

HOUSING AND REDEVELOPMENT AUTHORITY OF THE CITY OF SAINT PAUL, MINNESOTA

REPORT TO THE COMMISSIONERS

DATE: March 28, 2012

**REGARDING: RESOLUTION AUTHORIZING EXECUTION OF AMENDMENTS
TO DOCUMENTS WITH RESPECT TO A FINANCING
FOR THE BENEFIT OF COMMUNITY OF PEACE ACADEMY
(District 5)**

Requested Board Action

The specific actions being requested of the HRA Board are as follows:

- Approval of the First Amendment to Loan Agreement,
- Approval of the Amended and Restated Intercreditor and Subordination Agreement; and
- Consent to the First Amendment to Pledge Agreement;

These documents permit the Community of Peace Academy to enter into a line of credit in a principal amount not to exceed \$1,500,000 and grant to the lender of the line of credit a first lien and security interest in certain collateral otherwise pledged.

Background

In November, 2006, the HRA issued \$17.245 million of Series 2006 Lease Revenue Bonds (the “2006 Bonds”) to provide new money for capital improvements to the Community of Peace Academy (the “School”) and to advance refund \$10.55 million of Series 2001 Bonds. The School improvements included renovation and the construction of additional space, including a gymnasium and a green roof. The proceeds of the 2006 Bonds were loaned to the Community of Peace Building Company (the “Company”) pursuant to a Loan Agreement between the Authority and the Company to finance the Project; the Project was leased to Community of Peace Academy (the “School”) pursuant to an Amended and Restated Lease Agreement between the Company and the School.

The Saint Paul City Council also approved a \$700,000 STAR loan in 1998 as subordinated debt to the bonds per an Amended and Restated Subordination Agreement. The School is obligated to make monthly payments of \$5,535.56 with a final maturity of 12/1/2014; the current outstanding principal balance is approximately \$135,000.

In order to cover operating shortfalls related to the delay in payments of certain funds due from the State of Minnesota, the School needs to secure a line of credit and grant a security interest to the line of credit lender.

Budget Action

The requested HRA action relates to a conduit bond issue. The existing bonds do not constitute an indebtedness, liability, general or moral obligation, or pledge of the faith or credit or taxing power of the HRA, City of Saint Paul, or any agency or political subdivision thereof, and do not constitute indebtedness of any of the foregoing within the meaning of any constitutional, statutory, or charter provision, nor be a charge against their respective general assets, credit or taxing powers, and do not grant the owners or holders of the bonds any right to have the HRA, City of Saint Paul or any agency or political subdivision thereof to levy any taxes or appropriate any funds for the payment of the principal thereof or interest thereon. Principal and interest on the bonds are payable solely out of the revenues and other sources pledged to the payment thereof as described in the bond documents.

Future Action

No further action is required.

Financing Structure

The School will secure a Line of Credit of up to \$1,500,000 from up to two lenders (M&I Bank and the Nonprofits Assistance Fund) (the “Lenders”) for their use in covering operating expenditures through a one year term, subject to annual renewal upon approval from the Lenders. The Line of Credit will be secured by up to \$1,500,000 per year of General Education Funding received by the School from the Minnesota Department of Education. The Line of Credit will revolve with the Lenders requiring amounts drawn in each year to be repaid by the end of the School’s fiscal year or the calendar year, enabling additional draws in subsequent years. The amended documents will authorize such additional indebtedness of the School and allow the Lenders to have a first priority interest in up to \$1,500,000 of General Education Funding, with the trustee (on behalf of the bondholders) holding a second priority interest, and the City under the STAR loan a third priority interest; which also has to be agreed to by the holders of two-

thirds of the outstanding principal of the 2006 Bonds. The Lenders do not have any additional security other than the General Education Funding; they also have the School's promise to repay the line of credit. The estimated terms for the M&I loan, participating for up to \$900,000, indicate the annual interest rate will be variable based on the 30 day LIBOR plus 450 basis points (30-day LIBOR on 3/19/2012 is 0.24%, resulting in an annual interest rate of 4.74%). The estimated terms for the Nonprofits Assistance Fund loan, participating for up to \$600,000, indicate a fixed interest rate comparable to the M&I rate. The School needs to secure these additional funds to cover a projected cash flow shortage in April, 2012.

Finance Team

Dougherty & Company, LLC is working with the lenders and the bondholders to complete the transaction; and Kennedy & Graven is preparing legal documents.

PED Credit Committee Review

N/A

Compliance

N/A

Green/Sustainable Development

N/A

Environmental Impact Disclosure

N/A

Historic Preservation

N/A

Public Purpose/Comprehensive Plan Conformance

Payne-Phalen District 5 Plan, adopted 1979, includes a goal (# 3.1.3) "to provide for educational needs of community residents."

The East Consolidated Small Area Plan, adopted 1993, has an overarching goal of "community stability." That generally calls for "strong health, human service and educational programs in the community." Short term strategy #12 states "Secure additional resources to sustain critical community services.

Recommendation:

The HRA Executive Director recommends adoption of the attached Resolution (**Attachment A**).

Sponsored by: Commissioner Brendmoen

Staff: Jenny Wolfe, 266-6680

Attachments

- **Attachment A -- Resolution**