

CITY OF NEW PRAGUE, MN
CONDUIT DEBT FEE POLICY
Proposed 12/1/2025

PURPOSE

1. Conduit debt obligations are certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Although conduit debt obligations bear the name of the governmental issuer, the issuer has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued.
2. The purpose of this policy is to establish the fees charged by the City of New Prague (the "City") to recover administrative costs for services related to the issuance of conduit debt obligations. An applicant for tax-exempt financing must submit to the City an application, obtained from the City's Finance Department.

POLICY

1. For debt issued through the City of New Prague as conduit debt under Minnesota statutes and IRS regulations for which the proceeds are to be loaned to a borrower and repaid through revenues and/or proceeds from a project for which the proceeds were borrowed, the City of New Prague will charge an upfront administrative fee in the amount of 1% of the principal amount of the bonds, or as negotiated by the New Prague City Council.
2. The City is to be reimbursed and held harmless for and from any out-of-pocket expenses related to the tax-exempt financing including, but not limited to, legal fees, municipal advisor fees, arbitrage consulting fees, bond counsel fees, the City staff's expenses in connection with the application, and any deposits or application fees required under state law in order to secure allocation of bonding authority. The applicant must execute a letter to the City undertaking to pay all such expenses. A non-refundable City application fee in the amount of \$2,500 must be included with the submission of the application.
3. The applicant must select a qualified financial adviser or underwriter to assist the applicant in preparing all necessary application documents and materials. The financial adviser will submit a letter that establishes the financial feasibility of the project. Applications may, in the alternative, include a signed letter from a responsible financial institution indicating that the project is economically feasible and viable and stating that bonds can be successfully sold for the project or that an individual or institution intends to purchase all of the bonds. If the applicant is not seeking other public assistance for the project, the City's financial advisor will be required to review the project for financial feasibility.

The applicant must receive approval from the appropriate state agencies, secure financing and commence construction within one year of the date of the resolution giving preliminary approval to the project or the housing program. Upon application, the Council may approve an extension of the preliminary approval.

The City may appoint its own bond counsel to represent the City's interest for the bond issue, which will normally be the City's regularly retained bond counsel.

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4. Projects must be compatible with the overall development plans and objectives of the City and shall meet all applicable zoning and land use regulations of the City.
5. Prior to closing and delivery of the bonds for the project, the applicant must pay, or commit to pay at closing an administrative fee in the amount of 1% of par of the bonds, or as negotiated by the New Prague City Council. The administrative fees required by this paragraph will be adjusted at or paid prior to delivery of the bonds if necessary to ensure compliance with the Internal Revenue Code and regulations.

If the City determines that issuance of the bonds requested by the applicant is reasonably expected to cause governmental bonds issued by the City in that calendar year to be ineligible for designation as “qualified tax exempt obligations” under Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (also known as “bank qualified”), the applicant will be required to reimburse the City, at the time of issuance of the City’s bonds, for any interest rate differential between bank qualified and non-bank qualified bonds.

6. Subsequent Proceedings. Where changes to the underlying documents or credit facilities of outstanding bond issues are to be made and require Council action (including changes that are a “deemed reissuance” under Internal Revenue Service regulations), the City will not charge an administrative fee but the actual costs incurred by the City must be reimbursed. No formal application form is required.
7. Post-Issuance Compliance. The City will require that each borrower demonstrate to the City that the borrower will substantially meet the same procedures for post-issuance compliance that apply to City governmental bonds under the Policy and the Procedures. The City requires that borrowers retain either the City’s arbitrage consultant or a trustee and/or an independent arbitrage consultant for the term of the bonds and provide the City with copies of all required reports showing compliance with regulations.

PROCEDURE

1. Upon request from a potential borrower for the city to use its statutory authority to issue conduit debt, city staff will inform the borrower of the administrative fee for issuing conduit debt. The borrower will be required to submit a written proposal to the city detailing the purpose of the borrowing, along with the non-refundable application fee.
2. Consideration of an application for tax-exempt financing must be done at a public hearing held by the Council. Changes or modifications to the project after the public hearing and preliminary Council approval must be consistent with the scope of the project as proposed at the time of preliminary approval.
3. Upon issuance of the bonds, the borrower will be charged the administrative fee collected at closing. The City may also negotiate an alternative debt issuance fee on a case-by-case basis.