

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

REPORT TO THE COMMISSIONERS

DATE: January 9, 2013

REGARDING: RESOLUTION GIVING PRELIMINARY APPROVAL FOR THE
ISSUANCE OF LEASE REVENUE BONDS FOR THE SAINT PAUL
CONSERVATORY FOR PERFORMING ARTISTS PROJECT UNDER
MINNESOTA STATUTES, SECTIONS 469.152 THROUGH 469.1651
District 17, Ward 2

Requested Board Action

Public hearing and preliminary authorization to issue up to \$9,000,000 in conduit lease revenue bonds, (the “Bonds”) for the Saint Paul Conservatory for Performing Artists (SPCPA) Building Company, a Minnesota nonprofit corporation (the “Borrower”). The proceeds of the Bonds will be used to finance the acquisition, construction, renovation and equipping of approximately 60,000 square feet of an existing building located at 350 St. Peter Street for use as a school facility, plus the funding of a debt service reserve, capitalized interest, and financing costs (the “Project”). The school will be owned by the Borrower and will be leased to, and operated by, the Saint Paul Conservatory for Performing Artists, a nonprofit corporation and public charter school authorized by the Ordway Center for the Performing Arts.

Background

The Saint Paul Conservatory for Performing Artists is a Minnesota Public Charter School that has been in existence since 2005, with a first year enrollment of 192 students. The schools current enrollment is 550 students in grades 9 through 12. The expansion will enable enrollment to increase to approximately 700 by the 2015-2016 school year. SPCPA is currently in its eighth year of operation and has experienced controlled growth in enrollment in each year.

SPCPA currently leases just under 23,000 s.f. on the 1st and 2nd floors of the Lowry Building. The building owner has offered SPCPA the opportunity to purchase all of the space they currently lease, plus an additional 34,915 s.f. The school leases 15,700 s.f. space in the Landmark Center which they will vacate when that lease expires on June 30, 2013. The Borrower indicates the major reasons for the proposed purchase/construction/renovations include the need for additional classrooms to manage increasing enrollment; the need to place

classrooms into one building to improve collaboration, safety, and security; maximize efficiency; and reduce costs through the purchase of buildings in lieu of continued leasing. Construction is expected to begin in mid March, 2013 and be completed by the end of August, 2013.

SPCPA has also received multiple Cultural STAR grant awards over the years, with their first award in 2002 and latest in 2011. The total awarded to date is \$640,000: \$370,000 in capital grants and \$270,000 in operating grants.

The Project is located in a B-4 zoning district and meets current zoning requirements. See Attachment B for a Map/Address of the Property and Attachment C for a demographic profile of District 17, the Saint Paul Planning District in which the Project is located. The majority of the additional space the School will purchase is currently vacant. Up to twelve small businesses will require relocation as a result of this Project (three of these businesses are operated by the building owner). The building owner is working with PED staff and the business owners for alternative downtown space solutions. No land acquisition took place as a result of eminent domain.

Budget Action

This is a conduit bond issue. The Bonds shall 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 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.

Future Action

Final HRA approval will be sought on January 23, 2013; the closing is expected to occur by mid-March, 2013.

Financing Structure

Dougherty & Company LLC has been chosen to underwrite the bond financing. They have prepared a preliminary term sheet indicating an expected fixed interest rate structure with an expected final maturity of February 1, 2043 (30 years). They will be applying for a bond rating from Standard & Poor's and expect to achieve a BBB or high BB. They project annual debt service of \$585,000 annualized based on an interest rate estimate in the high 5% range, subject to rating and market conditions, with expected debt service coverage in excess of 125%. A net debt service schedule is included in **Attachment D**.

The Bonds will be publicly offered in minimum bond denominations consistent with PED's conduit bond policy which will depend on the rating: minimum bond denominations of \$5,000 for a bond rating in the BBB category and \$25,000 for a bond rating in the BB category.

The total estimated cost of the project is \$8,360,000 as shown below:

Sources:

Tax-Exempt Series 2013 Bonds	\$	8,075,000
Taxable Series 2013 Bonds	\$	285,000
Total Sources:	\$	8,360,000

Uses:

Acquisition	\$	3,600,000
Reconstruction/Rehabilitation	\$	3,100,000
Equipment	\$	225,000
Architect's Fee	\$	125,000
Engineer's Fee	\$	50,000
Debt Service Reserve Fund	\$	589,100
Costs of Issuance	\$	413,100
Capitalized Interest	\$	253,126
Rounding	\$	4,674
Total Uses:	\$	8,360,000

The security for the Bonds will primarily include a pledge and assignment of all State of Minnesota ("State") funding due to the SPCPA from the State and a first mortgage, security agreement and assignment on the land, buildings and personal property comprising the Project.

The financing structure will require a debt service reserve fund in the amount of one years' maximum annual debt service and a repair and replacement reserve.

The financing team includes Dougherty & Company as underwriter, Kennedy & Graven as bond counsel, and Wells Fargo as Trustee.

PED Credit Committee Review

The PED Credit Committee reviewed the proposal for conduit bonds on December 31, 2012, and found it to be consistent with PED's conduit bond policy.

Compliance

The Borrower has acknowledged receiving City/HRA compliance documents specifying that the following compliance requirements are applicable to this project:

- Vendor Outreach Program, Chapter 84.01.
- Affirmative Action, Chapter 183.04 applies to both the contractor and the borrower.
- Little Davis-Bacon Labor Standards applies to the construction work.

Green/Sustainable Development

The project includes renovation of existing commercial space. The Borrower indicates the design team will carefully consider and evaluate design concepts and associated systems equipment that includes environmentally friendly, energy efficient options and sustainable design concepts that have minimum life-cycle costs. Central fundamentals of environmental sustainability are increased energy efficiency, environmentally healthy buildings, and selection of building materials that reflect the best lifecycle value rather than the least front-end cost. They also identify the following specific concepts:

- Adaptive reuse of existing facility;
- Public transportation – many students use due to urban environment;
- No impact or increase on impervious surface;
- Use of existing local public or private facilities such as public library, Roy Wilkins auditorium, and dance studios;
- Photo and motion light sensors; and

- specification of formaldehyde-free casework and other LEED certified materials and procedures.

Environmental Impact Disclosure

N/A

Historic Preservation

N/A

Public Purpose/Comprehensive Plan Conformance

The Project is consistent with the Downtown Development Strategy (2006) regarding Strategies for Arts, Culture and Entertainment:

3.1 Support the diversity of cultural offerings downtown by continuing to invest in and strengthen downtown's cultural "nodes," such as Lowertown, the emerging West Seventh entertainment district, and the area around Rice Park.

Furthermore, this project will create construction jobs and provide opportunities for additional new full-time jobs with increasing student enrollment.

Statement of Chairman (for Public Hearing)

"Being duly authorized by the Board of Commissioners to conduct this Public Hearing, the hearing is now open. This is a Public Hearing called for the purpose of approving the issuance of approximately \$9 million in conduit revenue bonds by the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota (HRA) for the Saint Paul Conservatory for Performing Artists Project. Notice of time, place, and purpose of this hearing was published in the Legal Ledger, the official newspaper of the Authority on the 24th of December, 2012, and in the Pioneer Press, a newspaper of general circulation in the City on the 22nd of December, 2012. The Affidavits of Publication of each of the Notice of Public Hearing will be made a part of these proceedings. Is there anyone who wishes to be heard on this matter? If not, the Chair will declare this Public Hearing adjourned."

Recommendation:

HRA Executive Director recommends approval of the Resolution, included as Attachment A, which gives preliminary approval for the issuance of up to \$9,000,000 in conduit lease revenue bonds, for the Saint Paul Conservatory for Performing Artists.

Sponsored by: Chair Thune

Staff: Jenny Wolfe, 266-6680

Attachments

- Attachment A** – Resolution
- Attachment B** – Map/Address of Project
- Attachment C** – Census Facts
- Attachment D** – Net Debt Service Schedule