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**To:** Heidi Nelson – HRA Executive Director  
**From:** Stacie Kvilvang  
**Date:** August 23, 2011  
**Subject:** Issuance of GO TIF Bonds – COR Apartments

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Over the past couple of months the HRA has been discussing the possibility of having the City issue approximately \$6-\$8 million in General Obligation (GO) Tax Increment Bonds to assist in financing the development of the above referenced project.

GO TIF bonds can be issued by a city or authority (HRA or EDA), without referendum, as long as 20% of the debt service on the bonds is paid from tax increment revenues. Based upon the expected tax increment to be generated from the COR apartments (approximately \$220,000/year upon completion), the City can issue this level of bonds and have more than adequate debt service coverage on the bonds.

It is anticipated that the bonds will not only be paid by the tax increment generated from the project, but from rent revenue generated from the units and tax increment generated by the Allina and VA clinics. It should be noted that tax increment from the Allina and VA clinics will only be utilized if tax increment and rent revenue from the COR apartments is inadequate to cover debt service on the bonds. We are finalizing a sensitivity analysis to determine what level of rent revenues generated by the project will be inadequate to pay debt service on the bonds, after which the City would need to utilize the tax increment from the Allina and VA clinics. We will review this analysis in detail with the HRA at the August 23, 2011 meeting.

Since part of the financing structure, which will be outlined in the development agreement, calls for the developer to provide additional equity within the next three years, the bonds are going to be sold as three-year temporary bonds. This provides the City the flexibility to repay all or a portion of these bonds any time after the first year, without penalty. In all likelihood the first opportunity to pay off the bonds will not occur until year three since that is the earliest the project will be leased and the developer will have the ability to obtain permanent financing from a bank for the project (any cash payments received by the developer would be deposited and held by the City for payment on the bonds in year three). If for whatever reason there is not adequate cash (additional equity) received by the developer or if they are unable to pay off the entire amount of the outstanding GO TIF bonds with permanent financing, the City has the ability to issue the bonds for another three-year temporary term. If the bonds are not paid in full by the end of the second term of the temporary bonds, then the City will have the ability to either pay the balance off from other available cash resources or they can issue a long-term bond for the remaining term of the COR TIF district. Overall, the temporary bonds provide the City the greatest flexibility to pay off this GO obligation early, thus transferring all risk back to the developer and the project.

Please contact me at 651-697-8506 with any questions.



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