



STPAUL.GOV

**CITY OF SAINT PAUL**

# **INTRODUCTION TO BANK QUALIFIED (BQ) BOND HOST APPROVAL FOR HOURCAR**

August 28, 2024



## CONDUIT REVENUE BONDS - REFRESH

- A bond is an obligation and a promise to make payments of principal and interest
- Conduit revenue bonds are special, limited revenue obligations of a governmental issuer and are not secured by any taxing powers, and are repayable solely from the revenues of the conduit borrower
- **The conduit borrower secures the loan funds either through a private lender or a bond underwriter**
- Conduit revenue bonds are utilized to provide tax-exempt interest rates for the borrower thereby reducing their interest payments



## CONDUIT REVENUE BONDS - REFRESH

- A conduit borrower cannot access tax-exempt financing without a conduit issuer (governmental issuer)
- The conduit issuer must either have jurisdiction over the area in which the project is located or receive “Host Approval” from such an entity
  - For projects located in Saint Paul -- the HRA, the City and the Port Authority are qualifying conduit issuers (the City has limitations), as well as Ramsey County and the State of Minnesota
- If the conduit issuer is not one of these entities listed, **Host Approval would need to be granted**, with a public hearing, before the conduit bond issuance could proceed
- In the absence of this type of financing, conventional financing (i.e., taxable interest rates) could be sought for the project.



## HOST APPROVAL - REFRESH

- The HRA provides Host Approval when a nonprofit (501c3) organization is seeking **Bank Qualified (BQ) bonds**
  - BQ bonds are bonds that enjoy a tax-advantaged status when purchased by commercial banks, enabling the bank to deduct 80% of the interest expense, and therefore offer a lower interest rate than otherwise would be provided with traditional tax-exempt obligations
  - An issuer of BQ bonds cannot issue more than \$10 million of nonprofit (501c3) bonds in a calendar year
  - **The HRA cannot issue BQ bonds without limiting our issuance capacity (which otherwise would have no limit)**



## PROJECT AND REQUEST

- **Hourcar** is a local **nonprofit** shared-mobility service that provides affordable, accessible, and sustainable mobility choices in the Greater Twin Cities region using a fleet of 60+ gas-powered and electric vehicles.
- **Hourcar** also operates the Evie Carshare service, which features a fleet of 170 shared one-way vehicles, on behalf of the cities of Saint Paul and Minneapolis.
- **Hourcar** currently operates in Saint Paul and is seeking to expand their operations by **purchasing an existing auto service/repair facility located at 880 Duluth Street**
  - Earlier this year, they had plans to purchase a property just outside of downtown (and Host Approval was granted)



## PROJECT AND REQUEST (CONT'D)

- **Hourcar** currently employes 35 FTE persons in Saint Paul and anticipates adding 10 additional FTE positions, as follows:
  - Seven (7) support staff with starting pay of \$20 per hour;
  - Three (3) skilled technicians with starting pay of \$60,000 per year;
- **Hourcar**, as a nonprofit, will seek property tax exemption upon acquisition. The property current generates approximately \$8,000 in taxes to the city in 2024.



## PROJECT AND REQUEST (CONT'D)

- The project cost is \$1,500,000, as follows:
  - \$1,175,000 for acquisition
  - \$135,000 for the installation of a makeup air unit
  - \$190,000 for fire suppression system \*
- **Hourcar** is requesting up to \$1,200,000 of BQ bonds, and additional sources include a loan from Propel for \$300,000 and an estimated \$132,000 through an application to the City's Fire Sprinkler Assessment program \*
- **Hourcar** is seeking Host Approval for the City of Mendota to issue the BQ bonds to benefit their acquisition/renovation project

\* This source will require City Council action, which wouldn't occur until late this year or early next year, for proposed construction in the spring of 2025



## REQUEST AND NEXT STEPS

- On September 4, the City Council will consider a resolution granting Host Approval to the city of Mendota following a public hearing.
- If approved, the project is scheduled to close soon thereafter and the HRA will receive a closing fee equal to 0.25% of the amount of BQ bonds issued (\$3,000 if \$1,200,000 issued); an additional \$1,500 will be collected for City Attorney Office services.
- The following compliance will be required:
  - Affirmative Action/Equal Employment Opportunity
  - Vendor Outreach Program
  - Labor Standards/Prevailing Wages





## Questions?

**Staff Contact:**

Jenny Wolfe, PED, HRA Debt Manager

651-266-6680

*[jenny.wolfe@ci.stpaul.mn.us](mailto:jenny.wolfe@ci.stpaul.mn.us)*