

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

REPORT TO THE COMMISSIONERS

DATE: APRIL 11, 2018

**REGARDING: RESOLUTION GIVING PRELIMINARY APPROVAL TO THE
PROPOSED ISSUANCE OF CONDUIT REVENUE BONDS FOR
THE METRO DEAF SCHOOL PROJECT, 1125 ENERGY PARK
DRIVE, UNDER MINNESOTA STATUTES, SECTIONS 469.152
THROUGH 469.1655, AS AMENDED, District 10, Ward 4**

Requested Board Action

Public hearing and preliminary authorization to issue up to \$16,000,000 in conduit charter school lease revenue bonds (“Bonds”) for the 1House2Hands, Inc., a nonprofit corporation (“Borrower”) for the benefit of the Metro Deaf School Project.

Background

The Metro Deaf School (the “School”) is currently operating a public charter school located at 1471 Brewster Street. The School was established by teachers, parents and community members under Minnesota’s charter school law and opened in September 1993, serving students in Kindergarten through Grade 8. The school has since expanded to include an Early Childhood Special Education program for 3-5 year olds, and then expanded through Grade 12. They draw students from the 7-county metro area and western Wisconsin; the University of St. Thomas is their authorizer.

The School’s mission is to “promote academic excellence for Deaf and Hard of Hearing students using an ASL/English bilingual approach. Our primary purpose is to empower our students to develop the skills and knowledge to succeed as global citizens.”

We have received an application on behalf of the School to issue up to \$16 million in conduit revenue bonds. The School is proposing to purchase the office/warehouse building located at 1125 Energy Park Drive (behind Gabe’s). The building is nearly 113,000 sq. ft., which includes approximately 23,000 sq. ft. of warehouse and approximately 90,000 sq. ft. of office. The warehouse space is vacant, and there is a single tenant in the office space with a lease for approximately 17,000 sq. ft. of space (a data center). The School plans to renovate the building,

excluding the space currently occupied, to operate their school that currently enrolls approximately 100 students (the “Project”).

The new facility will allow the School to expand their enrollment to approximately 120 students. They also plan to improve the site for greenspace and a playground, and plan to submit an application, through the city, for DEED clean-up funds. The data center tenant would stay in the building (their lease currently expires February 2019, and the School would hope to extend the lease for an additional 10 years).

The School is currently located at 1471 Brewster adjacent to the Hmong College Prep Academy. The School is working with Hmong College Prep on a purchase agreement for their facility. The School began experiencing parking issues once Hmong College Prep started expanding in their area. The School received a variance for their parking in January 2017, and that variance will expire in 2020. The parking issue and the need for more space have led the School to work to locate a new facility.

The School is hoping to close on the financing in early May. They would begin the renovations immediately with the hope to occupy the new space in January 2019, following their winter break.

The Project property is zoned I-1 in District 10 (the profile of the planning district is **attached**); the I-1 zoning permits the School’s proposed land uses (see the **attached** map). The School will be presenting their plans to the District 10 Land Use Committee on April 4.

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

The HRA will be asked to consider a resolution for final approval to issue the Bonds on April 25, 2018 and a closing is expected to occur in early May.

Financing Structure

BB&T Capital Markets will underwrite the bond financing. The Bonds will be unrated and offered on a negotiated sale basis to the institutional and accredited investor marketplace in minimum bond denominations of \$100,000, consistent with PED's conduit bond policy for unrated bonds. The HRA will require the initial purchasers to execute an Investor Letter.

The estimated interest rates will range from 4.50% to 5.75% with an average of 5.43% and a proposed final maturity of 6/15/2053 (35 year term). Upon full enrollment, annual debt service is projected to be approximately \$871,000 based on the estimated rates. The total cost of the project is currently estimated to total \$14,949,079 as shown below:

Sources:

Series 2018A Tax-Exempt Bonds	13,315,000
Series 2018B Taxable Bonds	90,000
Original Issue Discount	-213,578
Cash from the School/Sale Proceeds	1,757,657
Total Sources	\$14,949,079

Uses:

Acquisition & Related Costs	\$8,966,851
Construction/Renovation	3,800,000
SAC Charges	78,511
Architect/Engineering	193,150
Subtotal Project Fund	\$13,038,512
Debt Service Reserve	871,487
Underwriter Discount	231,183
Capitalized Interest	534,422
Cost of Issuance	273,475
Total Uses:	\$14,949,079

The financing team includes BB&T Capital Markets as underwriter and Dorsey & Whitney LLP as bond counsel.

PED Credit Committee Review

The PED Credit Committee reviewed the proposal for conduit bonds on April 3, 2018, and found it to be consistent with PED's conduit bond policies.

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

LEED certified professionals will be working on this Project to consider sustainable concepts throughout the design process. The general approach is to incorporate sustainable methods within the scope of the project when appropriate and affordable. Sustainable design goals to be considered include:

- Provision of natural daylight to learning environments;
- Low maintenance and environmentally sustainable floor materials;
- Low VOC paint;
- Incorporation of natural and low-maintenance landscapes to minimize impact to surrounding environments;
- Shared parking agreements, bike racks, rain gardens, and other methods to mitigate storm water and reduce heat island effects;
- Ecological floor materials: bio-based tiles, polished concrete floors, recycled carpet;
- Specification of formaldehyde free casework and other LEED certified materials and procedures; and
- Photo and motion light sensors

Environmental Impact Disclosure

N/A

Historic Preservation

N/A

Public Purpose/Comprehensive Plan Conformance

The Project will result in educational opportunities for approximately 120 students by providing increased classrooms, including a family and consumer science classroom, a playground with expansive green space, and ample space for parking. A future phase would include a gymnasium. This Project will create an estimated 65 construction jobs. The School projects to increase their full-time employment by 10 employees to 76 by year 2022.

This Project is generally consistent with the Saint Paul Comprehensive Plan. Policy 1.55 of the Land Use chapter calls for the City to “collaborate with public and private schools... in conjunction with construction and major remodeling.”

In addition, one of the three overall strategies of the Land Use chapter of the Comprehensive Plan is to “Provide Land for Jobs”. The Plan also called for the City to conduct a study of industrial zoning districts, including consideration of what types of uses are appropriate for industrial districts. The study was completed in 2013, and concluded that schools were an appropriate use for industrial districts.

The lease of the previous primary tenant of the building in question expired in February, 2014, leaving the building largely vacant since that time. The Project will include renovation and use of the vacant portion of the building, while allowing the existing secondary tenant to remain in the building. The Project will facilitate the expansion of the School, increasing the enrollment and therefore employment.

The District 10 Como Community Plan (adopted 2016) generally supports investment in the neighborhood but does not include policies directly relevant to the proposed project.

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 \$16,000,000 in conduit revenue bonds by the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota (HRA) for the Metro Deaf School Project. Notice of time, place, and purpose of this hearing was published in the Legal Ledger, the official newspaper of the Authority on the 26th of March, 2018, and in the Pioneer Press, a newspaper of general circulation in the City on the 24th of March, 2018. 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:

The HRA Executive Director recommends approval of the resolution which gives preliminary approval for the issuance of up to \$16,000,000 in conduit revenue bonds for the Metro Deaf School Project.

Sponsored by: Commissioner Henningson

Staff: Jenny Wolfe, 266-6680

Attachments

Attachment – Map

Attachment – District 10 Profile