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## Bond fund selloff blocked

Port Authority's 876 Fund faces more uncertainty

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The decades-long saga of the St. Paul Port Authority's troubled 876 Bond Fund entered a new chapter Thursday.

The Minnesota Supreme Court reversed a 2007 order from Ramsey County District Court that granted the Port Authority permission to liquidate the fund and distribute the assets to the fund's remaining 2,700 bondholders.

In a 14-page opinion, Supreme Court Justice G. Barry Anderson said the district court didn't have the jurisdiction to authorize a liquidation.

The Minnesota Supreme Court also voided 2002 and 2004 orders from the district court that allowed the Port Authority to retire some of the bonds at a discount.

The ruling from the Supreme Court means the fate of the 876 Bond Fund — which was never liquidated — remains in limbo and the parties will have to go back to district court and find another solution.

"It ... essentially starts the process all over again," said Tom Collins, a spokesman for the Port Authority.

Collins said the Port Authority had recommended liquidating the fund because that was believed to be in the best interest of the bondholders.

But a group of dissenting bondholders, represented by Keith Broady, an attorney with Lommen, Abdo, Cole, King & Stageberg in Minneapolis, has argued that a court-appointed receiver — an impartial third party — would better maximize the bondholders' return on their investment.

"We'd like to have the court appoint a receiver and have some constructive discussions with the Port Authority about restoring the bond fund," Broady said.

The St. Paul Port Authority created the 876 Bond Fund in 1974 to finance job-creating industrial and commercial projects in St. Paul. From the fund's inception to 1991, the Port Authority issued bond funds to finance 139 projects in the city.

Fund bonds are revenue bonds and are not backed by any tax revenues of the Port Authority, the city of St. Paul or any other governmental source. The bonds are secured by and payable only from revenue streams generated by current payments from borrowers whose properties were financed by 876 bonds, as well as proceeds derived from the sale of real estate that the Port Authority has repossessed and other revenues.

Trouble began brewing in the 1980s when a number of the fund's projects defaulted. In 1991, the Port Authority said it would stop selling new bonds. A consultant then predicted that by 2001, the fund would not be able to meet its debt obligations.

In the 1990s, the Port Authority began petitioning bondholders to sell their bonds back to the Port Authority. The goal was to restructure the fund and avoid the projected shortfall. The Port Authority made a number of efforts to restructure the fund, spending more than \$2 million of its own funds.

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But as predicted, on Dec. 1, 2004, reserve funds were depleted. The fund has since been unable to pay interest and principal in full to bondholders. As of June 1, \$52 million of those bonds remained outstanding.

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