



Request for City Council Committee Action from the Department of Community Planning & Economic Development - CPED

Date: November 3, 2014

To: Council Member Lisa Goodman, Chair, Community Development &
Regulatory Services Committee

Subject: A Public Hearing and Request for Preliminary and Final approval of up to \$30,000,000 in 501(c)(3) Tax-exempt Revenue Bonds for City of Minneapolis Series 2014 Health Care Facilities Revenue Bonds for Allina Health System for financing and refinancing of Health Care Facilities located in Faribault and Hastings, Minnesota.

Recommendation: The CPED Director recommends that the City Council adopt the attached Resolution giving Preliminary and Final Approval to the issuance of up to \$30,000,000 in 501(c)(3) Tax-exempt Revenue Bonds for the City of Minneapolis Series 2014 Health Care Facilities Revenue Bonds for Allina Health System for financing and refinancing of Health Care Facilities located in Faribault and Hastings, Minnesota.

Previous Directives: None in relation to this proposed financing. Allina Health Service has used Revenue Bond Financing in the past for other Health Care Facilities.

Prepared by: Charles Curtis
Approved by: Charles T. Lutz, Deputy Director CPED _____
Catherine A. Polasky, Director, Economic Development _____
Presenters in Committee: Charles Curtis, 612-673-5069

Reviews

- Permanent Review Committee (PRC): NA

Financial Impact

- Other financial impact: The issuance of revenue bonds for the Allina Health System proposed project will generate revenue bond administrative fees of approximately \$50,000 a year.

Community Impact

- Neighborhood Notification: Midtown Phillips Neighborhood has been notified.
- City Goals: The proposed project will promote the City Goals of Minneapolis as a hub of economic activity and innovation and as a City that runs well and connects to the community.
- Sustainability Targets: NA
- Comprehensive Plan: NA Facilities are located in Faribault and Hastings, Minnesota.
- Zoning Code: NA Facilities are located in Faribault and Hastings, Minnesota.
- Living Wage/Business Subsidy Agreement Yes _____ No X
- Job Linkage Yes _____ No X
- Other: None

Supporting Information

Project Location & Description: The Allina Health System Headquarters is located at 2925 Chicago Avenue.

Allina Health System has 22 clinics, four pharmacies, two hospitals and one Mother Baby Center in Minneapolis.

The proposed project consists of the refinancing of approximately \$20 million of debt related to the acquisition of Regina Medical Center in Hastings, Minnesota that occurred in September 2013. Regina Medical Center has 57 licensed hospital beds and approximately 1900 admissions annually. The hospital offers 24-hour emergency care, critical care, medical/surgical units, obstetrics, gynecology services and inpatient geriatric behavioral health care. Regina Medical Center employs more than 400 people.

The second portion of the proposed project involves the refinancing of approximately \$7.2 million of debt associated with a merger of Allina Health System and District One Hospital in Faribault, Minnesota. Allina Health System, District One Hospital and the State of Minnesota have approved the merger, which will occur on January 1, 2015. The District One Hospital is a 49 bed health care facility meeting the health care needs of approximately 35,000 area residents. The District One Hospital has approximately 2100 admission annually. District One Hospital employs more than 350 people.

The debt assumption and refinancing will produce in excess of \$175,000 in annual interest cost savings.

All of the Bonds will be privately placed with MUFG Union Bank, N.A., New York, NY.

Allina Health System maintains high investment ratings with the three bond rating services.

The Cities of Faribault and Hastings are currently in process to consider consent resolutions for approval of the overall financings as provided by the Allina Health System proposal.

Type of Financing: 501(c)3 Tax-exempt Health Care Facilities Revenue Bonds

Present Employment: Allina Health System

9,306 employees in Minneapolis

2,588 employees live in Minneapolis

New Employment: NA

Assessor's Estimate Annual Tax Increase: NA

Affirmative Action Compliance: An approved Affirmative Action Plan by Allina Health System will be in place prior to a bond closing.

IRB CAP:

The project is not subject to the volume cap, in that the project is exempt from income tax under Internal Revenue Code Section 501(c)(3) for its exempt purposes and is classified thereunder as a non-profit organization.

The issuance of refunding bonds will not require an allocation from the State's volume cap in that refundings are exempt from the volume cap.

BOND COUNSEL:

Dorsey & Whitney LLP

Subject to City Council conflicts waiver.

FINANCIAL ADVISOR TO BORROWER:

Kaufman, Hall & Associates, Inc

Skokie, IL

All the bonds will be privately placed with MUFG Union Bank. N.A.

RESOLUTION AUTHORIZING THE ISSUANCE AND SALE
OF REVENUE NOTES OF THE CITY ON BEHALF OF
ALLINA HEALTH SYSTEM AND THE EXECUTION OF DOCUMENTS

WHEREAS, this Council has received a proposal from Allina Health System, a Minnesota nonprofit corporation (the “Corporation”) that the City of Minneapolis (the “City”) issue its revenue obligations (the “Notes”) under Minnesota Statutes, Sections 469.152 to 469.165, as amended (the “Act”), in one or more series, for the purposes of (a) financing the acquisition of the District One Hospital located in the City of Faribault, Minnesota and related medical facilities located adjacent thereto; (b) refinancing indebtedness incurred for the improvement and equipping of Allina Health – Regina Hospital located in the City of Hastings, Minnesota; and (c) payment of costs of issuance of the Notes (collectively, the “Project”).

WHEREAS, at a public hearing, duly noticed and held on November 3, 2014, in accordance with the Act and Section 147(f) of the Internal Revenue Code of 1986, as amended, on the proposal to finance the Project, all parties who appeared at the hearing were given an opportunity to express their views with respect to the proposal to finance the Project, and interested persons were given the opportunity to submit written comments to the City Clerk before the time of the hearing.

WHEREAS, the Corporation has represented that the Project would not be undertaken but for the availability of financing under the Act.

WHEREAS, this Council hereby finds that the issuance and sale of up to \$30,000,000 aggregate principal amount of the Notes in one or more series under the authority contained in the Act to finance the Project would promote the purposes contemplated and described in Section 469.152 of the Act and further promote the public purposes and legislative objectives of the Act by providing the City and surrounding area with necessary healthcare facilities, is in the best interest of the City, and the City hereby determines to issue and sell such Notes.

WHEREAS, the proceeds of the Notes will be lent (the “Loan”) by the City to the Corporation for the purposes described hereinabove.

WHEREAS, pursuant to one or more Loan Agreements for each series of Notes (whether one or more, the “Loan Agreement”), to be entered into between the City and the Corporation with respect to the Notes, a draft of which has been made available to the Council prior to this meeting and which has been reviewed to the extent deemed necessary, the Corporation will issue to the City its note or notes (whether one or more, the “MTI Notes”). The MTI Notes will be issued under the Master Trust Indenture (the “Master Indenture”), dated as of October 1, 1998, between the Corporation and Wells Fargo Bank, National Association, as trustee (the “Master Trustee”), as previously supplemented and amended and as supplemented and amended by one or more Supplemental Indentures (whether one or more, the “Supplemental Indenture”) to be entered into between the Corporation and the Master Trustee. Under the MTI Notes, the Corporation, and other members of the Obligated Group under the Master Indenture, will unconditionally agree to repay the Loan made by the City under the Loan Agreement in specified amounts and at specified times sufficient to make the necessary payments of principal of, premium, if any, and interest on the Notes, when due. In addition, the Loan Agreement

contains provisions relating to the payment by the Corporation of administrative costs of the Trustee (as hereinafter defined), the administrative fees of the City, indemnification, insurance and other agreements and covenants which are required by the Act or which are permitted by the Act and which the City and the Corporation deem necessary or desirable for the sale of the Notes.

WHEREAS, pursuant to one or more Indentures of Trust (whether one or more, the "Indenture") to be entered into between the City and Wells Fargo Bank, National Association, as Trustee (the "Trustee") with respect to the Notes, a draft of which has been made available to the Council prior to this meeting and which has been reviewed to the extent deemed necessary, the City assigns and pledges all of its right, title and interest in the Loan Agreement (other than the right of the City to indemnification and administrative expenses), the MTI Notes, the Master Indenture and the Supplemental Indenture to the Trustee. In addition, the Indenture, among other things, sets the interest rates, maturity dates and redemption provisions for the Notes, establishes the various funds and accounts for the deposit and transfer of money and contains other provisions which are required by the Act or which are permitted by the Act and which the City and the Corporation deem necessary or desirable in connection with the sale of the Notes.

WHEREAS, the Notes will be special, limited obligations of the City payable solely from amounts payable by the Corporation and other members of the Obligated Group under the Master Indenture under the MTI Notes, other than to the extent payable from the proceeds of the Notes. The Notes shall not be payable from or charged upon any funds other than the revenue pledged to the payment thereof, nor shall the City be subject to any liability thereon. No holder or holders of any Note shall ever have the right to compel any exercise of the taxing power of the City to pay any such Note or the interest thereon, nor to enforce payment thereof against any property of the City. The Notes shall not constitute a debt of the City within the meaning of any charter, constitutional or statutory limitation.

WHEREAS, a draft copy of the proposed Application to the Minnesota Department of Employment and Economic Development for approval of the Project, together with draft copies of all attachments and exhibits thereto, has been made available for public inspection at the offices of the City's Community Development and Regulatory Services Committee.

WHEREAS, the Notes are expected to be purchased from the City by MUFG Union Bank, N.A. (the "Purchaser") at a price equal to the principal amount thereof.

NOW, THEREFORE, BE IT RESOLVED, in order to provide for the financing of the Project, the City hereby authorizes the issuance of the Notes as revenue obligations under the Act in one or more series, in the aggregate principal amount of up to \$30,000,000. The City Finance Officer is hereby authorized to approve the aggregate principal amount of the Notes, provided that such principal amount is not in excess of \$30,000,000; the maturity schedule of the Notes, provided that the Notes mature at any time or times not exceeding 40 years from the date of issuance thereof; the provisions for prepayment and redemption of the Notes prior to their stated maturity; and the interest rates for any series of Notes, provided that no initial interest rate exceeds 7.00% per annum. Such approval shall be conclusively evidenced by the execution of the Note Documents as provided herein. The issuance of the Notes is subject to the approval by the Minnesota Department of Employment and Economic Development as required by the Act.

FURTHER RESOLVED, each Note, as initially issued, shall be executed on behalf of the City by the manual or facsimile signature of the City Finance Officer. The Notes when executed and delivered shall contain a recital that they are issued pursuant to the Act. The Trustee is hereby designated as authenticating agent pursuant to Minnesota Statutes, Section 475.55. If any officer who shall have signed any of the Notes shall cease to be an officer of the City before the Notes so signed shall have been actually authenticated by the Trustee or delivered by the City, such Notes nevertheless may be authenticated, issued and delivered with the same force and effect as though the person who signed such Notes had not ceased to be such officer of the City.

FURTHER RESOLVED, the Indenture and the Loan Agreement (the "Note Documents") are hereby made a part of this Resolution as fully as though set forth in full herein and are hereby approved in the form made available prior to this meeting, and the City Finance Officer is hereby authorized and directed to execute, acknowledge and deliver the Note Documents on behalf of the City with such changes, insertions and omissions therein as do not change the substance of such documents and as may be approved by the City Finance Officer, such approval to be evidenced conclusively by his execution of the documents named herein.

FURTHER RESOLVED, the City Finance Officer is hereby authorized and directed to execute and deliver all other documents which may be required under the terms of the Note Documents, and to take such other action as may be required or appropriate for the performance of the duties imposed thereby or to carry out the purposes thereof.

FURTHER RESOLVED, in the absence or disability of the City Finance Officer, the Assistance City Finance Officer or such other officer of the City as, in the opinion of the City Attorney, may act on his behalf, may execute such instrument. The execution of any instrument by an officer of the City shall be conclusive evidence of its approval.

FURTHER RESOLVED, the City Finance Officer is hereby designated for all purposes of the Note Documents as the City official authorized to execute on behalf of the City certificates, requests or consents as provided in the Note Documents.

FURTHER RESOLVED, the Notes are hereby designated "Program Bonds" and are determined to be within the "Health Care Program" and the "Program," all as defined in Resolution 88R-021 of the City adopted January 29, 1988, and as amended by Resolution 97R-402 of the City adopted December 12, 1997.

FURTHER RESOLVED, this resolution shall take effect upon publication.