City of Minneapolis
Request for Committee Action

To:	Ways & Means
Date:	10/4/2016
Referral:	N/A
From:	Finance & Property Services
Lead Staff:	Michael Abeln
Presented by:	Michael Abeln
File Type:	Resolution
Subcategory:	Bond

Subject:
Refunding of General Obligation Taxable Block E Refunding Bonds, Series 2005

Description:
1. Passage of Resolution approving a refunding of the outstanding $2,500,000 of General Obligation Taxable Block E Refunding Bonds, Series 2005 through the issuance of an interest bearing internal loan from the City's Self-Insurance Fund.
2. Passage of Resolution appropriating $2,533,000 to the debt service fund.

Previous Actions:
9/23/2005 – Request to issue $14,000,000 of General Obligation Taxable Block E Bonds to refund the General Obligation Taxable Block E Bonds, Series 2000B that were issued on October 26, 2000.

6/5/2000 - Resolution 2000R-249 was approved authorizing the issuance of $10,610,000 of General Obligation Block E Bonds, Series 2000A (tax exempt) and $18,390,000 of General Obligation Taxable Block E Bonds.

Ward/Address:
Not Applicable

Background/Analysis:
On October 20, 2005 the City of Minneapolis issued $14,000,000 in General Obligation Taxable Block E Refunding Bonds, Series 2005 (the "2005 Bonds") pursuant to Minnesota Statutes, Chapter 475, as amended, and Sections 469.174 through 469.1799, as amended (the "TIF Act"), a resolution adopted by the City Council of the City on September 23, 2005, and resolutions adopted by the Board of Estimate and Taxation of the City on September 14, 2005 and October 11, 2005.

The proceeds of the 2005 Bonds were applied to refinance public redevelopment costs for the redevelopment of the portion of the Hennepin & 7th Entertainment Tax Increment Financing District (the "TIF District") consisting of the block bounded by Sixth Street, Seventh Street, Hennepin Avenue, and First Avenue North. This block was commonly known as "Block E" and is now referred to as the "Mayo Clinic Square" block.

The outstanding 2005 Bonds became callable on March 1, 2016. On May 2, 2016, the Finance & Property Services Department prepaid $3,975,000 of these bonds using excess tax increment funds on hand to reduce the remaining term of the outstanding bonds by six years, thereby reducing future interest expense by approximately $1.78 million.

At this time, the Finance & Property Services Department recommends approval of the attached resolution authorizing the City to refund the remaining $2,500,000 of outstanding 2005 Bonds using an internal loan of cash from the Self-Insurance Fund. This loan will be recorded in the City's accounting system and will have an annual interest rate of 1.60%.

The internal loan rate is based on the "applicable" U.S. Treasury rate" plus 1.00%. For this purpose, the applicable U.S. Treasury rate is equal to the current U.S. Treasury rate that most closely corresponds to the projected weighted average life of the internal loan (approximately one year). In this case, the one-year Treasury rate is .60%, so adding 1.00% produces a loan interest rate of 1.60%. The City currently earns approximately 1.00% on its invested cash.

This loan will be repaid using future tax increment collections and holding rent payments from the TIF District. The loan will refund outstanding 2005 Bonds with interest rates ranging from 5.125% to 5.30%, and should be paid off in approximately one year. The reduction in interest rates will reduce interest expense by approximately $40,000.

This internal loan would be in lieu of incurring the cost of issuing refunding bonds and would provide a 1.60% interest earnings rate on the cash provided by the Self-Insurance Fund as well as significantly reducing the interest rate currently being paid on the bonds.

Financial Review:

Additional appropriation required.

Appropriation increase of $2,533,000 in Fund/Dept 05900 - 1100100

☒ **Future budget impact anticipated.**

This action will reduce interest expense on bonds, shorten the term on outstanding bonds and provide the City with a higher return on our invested cash.

This action will save interest expense on bonds as well as providing the City with a higher return on our invested cash.

Enter SUPB goals explanation.

Attachments:

1. **Resolutions**