



Finance Committee Summary

Wednesday, April 16, 2008

1:30 p.m.

3rd Floor Council Conference Room

Committee Members Present: Faatz, Chair; Boigon, Vice-Chair; Lehmann

Committee Members Absent: Brown, Robb

Other Council Present: Garcia

Agenda:

- 1) *Overview of Private Activity Bonds (PAB) and 501(c)(3) transactions*
- 2) *Belle Bonfils Memorial Blood Center 501(c)(3) transaction*

1) **Overview of Private Activity Bonds (PAB) and 501(c)(3) transactions:**

Committee Discussion

Lupe Gutierrez-Vasquez, Dept. of Finance, explained that Private Activity Bonds (PAB) are municipal bonds that can be used for private purchases and that Denver has historically issued its volume cap to assist small manufacturing projects, multi-family housing bonds to assist low income renters, and single family mortgage bonds to assist first-time homebuyers. In recent years, the City has assigned its unused PAB allocation to Colorado Housing Finance Authority (CHFA), CollegenInvest, and Denver Housing Authority (DHA). In addition to the mortgage revenue bonds, rental housing bonds, student and industrial development bonds, PAB includes 501(c)(3) bonds which are only available to non-profits for financing charitable purposes. PAB issued by the City are special obligations and do not constitute debt or indebtedness of the City. PAB volume cap is not money, but is the authorization from the federal government to permit Denver to issue tax-exempt PABs. The PABs that are issued by the City are repaid by the beneficiaries of the bond proceeds.

Councilmember Faatz asked why the City should be involved in these types of transactions and asked if the City has issued PAB 501(c)(3) transactions before. Fred Marienthal, Kutak Rock LLP – Bond Counsel, said the City has served as a conduit for these types of transactions in the past citing the Sewall Ballroom as a recent example. He explained that the City's role in these transactions is in conjunction with the Charter which outlines the City's role to act as a conduit. Councilmember Boigon added that the Jewish Center project in 1994 was created through the use of a 501(c)(3) agreement and that the Jewish community raised additional funding through a capital campaign to help pay for the project. The transactions are not shown on the Auditor's Comprehensive Annual Financial Report (CHAFR) because the obligations are

not charged against the credit or taxing power of the City and the Governmental Accounting Standards Board (GASB) does not require the debt on the City's balance sheet, stated Mr. Marienthal. General Obligation bonds are tax exempt and tend to trade better and provide lower interest rates versus 501(c)(3) transactions, but the interest for these transactions are still tax exempt. The requirements for these types of transactions are found in Section 145 of the Governmental Tax Code. The Councilwoman asked if there was any case where the government issued these bonds and the 501(c)(3) defaulted in its repayment and the issuer had to step in? Mr. Marienthal stated he is not aware of any case.

Terrance Ware, Office of Economic Development, noted that the agency has hired a consultant to assist the City in determining changes and next steps for the PAB program. Some anticipated changes include sustainability and green built initiatives related to the multi-family program, enhanced foreclosure prevention education related to the single family mortgage revenue bonds, and leveraging allocation based on creation of/and increased partnerships with other allocating agencies. Councilmember Garcia questioned if the City could be more aggressive in its lead for additional business assistance with the allocation cap. Mr. Ware said it was possible, but that would be a policy shift.

2) Belle Bonfils Memorial Blood Center 501(c)(3) PAB transaction:

Committee Action

The Committee authorized the City to serve as a conduit issuer of 501(c)(3) Private Activity Bonds in the amount of \$6 million on behalf of the Belle Bonfils Memorial Blood Center for various capital improvement projects and equipment replacement.

Committee Discussion

Lupe Gutierrez-Vasquez, Dept. of Finance, outlined the proposed agreement as follows:

- The City would serve as conduit issuer of 501(c)(3) PAB in the amount of \$6 million;
- The borrower is Belle Bonfils Memorial Blood Center and the lender is Key Government Finance Inc. – the bond is payable solely by Belle Bonfils, and the bond transaction would not be charged against the credit or taxing power of the City/or PAB volume cap;
- Term of the agreement is 10 years with a 15 year amortization schedule - the interest rate is 4.98%; and
- The collateral/security is a deed of trust on Bonfil's real and personal property located at 717 Yosemite Street, Denver, CO, 80230.

Anne Burtchaell, Belle Bonfils, stated that Belle Bonfils is a Colorado non-profit founded in 1943 that provides licensed community blood services. They recruit donors and collect, produce and test blood to ensure a safe and sufficient blood supply to patients in need in Colorado. She indicated that the bonds would be used to fund facilities renovations for the lab, a new roof, parking lot replacement, and other upgrades. Two million would be used to replace equipment needs. Ms. Burtchaell explained that Bonfils will pay Key Bank. Councilmember Faatz asked what the minimal risks could be for this transaction. Fred Marienthal, Kutak Rock LLP – Bond Counsel, explained there is no payment obligation from the City and the only risk would be if the City entered into a financial agreement with Bonfils. Key Bank and Bonfils have a financial

agreement, and Key Bank is holding the "letter agreement" and will not be putting the transaction in the market. Mr. Marienthal noted that Key Bank put financial covenants in the documents, including language where Key Bank could ask Bonfils to refinance the loan if it is not paid within the 10 year term.

Councilmember Boigon announced that Bonfils saved her life and she is 100% behind their mission and purpose. If anyone is interested in donating blood there are seven sites and mobile units available. For more information on Bonfils, you can go online at: www.bonfils.org.