MCDA") are active issuers of conduit bonds. Conduit bonds refer to bonds that are issued by the City/MCDA in which the bond proceeds are used to make a "conduit loan" to an entity (the conduit borrower") for certain qualifying purposes that are allowed by state and federal law. These bonds are typically issued on a tax-exempt basis, but also can be issued as taxable bonds. The repayment of conduit bonds is the sole responsibility of the conduit borrower, and not the City or MCDA. Bonds issued under the City's Common Bond Fund (CBF) Program are not considered conduit bonds because the City pledges to pay debt service shortfalls, on a limited basis, for all CBF projects. CBF bonds will be covered under a separate policy.

The qualifying purposes for conduit bonds are described in Minnesota Statutes and the Internal Revenue Code (IRC). Most of these bonds are issued under either Minnesota Statutes, Sections 469.152-469.165 (the "Development Act") or Minnesota Statutes, Chapter 462C (the "Housing Act"). The City operates and administers a number of conduit bonds programs with the objective of increasing employment and growing a sustainable city.

Conduit bonds issued under the Development Act include Qualified 501(c)(3) Revenue Bonds which provide tax-exempt financing for capital improvement projects by charitable nonprofit organizations such as hospitals and nursing homes. Industrial Revenue Bonds finance eligible

industrial and commercial projects. City staff also administers the MCDA's Bank Qualified Tax-Exempt Bond Program to provide cost-effective, tax-exempt financing for capital projects for smaller 501(c)(3) organizations with projects typically in the \$1 million to \$2 million range. This program is capped by federal law at \$10 million of bonds per year.

Conduit bonds issued under the Housing Act include Multifamily Housing Revenue Bonds which are issued to finance the construction or rehabilitation of affordable housing projects for individuals, families and seniors.

The purpose of the attached Conduit Bonds Policy is to provide uniform policies and practices for all conduit bonds issued by the City/MCDA, and to ensure compliance with all of the legal requirements of state and federal laws as well as the City Charter. In addition, this policy describes many of the roles, responsibilities, functions and duties of City staff, City bond counsel, the conduit borrower and the bond underwriter.

The City's Department of Community Planning and Economic Development, in consultation with the Finance & Property Services Department and the City Attorney's Office, is responsible for implementing the provisions of this Conduit Bonds Policy and the applicable process and procedures manuals. Staff from these three departments, along with City bond counsel, contributed to the development of this policy.

Financial Review:

No financial impact.

Although there are no appropriation adjustments needed for approval of this Conduit Bonds Policy, it should be noted that this policy does contain several bond fee schedules (see Exhibits A and B). All conduit bonds fees received by the City are deposited into the City's General Fund.

A number of the fees have been adjusted upward or downward as compared to several years ago in order to account for changing market conditions. This includes slightly lower fees for short-term residential rental projects (less than five years), a new closing fee for residential rental projects (\$25,000), and a new host approval fee (\$5,000) for both economic development projects and residential rental projects.

Attachments:

1. Conduit Bonds Policy