SAINT PAUL PORT AUTHORITY

MEMORANDUM

TO: CREDIT COMMITTEE (Regular Meeting of March 18, 2014) DATE: March 13, 2014

FROM: Peter M. Klein

SUBJECT: **Friends School of Minnesota (FSM)**
Authorization of the Issuance of Conduit, Bank-Qualified, Tax-Exempt Notes in the Approximate Amount of $1,400,000

Action Requested:
Provide approval for the Port Authority to issue approximately $1,400,000 of bank-qualified conduit tax-exempt notes to be used for a 3,000 square foot addition to the FSM facility at 1365 Englewood Avenue in Saint Paul and to refinance a current mortgage.

Public Purpose:
The financing will allow the Friends School to more efficiently provide education programs and services benefitting its students in Saint Paul.

Business Subsidy:
The proposed issuance of notes is for a not-for-profit organization and is exempt from treatment as a business subsidy.

Background:
FSM, formed in 1998 as a 501(c)(3) non-profit corporation, is a private school serving 164 students in grades K-8. FSM is accredited by ISACS (Independent Schools Association of the Central States) and is a member of the Minnesota Association of Independent Schools as well as the National Association of Independent Schools.

Its students are ethnically and economically diverse; 35 percent are children of color and 37 percent of FSM families receive need-based financial aid. About 12 percent of students come from LGBT families.

Proposal:

Type of Notes:	The tax-exempt notes will be "bank qualified' under Section 265 of the Code. This will allow the bank to hold these notes without a reduction in their effective yield which would otherwise impact a "non-bank qualified" tax-exempt holding.
Rate:	Approximately 3.00% fixed for five years
Security:	First secured interest and mortgage on the Project in favor of the lender, including the land, building and personal property associated with the Project.

Term:	Five years – Fifteen-year amortization
Issuer:	Saint Paul Port Authority
Lender:	Western Bank
Lender's Counsel:	Gray, Plant, Moody
Bond Counsel:	Stinson, Leonard, Street
Borrower:	Friends School of Minnesota
Borrower's Counsel:	Stinson, Leonard, Street

Conduit Financing:
The notes will be a conduit financing of the Authority and will not constitute or give rise to a liability of the Authority, the City of Saint Paul or the State of Minnesota or a charge against their general credit or taxing powers. The lender will not have the right to demand payment on the notes out of any funds to be raised from taxation or from any revenue sources other than those expressly pledged to payment of the notes pursuant to the funding agreement. The Port Authority's role in this loan is that of Issuer only. The lender will complete its own credit analysis and loan approval.

The Port Authority will receive fees in the amount of 1/8th of a point ($1,750.00) at closing and 1/8th of a point on the outstanding balance, annually, for the life of the notes.

The Port Authority was asked to issue these notes because the City of Saint Paul did not have any "Bank Qualification" authority remaining for 2014. The Port Authority has not used its $10,000,000 of authority (which may be used only for governmental and nonprofit financings).

Workforce Implications:
N/A

Policy Exceptions:
None.

Disclosure:
The Port Authority Commissioners by SEC rules are obligated to disclose any risks or facts you may be aware of that would affect the probability of repayment on these notes.

Recommendation:
We recommend authorization to issue approximately $1,400,000 of conduit, bank-qualified tax-exempt notes for the Friends School of Minnesota.

PMK:ca
Attach.