



MEMORANDUM

DATE: April 30, 2025

To: Members of the Housing and Redevelopment Authority

CC: Ben Martig – City Administrator; Jake Reilly – Community Development Director;
Brenda Angelstad – Finance Director

From: Melissa Hanson, Housing Coordinator

RE: “Supplemental Agenda Background Memo” for May 1, 2025 No. 1.

Summary Report:

The following is an additional regular agenda item to the HRA agenda made available for Thursday May 1, 2025:

3. HRA to Consider Resolution of Support for the City Council to Grant Preliminary Approval of the Issuance of Conduit Debt for Standard Communities (Jefferson Square Townhomes Project).

Added Staff Report, Counsel Memo, HRA Resolution and City Council Resolution.

HRA RESOLUTION NO. 2025-XX
HOUSING AND REDEVELOPMENT AUTHORITY

**A RESOLUTION BY THE HOUSING AND REDEVELOPMENT AUTHORITY OF THE
CITY OF NORTHFIELD, MINNESOTA SUPPORTING THE PRELIMINARY
APPROVAL TO THE ISSUANCE OF CONDUIT REVENUE BONDS TO FINANCE
THE COST OF ACQUISITION AND REHABILITATION OF JEFFERSON SQUARE
TOWNHOMES**

WHEREAS, Pursuant to Minnesota Statute 469.001, the city of Northfield Housing and Redevelopment Authority (“HRA”) was created and exists in significant part to provide a sufficient supply of adequate, safe, and sanitary dwellings and to remedy the shortage of affordable housing for low- to moderate-income residents of the City of Northfield (the “City”);

WHEREAS, Jefferson Square Townhomes provides 50 units of subsidized Affordable Housing for families based on 30% of gross income adjusted for size and eligible deductions;

WHEREAS, the requisite affordability based on project financing is nearing the end and the existing owners chose to sell the property, therefore jeopardizing affordability;

WHEREAS, Standard Communities has approached the City of Northfield with a request of Issuance of Conduit Bonds up to \$10,000,000 for the purchase, rehabilitation, and preservation of Jefferson Square Townhomes.

NOW THEREFORE BE IT RESOLVED that the Northfield Housing and Redevelopment Authority formally supports the City Council Granting Preliminary Approval of the Issuance of Conduit Debt for Standard Communities preservation of Jefferson Square Townhomes.

Passed by the Housing and Redevelopment Authority of the City of Northfield this 1st day of May, 2025.

Galen Malecha, Chairperson

Brent Nystrom, Secretary

VOTE: _____MALECHA _____CROW _____NYSTROM _____FREELAND
 _____THOMAS _____THORSTEINSON _____SOKUP

HRA Meeting Date: May 1, 2025

To: Housing and Redevelopment Authority

From: Jake Reilly, Community Development Director
Melissa Hanson, Housing Coordinator

..Title

Consider Resolution of Support for the City of Northfield Granting Preliminary Approval of the Issuance of Conduit Debt for Standard Communities (Jefferson Square Townhomes Project).

..Body

Action Requested:

Consider Resolution of Support for the City Council to Grant Preliminary Approval for the Issuance of Conduit Revenue Bonds to Finance the Costs of a Multifamily Rental Housing Facility Under Minnesota Statutes, Chapter 462C, as Amended; Calling for a Public Hearing; Establishing Compliance with Certain Reimbursement Regulations under the Internal Revenue Code of 1986, as Amended; and Taking Certain Other Actions with Respect Thereto (Jefferson Square Townhomes Project).

Summary Report:

Standard Communities, has requested that the City of Northfield issue conduit multifamily housing revenue bonds in an amount not to exceed \$10,000,000 (the “Bonds”) to finance the acquisition, construction, rehabilitation and equipping of an approximately 50-unit multifamily housing development for households of low and moderate income and functionally related facilities, including garages and surface parking, located at 1356 Jefferson Road in the City (the “Project”).

This is a common approach around the state and the country and is considered an affordable housing “preservation” project in that it extends the affordability term an additional thirty years and enables the property owner to completely rehabilitate the property. Many HUD-funded projects convert to market rate units after their affordability term has sunset. This process ensures that Northfield residents are not displaced while also allowing the property to be completely rehabilitated with no risk to the residents of a rent increase, as the property continues to be income restricted in the same way. Residents at this townhome property pay no more than 30 percent of their gross income for the rent amount, less approved HUD deductions such as medical and childcare expenses, and other allowances, including a utility allowance.

Attached is a preliminary resolution to be considered by the City Council on May 6, 2025 (the “Preliminary Resolution”), providing preliminary approval to the issuance of the Bonds. Prior to the bonds being issued, the Council will need to hold a public hearing and provide approval. There is no risk to the City or its credit rating or its debt level through this process.

Background on Conduit Bonds:

The Bonds, if authorized by the City, will be issued in calendar year 2025 as tax-exempt bonds under Minnesota Statutes, Chapter 462C, as amended and the Internal Revenue Code of 1986, as amended (the “Code”). Under the Code, Congress seeks to promote certain kinds of activities, like the development of affordable housing, by allowing private borrowers who undertake those activities to obtain tax-exempt financing for said projects. Tax-exempt financing allows borrowers to realize lower interest costs and thereby makes the financing and development of these activities more feasible. To obtain tax-exempt financing, the private borrower must request that a municipality, like the City, issue the bonds.

Because of the for-profit ownership of the Project, the Bonds will need an allocation of bonding authority from Minnesota Management and Budget (“MMB”) as required by the Code and Minnesota Statutes, Chapter 474A, as amended (the “Allocation Act”). The Preliminary Resolution is the first step of the conduit bond process and allows the City to submit an application for allocation of bonding authority with MMB. If the City receives a certificate from MMB allocating bonding authority to the City, the City may issue the Bonds. The Allocation Act provides the City and the Borrower with 180 days to issue the Bonds from the date of allocation.

If the Project receives an allocation of bonding authority from MMB, on a later date prior to closing, the City will also need to hold a public hearing, approve a housing program for the Project, and provide final approval for the issuance of the Bonds and the execution of various related documents (the “Final Resolution”). The Preliminary Resolution authorizes City staff to set a subsequent public hearing relating to the Project and the issuance of the Bonds.

Security for the Bonds

If authorized by the City Council, the Bonds will be issued as conduit revenue bonds secured solely by the revenues derived from a loan agreement or similar document (the “Loan Agreement”) to be executed by the City and the Borrower and from other security provided by the Borrower. The lender or bondholders provide the funds for the loan, either directly or through a trustee, and the City assigns its rights and obligations under the Loan Agreement to the lender or the trustee. No money actually flows through the City. No money or assets of the City would ever be pledged or available to pay the Bonds.

The bond documents will include provisions requiring the Borrower to indemnify the City for any potential liability incurred by the City with respect to the Bonds and the Project. In addition, the bond documents will recite that the Bonds, if and when issued, will not to be payable from nor charged upon any of the City’s funds, other than the revenues received from the Borrower under the Loan Agreement and pledged to the payment of the Bonds, and the City will not be subject to any liability on the Bonds. The Bonds will not constitute general obligations of the City and will not be secured by or payable from any property or assets of the City and will not be secured by any taxing power of the City. No holder of the Bonds will ever have the right to compel any exercise by the City of its taxing powers to pay any of the principal of the Bonds or the interest or premium thereon, or to enforce payment of the Bonds against any property of the City.

Because the Bonds will be conduit revenue bonds, the Bonds will not affect any debt limitation imposed on the City and the issuance of the Bonds will not have any adverse impact on the credit rating of the City, even in the event that Borrower encounters financial difficulties with respect to the Project to be financed with the proceeds of the Bonds.

Not Bank Qualified Bonds

The Bonds are proposed to be issued as tax-exempt obligations, the interest on which is excluded from gross income for federal income tax purposes. However, because the Project will be owned by a for-profit owner, the Bonds cannot be designated as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the “Code”) which relates to a deduction

available to banks and other financial institutions (sometimes referred to as “bank-qualified bonds”). Because this type of Bonds is not eligible for designation as bank-qualified bonds, the Bonds will not count against the City’s \$10,000,000 limit in 2025 on its ability to designate its own bonds, if any, as bank qualified bonds and issuing the Bonds in 2025 will have no impact on the City’s ability to issue bank-qualified bonds in future years.

Expenses and Costs

The bond documents will provide that the Borrower will be required to pay all the expenses of the City paid or incurred with respect to the Bonds and will be required to indemnify the City for any potential liability or costs incurred by the City with respect to the Bonds, the Project, and granting necessary approvals. In addition, the Borrower will pay any administrative fee charged by the City for the issuance of conduit revenue bonds.

Alternative Options:

The HRA may choose not to support Standard Communities’ request of the City to issue conduit bonds for the project. The Council may choose not to pass the resolution. This may negatively impact the ability of Standard Communities to preserve and rehabilitate the 50 units of family-size affordable homes.

Financial Impacts:

No impact to the City of Northfield.

Tentative Timelines:

June 2025 - Standard Communities submits application to MN Housing Finance Agency

Fall 2025 – Standard Communities to complete financing

Before end of 2025 – City must hold Public Hearing

CITY OF NORTHFIELD
COUNTIES OF DAKOTA AND RICE
STATE OF MINNESOTA

RESOLUTION 2025-_____

RESOLUTION GRANTING PRELIMINARY APPROVAL TO THE
ISSUANCE OF CONDUIT REVENUE BONDS TO FINANCE THE COSTS OF
A MULTIFAMILY RENTAL HOUSING FACILITY UNDER MINNESOTA
STATUTES, CHAPTER 462C, AS AMENDED; CALLING FOR A PUBLIC
HEARING; ESTABLISHING COMPLIANCE WITH CERTAIN
REIMBURSEMENT REGULATIONS UNDER THE INTERNAL REVENUE
CODE OF 1986, AS AMENDED; AND TAKING CERTAIN OTHER
ACTIONS WITH RESPECT THERETO
(JEFFERSON SQUARE TOWNHOMES PROJECT)

NOW THEREFORE, BE IT RESOLVED by the City Council (the “Council”) of the City of Northfield, Minnesota (the “City”) as follows:

Section 1. Recitals.

1.01. The City is a home rule charter city and political subdivision duly organized and existing under the Constitution and laws of the State of Minnesota.

1.02. Pursuant to Minnesota Statutes, Chapter 462C, as amended (the “Act”), the City is authorized to carry out the public purposes described in the Act by issuing conduit revenue bonds to finance or refinance multifamily rental housing developments located within the City.

1.03 Standard Jefferson Square Venture LP and Standard Midwest LLC, a Delaware limited liability company (or another entity to be formed by or affiliated with Standard Midwest LLC, the “Borrower”), has proposed that the City issue its revenue bonds, pursuant to the Act, in an aggregate principal amount not to exceed \$10,000,000, in one or more series at one time or from time to time (the “Bonds”).

1.04. The proceeds of the Bonds are proposed to be loaned by the City to the Borrower to be applied by the Borrower to (i) finance the acquisition, construction, rehabilitation and equipping of an approximately 50-unit multifamily housing development for households of low and moderate income and functionally related facilities, including garages and surface parking known as Jefferson Square, with a primary address located at 1356 Jefferson Road in the City (the “Project”); (ii) fund one or more reserve funds to secure the timely payment of the Bonds, if necessary; (iii) pay interest on the Bonds during the construction of the Project, if necessary; and (iv) pay certain costs of issuing the Bonds.

1.05. As a condition to the issuance of the Bonds, the City must adopt a housing program providing the information required by Section 462C.03, subdivision 1a of the Act (the “Housing Program”) and under Section 462C.04, subdivision 2, of the Act, a public hearing must be held on the Housing Program after one publication of notice in a newspaper circulating generally in the City, at least 15 days before the hearing.

1.06. Under Section 147(f) of the Internal Revenue Code of 1986, as amended (the “Code”), prior to the issuance of the Bonds a public hearing duly noticed must be held by the City Council.

1.07. Under Section 146 of the Code, the Bonds must receive an allocation of the bonding authority of the State of Minnesota. An application for such an allocation must be made pursuant to the requirements of Minnesota Statutes, Chapter 474A, as amended (the “Allocation Act”) and preliminary approval of the issuance of the Bonds by the Council is sufficient to authorize the submission of an application to the State of Minnesota Management and Budget for an allocation of bonding authority with respect to the Bonds to finance the Project.

Section 2. Preliminary Findings. Based on representations made by the Borrower to the City to date, the Council hereby makes the following preliminary findings, determinations, and declarations:

(a) The Project consists of the acquisition, construction, rehabilitation and equipping of a multifamily rental housing development designed and intended to be used for rental occupancy. The Project furthers the purposes set forth in the Housing Act and the Project constitutes a “multifamily housing development” within the meaning of Section 462C.02, subdivision 5 of the Housing Act.

(b) The proceeds of the Bonds will be loaned to the Borrower and the proceeds of the loan will be applied to: (i) the acquisition, construction, rehabilitation and equipping of the Project; (ii) the funding of one or more reserve funds to secure the timely payment of the Bonds, if necessary; (iii) the payment of interest on the Bonds during the construction of the Project, if necessary; and (iv) the payment of the costs of issuing the Bonds. The City will enter into one or more loan agreements (or other revenue agreement) between the City and the Borrower requiring loan repayments from the Borrower in amounts sufficient to repay the loan when due and requiring the Borrower to pay all costs of maintaining and insuring the Project, including taxes thereon.

(c) In preliminarily authorizing the issuance of the Bonds and the financing of the acquisition, construction, rehabilitation and equipping of the Project and related costs, the City’s purpose is to further the policies of the Act.

(d) The Bonds will be special, limited obligations of the City payable solely from the revenues pledged to the payment thereof under the loan agreements (or other revenue agreement) referred to above, and will not be a general or moral obligation of the City and will not be secured by or payable from revenues derived from any exercise of the taxing powers of the City.

Section 3. Public Hearing. The City Council will conduct a public hearing on the Housing Program, the Project, and the issuance of the Bonds by the City at a regular or special meeting on a date to be determined by the City staff in order to meet publication requirements in accordance with applicable law. Notice of such hearing (the “Public Notice”) will be published as required by Section 462C.04, subdivision 2 of the Act and Section 147(f) of the Code. The City Clerk of the City is hereby authorized and directed to publish the Public Notice, in substantially the form attached hereto as **EXHIBIT A**, in the *Northfield News* in accordance with applicable law. The Public Notice will provide a general, functional description of the Project, as well as the maximum aggregate face amount of the obligations to be issued for the purposes referenced above, the identity of the initial owner, operator, or manager of the Project, and the location of the Project. The Public Notice is authorized to be published in a newspaper circulating generally in the City on a date at least 15 days before the meeting of the City Council at which the public hearing will take place. At the public hearing reasonable opportunity will be provided for interested individuals to express their views, both orally and in writing, on the Project and the proposed issuance of such revenue obligations.

Section 4. Housing Program. Kutak Rock LLP, acting as bond counsel with respect to the Project and the Bonds (“Bond Counsel”) shall prepare a draft Housing Program to authorize the issuance by the City of up to approximately \$10,000,000 in revenue bonds in one or more series to finance the acquisition, construction, rehabilitation and equipping of the Project by the Borrower. City staff is hereby authorized to review and approve the Housing Program.

Section 5. Submission of an Application for an Allocation of Bonding Authority. Under Section 146 of the Code, the Bonds must receive an allocation of the bonding authority of the State of Minnesota. The City Council hereby authorizes the submission of an application for allocation of bonding authority pursuant to Section 146 of the Code and the Allocation Act in accordance with the requirements of the Allocation Act. The Mayor of the City or the Finance Director and Bond Counsel are hereby authorized and directed to take all actions, in cooperation with the Borrower, as are necessary to submit an application for an allocation of bonding authority to Minnesota Management & Budget.

Section 6. Preliminary Approval. The City Council hereby provides preliminary approval to the issuance of the Bonds in the approximate aggregate principal amount of up to \$10,000,000 to finance all or a portion of the costs of the Project pursuant to the Housing Program of the City, subject to: (i) a public hearing as required by the Act and Section 147(f) of the Code; (ii) receipt of an allocation of the bonding authority from the State of Minnesota; (iii) final approval by the City Council following the preparation of bond documents; and (iv) final determination by the City Council that the financing of the Project and the issuance of Bonds are in the best interests of the City.

Section 7. Reimbursement of Costs under the Code.

7.01. The United States Department of the Treasury has promulgated regulations governing the use of the proceeds of tax-exempt bonds, all or a portion of which are to be used to reimburse the City or the Borrower for project expenditures paid prior to the date of issuance of such bonds. Those regulations (Treasury Regulations, Section 1.150-2) (the “Regulations”) require that the City adopt a statement of official intent to reimburse an original expenditure not later than 60 days after payment of the original expenditure. The Regulations also generally require that the bonds be issued and the reimbursement allocation made from the proceeds of the bonds occur within 18 months after the later of: (i) the date the expenditure is paid; or (ii) the date the project is placed in service or abandoned, but in no event more than 3 years after the date the expenditure is paid. The Regulations generally permit reimbursement of capital expenditures and costs of issuance of the bonds.

7.02. To the extent any portion of the proceeds of the Bonds will be applied to expenditures with respect to the Project, the City reasonably expects to reimburse the Borrower for the expenditures made for costs of the Project from the proceeds of the Bonds after the date of payment of all or a portion of such expenditures. All reimbursed expenditures shall be capital expenditures, costs of issuance of the Bonds, or other expenditures eligible for reimbursement under Section 1.150-2(d)(3) of the Regulations and also qualifying expenditures under the Act.

7.03. Based on representations by the Borrower, other than (i) expenditures to be paid or reimbursed from sources other than the Bonds, (ii) expenditures permitted to be reimbursed under prior regulations pursuant to the transitional provision contained in Section 1.150-2(j)(2)(i)(B) of the Regulations, (iii) expenditures constituting preliminary expenditures within the meaning of Section 1.150-2(f)(2) of the Regulations, or (iv) expenditures in a “de minimus” amount (as defined in Section 1.150-2(f)(1) of the Regulations), no expenditures with respect to the Project to be reimbursed with the proceeds of the Bonds have been made by the Borrower more than 60 days before the date of adoption of this resolution of the City.

7.04. Based on representations by the Borrower, as of the date hereof, there are no funds of the Borrower reserved, allocated on a long term-basis, or otherwise set aside (or reasonably expected to be reserved, allocated on a long-term basis, or otherwise set aside), to provide permanent financing for the expenditures related to the Project to be financed from proceeds of the Bonds, other than pursuant to the issuance of the Bonds. This resolution, therefore, is determined to be consistent with the budgetary and financial circumstances of the Borrower as they exist or are reasonably foreseeable on the date hereof.

Section 8. Costs. The Borrower will pay the administrative fees of the City and pay, or, upon demand, reimburse the City for payment of, any and all costs incurred by the City in connection with the Project and the issuance of the Bonds, whether or not the Bonds are issued.

Section 9. Commitment Conditional. The adoption of this resolution does not constitute a guarantee or a firm commitment that the City will issue the Bonds as requested by the Borrower and approval of the Bonds is contingent, among other things on the conditions described in Section 6 hereof. If, as a result of information made available to or obtained by the City during its review of the Project, it appears that the Project or the issuance of Bonds to finance or refinance the costs thereof is not in the public interest or is inconsistent with the purposes of the Act, the City reserves the right to decline to give final approval to the issuance of the Bonds. The City also retains the right, in its sole discretion, to withdraw from participation and accordingly not issue the Bonds should the City Council, at any time prior to the issuance thereof, determine that it is in the best interests of the City not to issue the Bonds or should the parties to the transaction be unable to reach agreement as to the terms and conditions of any of the documents for the transaction.

Section 10. Effective Date. This Resolution shall be in full force and effect from and after its passage.

PASSED by the City Council of the City of Northfield, Minnesota this 6th day of May, 2025.

ATTEST:

City Clerk

Mayor

VOTE: ___ ZWEIFEL ___ SOKUP ___ HOLMES ___ NESS
 ___ PETERSON WHITE ___ DAHLEN ___ BEUMER

EXHIBIT A

NOTICE OF PUBLIC HEARING ON A HOUSING PROGRAM AND THE ISSUANCE OF CONDUIT REVENUE BONDS FOR A MULTIFAMILY HOUSING PROJECT (JEFFERSON SQUARE TOWNHOMES PROJECT)

NOTICE IS HEREBY GIVEN that the City Council of the City of Northfield, Minnesota (the “City”) will conduct a public hearing on _____, 2025 at 6:00 p.m., or as soon thereafter as the matter may be heard, at the City Hall at 801 Washington Street in the City on (i) a proposal of Standard Jefferson Square Venture LP and Standard Midwest LLC, a Delaware limited liability company (or another entity to be formed by or affiliated with Standard Midwest LLC, the “Borrower”) that the City finance the acquisition, construction, rehabilitation and equipping of a rental housing development, hereinafter described, by the issuance of conduit revenue bonds or other obligations, in one or more series at one time or from time to time (the “Bonds”) pursuant to Minnesota Statutes, Chapter 462C, as amended, and (ii) the adoption of a housing program for such bonds.

The Bonds are proposed to be issued to (i) finance the acquisition, construction, rehabilitation and equipping of an approximately 50-unit multifamily housing development for households of low and moderate income and functionally related facilities, including garages and surface parking, with a primary address located at 1356 Jefferson Road in the City known as Jefferson Square (the “Project”); (ii) fund one or more reserve funds to secure the timely payment of the Bonds, if necessary; (iii) pay interest on the Bonds during the construction of the Project, if necessary; and (iv) pay certain costs of issuing the Bonds (collectively, the “Project”). The Project will be owned and operated by the Borrower.

The estimated maximum aggregate principal amount of the Bonds to be issued to finance the Project is \$10,000,000.

The bonds or other obligations if and when issued will not constitute a charge, lien or encumbrance upon any property of the City, and will be payable solely from revenues of the project, and will not be backed by the full faith and credit of the City but will be payable solely from sums paid by the Borrower pursuant to a revenue agreement.

Following the public hearing, the Council will consider a resolution approving a housing program prepared in accordance with the requirements of the Act and granting approval to the issuance of the Bonds. A copy of the housing program will be on file at City Hall, Monday through Friday during the City’s normal business hours until the date of the Public Hearing.

At the time and place fixed for the Public Hearing, the City Council will give all persons who appear or submit comments in writing to the City Council prior to the hearing, an opportunity to express their views with respect to the proposal. In addition, interested persons may file written comments respecting the proposal with the City to the attention of Lynette Peterson, at (507) 645-3001 at or prior to said public hearing.

Publish _____, 2025

MEMORANDUM

TO: Brenda Angelstad, Finance Director
City of Northfield, Minnesota

FROM: Jenny Boulton and Gina Fiorini, Bond Counsel

DATE: April 29, 2025

RE: Conduit Bonds for Jefferson Square Project

Standard Jefferson Square Venture LP (or another entity to be formed by or affiliated with Standard Midwest LLC, a Delaware limited liability company, the “Borrower”), has requested that the City of Northfield, Minnesota (the “City”) issue conduit multifamily housing revenue bonds in an amount not to exceed \$10,000,000 (the “Bonds”) to finance the acquisition, construction, rehabilitation and equipping of an approximately 50-unit multifamily housing development for households of low and moderate income and functionally related facilities, including garages and surface parking known as Jefferson Square, located at 1356 Jefferson Road in the City (the “Project”).

Enclosed is a preliminary resolution to be considered by the City Council on May 6, 2025 (the “Preliminary Resolution”), providing preliminary approval to the issuance of the Bonds.

Background on Conduit Bonds

The Bonds, if authorized by the City, will be issued in calendar year 2025 as tax-exempt bonds under Minnesota Statutes, Chapter 462C, as amended and the Internal Revenue Code of 1986, as amended (the “Code”). Under the Code, Congress seeks to promote certain kinds of activities, like the development of affordable housing, by allowing private borrowers who undertake those activities to obtain tax-exempt financing for said projects. Tax-exempt financing allows borrowers to realize lower interest costs and thereby makes the financing and development of these activities more feasible. To obtain tax-exempt financing, the private borrower must request that a municipality, like the City, issue the bonds.

Because of the for-profit ownership of the Project, the Bonds will need an allocation of bonding authority from Minnesota Management and Budget (“MMB”) as required by the Code and Minnesota Statutes, Chapter 474A, as amended (the “Allocation Act”). The Preliminary Resolution is the first step of the conduit bond process and allows the City to submit an application for allocation of bonding authority with MMB. If the City receives a certificate from MMB allocating bonding authority to the City, the City may issue the Bonds. The Allocation Act provides the City and the Borrower with 180 days to issue the Bonds from the date of allocation.

If the Project receives an allocation of bonding authority from MMB, on a later date prior to closing, the City will also need to hold a public hearing, approve a housing program for the Project, and provide final approval for the issuance of the Bonds and the execution of various related documents (the “Final Resolution”). The Preliminary Resolution authorizes City staff to set a subsequent public hearing relating to the Project and the issuance of the Bonds.

Security for the Bonds

If authorized by the City Council, the Bonds will be issued as conduit revenue bonds secured solely by the revenues derived from a loan agreement or similar document (the “Loan Agreement”) to be executed by the City and the Borrower and from other security provided by the Borrower. The lender or bondholders provide the funds for the loan, either directly or through a trustee, and the City assigns its rights and obligations under the Loan Agreement to the lender or the trustee. No money actually flows through the City. No money or assets of the City would ever be pledged or available to pay the Bonds.

The bond documents will include provisions requiring the Borrower to indemnify the City for any potential liability incurred by the City with respect to the Bonds and the Project. In addition, the bond documents will recite that the Bonds, if and when issued, will not to be payable from nor charged upon any of the City’s funds, other than the revenues received from the Borrower under the Loan Agreement and pledged to the payment of the Bonds, and the City will not be subject to any liability on the Bonds. The Bonds will not constitute general obligations of the City and will not be secured by or payable from any property or assets of the City and will not be secured by any taxing power of the City. No holder of the Bonds will ever have the right to compel any exercise by the City of its taxing powers to pay any of the principal of the Bonds or the interest or premium thereon, or to enforce payment of the Bonds against any property of the City.

Because the Bonds will be conduit revenue bonds, the Bonds will not affect any debt limitation imposed on the City and the issuance of the Bonds will not have any adverse impact on the credit rating of the City, even in the event that Borrower encounters financial difficulties with respect to the Project to be financed with the proceeds of the Bonds.

Not Bank Qualified Bonds

The Bonds are proposed to be issued as tax-exempt obligations, the interest on which is excluded from gross income for federal income tax purposes. However, because the Project will be owned by a for-profit owner, the Bonds cannot be designated as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the “Code”) which relates to a deduction available to banks and other financial institutions (sometimes referred to as “bank-qualified bonds”). Because this type of Bonds is not eligible for designation as bank-qualified bonds, the Bonds will not count against the City’s \$10,000,000 limit in 2025 on its ability to designate its own bonds, if any, as bank qualified bonds and issuing the Bonds in 2025 will have no impact on the City’s ability to issue bank-qualified bonds in future years.

Expenses and Costs

The bond documents will provide that the Borrower will be required to pay all the expenses of the City paid or incurred with respect to the Bonds and will be required to indemnify the City for any potential liability or costs incurred by the City with respect to the Bonds, the Project, and granting necessary approvals. In addition, the Borrower will pay any administrative fee charged by the City for the issuance of conduit revenue bonds.

Please let us know if you have any additional questions.