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

REPORT TO THE COMMISSIONERS **DATE: November 14, 2012**

REGARDING: **Authorizing the Issuance of Tax Increment Revenue Refunding Bonds (Upper Landing Project), Series 2012, Under Minnesota Statutes, Sections 469.001-469.047, as Amended, and Minnesota Statutes, Section 469.174-469.1799, as Amended, and Approving Related Documents (District 9, Ward 2)**

Requested Board Action

The purpose of this report is to obtain HRA Board approval for the following:

- Authorization for the issuance of up to $18 million of Tax Increment Revenue Refunding Bonds (Upper Landing Project), Series 2012 (the "Series 2012 Bonds") in connection with refunding Series 2002A, 2002B1 and 2002B2 (the "Prior Bonds");
- Authorization for Series 2012 Bonds to be sold in a negotiated sale to Piper Jaffray & Co. (the "Underwriter") and execution of a Bond Purchase Agreement;
- Authorization for the Series 2012 Bonds to be issued under the terms of an Indenture of Trust, between the Issuer and U.S. Bank National Association (the "Trustee");
- Authorization to execute and deliver on behalf of the HRA a Subordinate Tax Increment Revenue Refunding Note (the "Replacement Note") to replace the Tax Increment Revenue Refunding Note ("Original Note") now held by the City;
- Authorization to take actions to provide for the defeasance, redemption, and prepayment of the Prior Bonds;
- Approval of amended HRA Budget as set forth in Attachment A to the Resolution; and
- Authorization to execute and deliver all other documents as are necessary or appropriate in connection with the issuance, sale, and delivery of the Series 2012 Bonds.

Background

The HRA created the Riverfront Renaissance TIF District on March 28, 2001, which includes the Upper Landing area on the north side of the Mississippi River, and the Westside Flats, US Bank and Drake Marble projects on the south side of the river.

The HRA executed a Development Agreement with Centex Multi-Family Communities, L.P., for the construction of approximately 599 residential units (300 market-rate rental units, up to 89 low-income rental units, and 210 owner-occupied units) and 23,000 square feet of commercial or office space (the "Development"). The current development includes 434 rental apartments with 90 of those units affordable, 268 ownership units, and less than 10,000 s.f. is used for commercial.

In October of 2002, the HRA issued $19,130,000 of tax increment revenue bonds to reimburse Centex for TIF-eligible expenses related to the redevelopment of the Upper Landing. Centex received approximately $13 million of bond proceeds for incurred TIF-eligible expenses. A portion of the balance of the bond proceeds is being held in a required reserve, and a portion was used to pay interest on the bonds until tax increments were generated. In order to market the original bond issue, credit enhancement was required in the form of letters of credit from Centex (now Pulte). The amount of tax increment pledged to the Prior Bonds was based on a complex formula necessitating semi-annual calculations by an outside consultant (Springsted). Centex (now Pulte) was required to contribute funds to cover any debt service shortfalls.

In December, 2008, the City purchased a subordinate TIF Note issued by the HRA in the amount of $2,019,087, and the HRA utilized the proceeds to pay-off the City internal loan. (The City internal loan was provided for public redevelopment expenses including contamination clean-up, soil correction, installation of utilities and street construction.)

The subordinate TIF Note matures on March 1, 2020, and bears interest at an annual rate of 5.75% with level debt service payments totaling $250,222 annually. Security for the Note includes a $250,300 reserve, and the HRA pledged its levy to repay the subordinate TIF Note if tax increments are insufficient. The levy pledge requires the HRA to set-aside 125% of the reserve amount in its levy ($312,875).

Budget Action

The bonds are special, limited obligations of the HRA payable solely from the pledged revenues. The bonds and the interest thereon do not constitute nor give rise to a pecuniary liability (other than from pledged revenues only), or general obligation of the HRA, the City of Saint Paul, or any agency or political subdivision thereof, and shall 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.

The HRA Budget is amended as set forth in Attachment A to the Resolution, to establish appropriate accounts to receive bond proceeds and redeem the Prior Bonds, and pay for costs of issuance and establish a debt service reserve fund.

Future Action

No additional approvals necessary.

Financing Structure

In order to take advantage of lower interest rates and to simplify this financing structure going forward, staff recommends the HRA issue Tax Increment Revenue Refunding Bonds not to exceed $18,000,000 with an interest rate not to exceed 5.7% (the Series 2012 Bonds). The Series 2012 Bonds will be unrated and sold in $100,000 minimum denominations with 100% of the Upper Landing Subdistrict tax increments pledged to the repayment. The Series 2012 Bonds mature 3/1/2029 to coincide with the final TIF collection year of 2028. The Series 2012 Bonds must be structured with a minimum 1.2 coverage. The Series 2012 Bonds have been structured such that the debt service on the Series 2012 Bonds, combined with the debt service on the subordinate TIF Note, will generate 1.16 coverage in tax collect years 2013 through 2019, which increases the coverage to the Series 2012 Bonds to 1.37. The projected annual debt service on the Series 2012 Bonds is $1,389,000 in years 2013 through 2020 and increases to $1,583,000 after the maturity of the subordinate TIF note. The estimated amount of proceeds needed to retire the Prior Bonds is $17,499,956 which includes $17,141,000 of principal and $358,956 of accrued interest through December 20, 2012 (see **Attachment B** which includes the projected Sources and Uses).

The Financing team includes John Utley, Kennedy and Graven as Bond Counsel; Ben Johnson, Kennedy and Graven as Disclosure Counsel; Kathy Aho, Springsted, Inc. as Financial Advisor; Bruce Sorensen, Piper Jaffray as Underwriter; Peter Cooper, McGrann Shea as Underwriter's Counsel); and Dan Sheff, US Bank as Trustee.

A pricing committee will be established to include the HRA Executive Director and the Director, Office of Financial Services, or their designees, and Kathy Aho from Springsted. The Pricing Committee will make determinations as to the final principal amount of the bonds, the interest rates, maturity dates, principal amount of serial bonds and sinking fund redemption schedule for each term maturity, dates for optional redemption, and original issue discount or premium.

Piper Jaffray has prepared debt schedules based on the current market; Piper estimates an average coupon of 4.8%, with a calculated net interest cost of 4.98%. These projections result in total savings of $3.093 million through 2029, the net present value of which is $2.3 million or 13.6% of the refunding bonds.

PED Credit Committee Review

The PED Credit Committee reviewed the requested HRA approval on November 5, 2012, and approved the structure and terms of the Tax Increment Revenue Refunding Bonds, which includes unrated bonds with $100,000 minimum denominations and waives the requirement for an investor letter.

Compliance

N/A

Green/Sustainable Development

N/A

Environmental Impact Disclosure

N/A

Historic Preservation

N/A

Public Purpose

The public purpose goal of the refunding is to reduce the debt service payable from the tax increment revenues from the Upper Landing Subdistrict.

Recommendation

The Executive Director recommends approval of the attached resolution which authorizes issuance of up to $18 million of Series 2012 Tax Increment Revenue Refunding Bonds and the execution of related documents.

Sponsored by: Commissioner Thune

Staff: Patricia Lilledahl (6-6593) and Jenny Wolfe (6-6680)

Attachments

- **Attachment A – Resolution**
- **Attachment B – Sources and Uses**
- **Attachment C – Map of TIF Subdistrict**