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Fight over 876 Bond Fund may be over

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Both sides agree on terms involving $51.6 million fund pending judge's approval

The 876 Bond Fund helped finance construction of the Wells Fargo Place (previously called the Minnesota World Trade Center) in downtown St. Paul. (File photo: Bill Klotz)

After five years of tough legal wrangling, both sides have agreed to a settlement involving a defaulted industrial revenue bond fund that financed building projects in St. Paul for 30 years.

Now, a Ramsey County judge has to approve the settlement agreement in the case of the 876 Bond Fund, for which the St. Paul Port Authority has been the administrator since it started in 1974.

The 876 fund defaulted in 2004, when its reserves were depleted and the net revenue was no longer enough to make payments on $51.6 million in outstanding bonds to 2,600-plus bondholders.

"This settlement is good for the more than 2,600 bondholders and for the citizens of St. Paul," Port Authority President Louis Jambois said. "For us, litigation with no end in sight is a distraction from our mission at the Port Authority to create quality job opportunities, expand the tax base and advance sustainable development."

In 2006, the Port Authority received permission to end the 876 fund by selling the remaining assets to the highest bidder at a discount and pay off the bondholders; a Ramsey County court approved that request in 2007.

But some bondholders appealed, calling the deal unfair and saying the Port Authority was guilty of a conflict of interest in trying to erase the debts because it had a "fiduciary responsibility" to pay them. The Minnesota Supreme Court agreed with the bondholders in 2009 and overturned the lower court decision.

Under the proposed settlement agreement announced earlier this week, the Port Authority would make full payment of all current and past due interest through Dec. 1; bondholders would continue to receive payments on their bonds through Sept. 1, 2032 — as opposed to having all bonds cashed out at a discounted amount in 2006.

The agreement also calls for about $10 million of $22 million in escrow to be used for a Dutch auction in which bondholders can sell their 876 bonds at a discount.

Both the short-term and long-term returns on 876 bonds will be substantially better for the bondholders than if the Port Authority had cashed out all 876 bonds in 2006, said Keith Broady, attorney for the bondholder holdouts.

In addition, the Port Authority will make a one-time deposit of $1.5 million to the 876 fund, and a trustee will be appointed to oversee the fund.

From February 1974 through May 1991, the Port Authority issued $428.8 million in industrial and commercial revenue bonds that became known as the 876 fund.

That $428.8 million in bonds were used to finance 139 real estate loans for properties in and around St. Paul. The plan was that revenue from those projects would be used to pay back bondholders, but many of those projects failed.

The properties span a broad range of development classifications, including: industrial (81), office (34), residential (5), hotel (6), parking ramp (5) and miscellaneous (8).

The 876 bonds helped finance construction for several prominent buildings in downtown St. Paul, including the Wells Fargo Place (previously known as the Minnesota World Trade Center), the Embassy Suites and the Lowry Building.

Ramsey County District Court Judge Robert Awsumb is handling the case. A final hearing on the proposed settlement is scheduled for Oct. 27.

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