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## Judge approves deal on St. Paul Port Authority bonds gone bad

St. Paul  
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The decades-old saga of a troubled bond fund that began in 1974 and unraveled in 2004 might finally be coming to an end.

A Ramsey County District judge on Thursday accepted a settlement agreement between the St. Paul Port Authority and attorneys representing 2,600 or more bondholders, ending more than five years of class-action litigation over the ailing 876 Bond Fund.

The \$429 million fund, which seeded 139 projects in and around the city of St. Paul, effectively ran dry in 2004, at least 18 years earlier than expected.

The bonds, which were issued between 1974 and 1991, were backed by revenue from the buildings and port projects they were tied to, as opposed to tax dollars. Unfortunately for investors, 38 of the 139 projects failed or failed to pay in full, and the fund defaulted in 2004.

The bondholders currently have roughly \$51 million in principal outstanding, said Port Authority spokesman Tom Collins.

Under the terms of the class-action settlement, bondholders will receive a lump sum interest payment of about \$11 million on Dec. 1. Those who want cash will be offered the chance to tender their bonds at a "Dutch auction"-style offering early next year, effectively selling their bonds back to the Port Authority at discounted sums.

That process is expected to eliminate more than \$10 million of the outstanding principal.

"It's particularly good for people who have small bonds they would have difficulty trading," said plaintiffs' attorney

Keith Broady, with Lommen, Abdo, Cole, King and Stageberg in Minneapolis.

Bondholders will continue to collect partial interest, and possibly some principal, on the remaining bonds through September 2032.

Port Authority officials expressed relief at the settlement, which agency President Louis Jambois called a "win, win, win" in a written statement.

"It's a win for the bondholders, a win for the Port Authority and a win for the community," Jambois said after the court ruling.

The suit, which at one point climbed to the Minnesota Supreme Court, raised the possibility that St. Paul taxpayers would have to foot the bill for the failing fund, because the Port Authority is a taxpayer-supported entity.

Ramsey County District Judge Robert Awsumb approved the settlement Thursday while scheduling a hearing on two outstanding technical issues for Nov. 10.

The first issue concerns the appointment of a trustee, which has not been finalized, though discussions have begun with U.S. Bank. The second issue involves how to amend the original 876 Bond Fund resolution.

The Port Authority has had \$22 million set aside in a court-ordered escrow account since 2006. Awsumb has yet to rule on whether to release \$2.2 million in the plaintiff's requested attorney's fees.

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Under the settlement, the Port Authority will make a one-time deposit of \$1.5 million into the account.

The Port will also continue to deposit half of its fleeting and tonnage revenue into a maintenance fund.

That's intended to ensure that river shippers can move their goods, which in turn stabilizes the revenue stream for bondholders, Port Authority officials said.

Over the years, the Port Authority's various efforts to restructure the 876 Bond Fund failed, Collins said, at a cost to the Port Authority of \$2 million.

To date, the Port Authority's three previous tender offers have retired \$124 million in principal. The last reserve fund was depleted on Dec. 1, 2004. Since then, the fund has been unable to pay full interest or principal.

In 2009, 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 remaining bondholders.

Former St. Paul City Council Member Tom Dimond took a critical stance toward the settlement, noting that between interest payments, attorney's fees and principal, the Port Authority may ultimately pay out as much as \$69 million.

He noted that money going into that payout will include revenue from projects not associated with real estate developed by the 876 Bond Fund. That would include money from projects on former city land sold to the Port Authority for as low as \$1.

Broadly said everyone involved should be pleased by the settlement, including taxpayers.

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