

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

Date: January 19, 2010

To: Council Member Lisa Goodman, Community Development Committee

Subject: A Public Hearing and Request for Preliminary and Final Approval of up to \$94,625,000 in 501(c)(3) Tax-exempt Revenue Bonds for the Children's Hospitals and Clinics of Minnesota project as a joint issuance by the City of Minneapolis and Saint Paul Housing and Redevelopment Authority.

Recommendation: The CPED Director recommends that the City Council adopt the attached Resolution giving Preliminary and Final Approval to the issuance of up to \$ 94,625,000 in 501(c)(3) Tax-exempt Revenue Bonds for the Children's Hospitals and Clinics of Minnesota project as a joint issuance by the City of Minneapolis and Saint Paul Housing and Redevelopment Authority.

Previous Directives: Children's Hospitals and Clinics of Minnesota has issued tax-exempt revenue bonds in the past. The most recent issue was in 2004 for \$110 million for the redemption of 1998A bonds and the financing and equipping of an expansion and remodeling project at Children's Hospital located at 2525 Chicago Avenue in Minneapolis.

Prepared by: Becky Shaw 612-673-5066
Approved by: Charles T. Lutz, Deputy Director CPED _____
Catherine A. Polasky, Director, Economic Development _____
Presenters in Committee: Becky Shaw

Reviews

- Permanent Review Committee (PRC): Approval _N.A. ___ Date _____

Financial Impact

- Other financial impact: The issuance of revenue bonds for the Children's Hospital project will generate additional revenue bond administrative fees of approximately \$25,000 that are used to support the small business assistance programs of the City of Minneapolis.

Community Impact

- Neighborhood Notification: The Phillips West and Midtown Phillips Neighborhoods have been notified.
- City Goals: The proposed project is consistent with the City Goal of preserving and enhancing the urban institutes and amenities that define Minneapolis.
- Sustainability Targets: N.A.
- Comprehensive Plan: The proposed project is in compliance with the policies of the Minneapolis plan.
- Zoning Code: Project is in compliance.
- Living Wage/Business Subsidy Agreement Yes ____ No X All conduit revenue bonds allocated under State Statute Chapter 474A, refunding bonds and 501(c)(3) bonds are exempt from the State Act. City bond financing is not subject to the City's local Ordinance if the intent of the bond financing is not to create jobs.
- Job Linkage Yes X No ____ Children's Hospital currently has a job linkage agreement and a workforce plan through CPED.

Background Supporting Information:

Children's Hospitals and Clinics of Minnesota is a non-profit organization providing a broad range of pediatric care services to children in the upper Midwest. Children's, in both the Minneapolis and Saint Paul locations, is currently undergoing the largest modernization and expansion project since the two hospitals were constructed in the 1970s. The expansion projects on both the Minneapolis and Saint Paul campuses will allow Children's to provide state-of-the-art care in world class facilities.

Construction began in 2008 in the Minneapolis facility with a seven story addition offering enlarged and enhanced operating rooms, a new emergency room suite, renovated neonatal and pediatric intensive care units, a new cardiovascular center and in-house Ronald McDonald House. The new Children's Specialty Center for ambulatory care is complete and houses the specialty clinics where children receive chemotherapy and infusion treatments in a serene setting. A convenient outpatient pharmacy and retail center has also been added and updated to serve patients, families and employees.

The Children's Saint Paul facility expansion project has begun with the construction on the emergency department lobby and phase I of the joint construction with United Hospital's emergency departments.

The Children's vision is for a place where children and families are the primary focus and their health care needs are met. Through the merging of architecture, landscape, science and art, Children's continues to develop an environment where patients receive the best care possible.

Project Location & Description:

Children's Hospitals and Clinics of Minnesota represents two hospital facilities.

Children's Minneapolis
2525 Chicago Avenue South

Children's Saint Paul
345 North Smith Street

At this time, they are requesting approval from the City of Minneapolis and Saint Paul HRA for the issuance of up to \$94,625,000 in tax-exempt revenue bonds. The Series 2010 notes would be issued to refund up to \$21,500,000 in Series 1995B Bonds, refund up to

\$23,125,000 in Series 2004A Bonds and up to \$50,000,000 in new money for the purposes of financing or reimbursing costs associated with the expansion project.

The \$50,000,000 in new money will be used for remaining projects in the two facilities in Minneapolis and Saint Paul. The remaining upgrades and additions to the Minneapolis Children's hospital facility are expected to be completed by the end of 2010. Minneapolis facility will complete an integrated cardiac service unit including surgery and cardiac intensive care, a new surgical suite, and remodeling of existing medical/surgical floors to provide an all private patient room facility. The in-hospital Ronald McDonald house will 16 guestrooms with approximately 8,200 sq. ft. of additional space adjacent to the neonatal intensive care unit with a few specialty guest rooms designed for larger families. A 23,000 sq. ft. Healing Garden encompassing an aspen grove and elliptically shaped healing garden will be constructed this spring and summer.

The Saint Paul facility expansion will offer a new surgical suite, new pediatric intensive care unit, and capacity to replace most of the existing patient rooms with private patient rooms when the project is complete.

Type of Financing:

Children's proposes to issue up to \$94,625,000 in 501(c)(3) Tax-exempt revenue bonds. Series 2010 bonds will be issued by Piper Jaffray & Co as fixed rate Bonds.

Sources:

Series 2010 Bonds	<u>\$94,625,000</u>
Total Sources:	\$94,625,000

Uses:

Refund Series 1995B Bonds	\$21,500,000
Refund Series 2004A Bonds	23,125,000
New Construction	40,000,000
Equipment	7,500,000
Construction Interest	1,500,000
Issuance Fees	<u>1,000,000</u>
Total Uses:	\$94,625,000

Present Employment: Children's Hospitals currently employs 4,534 total employees with 3,201 working Full Time.

New Employment: A minimal number of new jobs are expected to be generated through this project. All existing positions will be retained.

Assessor's Estimate Annual Tax Increase: Hospital facilities are generally tax-exempt based on their 501(c)(3) non-profit status.

Affirmative Action Compliance: In compliance.

CITY IRB POLICIES:

Job Component

Minimum standard of one (1) job per 1,000 square feet of building area.

Children's Hospital: In compliance.

Property Improvements

For private activity IRBs consisting of industrial/manufacturing projects, no more than 25% of the bond proceeds may be used for land and acquisition. If purchasing an existing building, an amount equal to at least 15% of the acquisition cost must be spent on rehabilitation expenditures. This IRB policy does not apply to nonprofit organizations issuing 501(c)(3) tax-exempt revenue bonds.

Children's Hospital: In compliance.

Development Standards

Compliance with the Land Use Plan of the City's Comprehensive Plan.

Children's Hospital: In compliance.

Equipment Financing

Limited to companies that create or preserve a significant number of jobs, and the equipment financed must be sufficiently secured. No more than 10% of the bond proceeds may be used to finance movable equipment not constituting a fixture.

Children's Hospital: In compliance.

Restaurant/Bank

IRB financing is allowed for a restaurant or a bank if it is built or rehabilitated in an CPED Redevelopment Area. No more than 25% of the bond proceeds can be used to finance retail food and beverage establishments, automobile dealerships or recreation or entertainment facilities.

Children's Hospital: N.A.

Tax-exempt Institution

Refinancing is permitted when new jobs are created or when a significant number of jobs are preserved; any interest cost savings must directly reduce patient costs.

Children's Hospital: In compliance.

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.

BOND COUNSEL:

Dorsey & Whitney

UNDERWRITER:

Piper Jaffray & Co.

City Council Report Public Hearing Preliminary and Final Approval

RESOLUTION
of the
CITY OF MINNEAPOLIS

By _____

RESOLUTION AUTHORIZING THE ISSUANCE, SALE AND REMARKETING
OF REVENUE BONDS OF THE CITY AND THE
HOUSING AND REDEVELOPMENT AUTHORITY OF THE CITY OF SAINT PAUL ON
BEHALF OF
CHILDREN'S HEALTH CARE AND THE EXECUTION OF DOCUMENTS

WHEREAS, this Council has received a proposal from Children's Health Care, a Minnesota nonprofit corporation (the "Corporation"), that the City of Minneapolis (the "City"), acting jointly with the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota (the "HRA," and together with the City, the "Issuer"), issue its revenue bonds (the "Series 2010 Bonds") under Minnesota Statutes, Sections 469.152 to 469.165 (the "Act"), in one or more series, for the purposes of financing or reimbursing to the Corporation a portion of the costs of (a) the acquisition, construction and equipping of certain improvements to Children's- Minneapolis, which is owned by the Corporation and consists of a hospital and other health care related facilities on a campus located at 2525 Chicago Avenue in the City of Minneapolis, including upgrading facilities to provide private patient rooms with full baths, retrofitting operating rooms to accommodate technology improvements, construction of a new neonatal intensive care unit and pediatric intensive care unit and relocation of the emergency department (the "Minneapolis Project"), (b) improvements to and remodeling of a portion of St. Paul- Children's, which is owned by the Corporation and consists of a hospital and other health care related facilities on a campus located at 345 North Smith Avenue in the City of St. Paul, and the acquisition and installation of equipment therein, including remodeling of the entrance, remodeling of operating rooms, an expansion of the emergency department, relocation of the pediatric epilepsy unit and provision of private patient rooms with private baths (the "St. Paul Project"), (c) certain costs of issuance of and capitalized interest, if any, on the Series 2010 Bonds; (d) certain costs of remarketing the Remarketed Bonds, as defined hereinafter and (e) financing a reserve fund for the Series 2010 Bonds and Remarketed Bonds, if any (such costs collectively, the "Project").

WHEREAS, at a public hearing, duly noticed and held on January 19, 2010, in accordance with the Act and Section 147(f) of the Internal Revenue Code of 1986, as amended, on the proposal that the Issuer issue the Series 2010 Bonds to finance the Project and consent to the conversion to a fixed rate of interest and associated remarketing of the Issuer's Health Care Revenue Bonds (Children's Health Care), Series 1995B (the "Series 1995B Bonds") and a portion of its Health Care Facilities Revenue Bonds (Children's Hospitals and Clinics), Series 2004A (the "Remarketed Series 2004A Bonds"; together with the Series 1995B Bonds, the "Remarketed Bonds"), 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 remarket the Remarketed Bonds, and interested persons were given the opportunity to submit written comments to the City Clerk before the time of the hearing.

WHEREAS, this Council hereby finds that the issuance and sale of up to \$50,000,000 aggregate principal amount of the Series 2010 Bonds 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 Series 2010 Bonds, and the City hereby approves the remarketing of the Remarketed Bonds.

WHEREAS, in connection with the issuance of the Series 2010 Bonds, the City and the HRA will enter into a Joint Powers Agreement (the “Joint Powers Agreement”), 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.

WHEREAS, the proceeds of the Series 2010 Bonds will be lent (the “Loan”) by the Issuer to the Corporation, in order to finance the Project.

WHEREAS, pursuant to a Loan Agreement (the “Series 2010 Loan Agreement”), to be entered into between the City, the HRA and the Corporation with respect to the Series 2010 Bonds, 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 and the HRA its Note or Notes (whether one or more, the “Series 2010 Notes”). The Series 2010 Notes will be issued under the Master Trust Indenture (the “Master Indenture”), dated as of September 1, 1995, between the Corporation and U.S. Bank National Association, formerly known as First Trust National Association, as trustee (the “Master Trustee”), as supplemented and amended by a Supplemental Indenture (“Supplemental Indenture”) to be entered into between the Corporation and the Master Trustee. Under the Series 2010 Notes the Corporation, and other members of the Obligated Group under the Master Indenture, will unconditionally agree to repay the Loan made by the Issuer under the Series 2010 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 Series 2010 Bonds, when due. In addition, the Series 2010 Loan Agreement contains provisions relating to the payment by the Corporation of administrative costs of the Bond Trustee (as hereinafter defined), the administrative fees of the City and the HRA, 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 HRA and the Corporation deem necessary or desirable for the sale of the Series 2010 Bonds.

WHEREAS, pursuant to a Trust Indenture (the “Series 2010 Bond Indenture”) to be entered into between the City, the HRA and U.S. Bank National Association (the “Series 2010 Bond Trustee”) with respect to the Series 2010 Bonds, 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 Issuer assigns and pledges all of its right, title and interest in the Series 2010 Loan Agreement (other than the right of the Issuer for indemnification and administrative expenses), the Series 2010 Notes, the Master Indenture and the Supplemental Indenture to the Series 2010 Bond Trustee. In addition, the Series 2010 Bond Indenture, among other things, sets the interest rates, maturity dates and redemption provisions for the Series 2010 Bonds, 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 Issuer and the Corporation deem necessary or desirable in connection with the sale of the Series 2010 Bonds.

WHEREAS, the Series 2010 Bonds will be special, limited obligations of the Issuer payable solely from amounts payable by the Corporation and other members of the Obligated Group under the Master Indenture under the Series 2010 Notes, other than to the

extent payable from the proceeds of the Series 2010 Bonds. The Series 2010 Bonds shall not be payable from or charged upon any funds other than the revenue pledged to the payment thereof, nor shall the City or the HRA be subject to any liability thereon. No holder or holders of any Series 2010 Bond shall ever have the right to compel any exercise of the taxing power of the Issuer to pay any such Series 2010 Bond or the interest thereon, nor to enforce payment thereof against any property of the Issuer except the Series 2010 Notes. The Series 2010 Bonds shall not constitute a debt of the Issuer within the meaning of any charter, constitutional or statutory limitation.

WHEREAS, the Series 2010 Bonds will be purchased from the Issuer by Piper Jaffray & Co. (the “Underwriter”) pursuant to a Bond Purchase Agreement (the “Bond Purchase Agreement”) between the City, the HRA, the Corporation and the Underwriter, a copy of which has been made available to the Council prior to this meeting and which has been reviewed to the extent deemed necessary.

WHEREAS, the Series 1995B Bonds were issued pursuant to an Amended and Restated Bond Trust Indenture dated as of August 15, 2004, as amended by a First Supplemental Trust Indenture dated as of April 1, 2008, each by and between the Issuer and U.S. Bank National Association (the “Series 1995B Bond Trustee”), as bond trustee (the “Original 1995B Bond Indenture”), and the proceeds of the Series 1995B Bonds were loaned by the Issuer to the Corporation pursuant to an Amended and Restated Loan Agreement dated as of August 15, 2004, by and between the Issuer and the Corporation (the “Original 1995B Loan Agreement”).

WHEREAS, in connection with the conversion of the Series 1995B Bonds to a Fixed Rate, as defined in the Original 1995B Bond Indenture, the Corporation has proposed that the Issuer and the Series 1995B Bond Trustee enter into a Second Supplemental Trust Indenture (the “Series 1995B Supplement”) amending and supplementing the Original 1995B Bond Indenture, a form of which has been made available to the Council prior to this meeting and which has been reviewed to the extent deemed necessary, and has proposed that the Issuer and the Corporation enter into a First Amendment to Loan Agreement (the “Series 1995B Amendment”) amending and supplementing the Original 1995B Loan Agreement, a form of which has been made available to the Council prior to this meeting and which has been reviewed to the extent deemed necessary.

WHEREAS, the Remarketed Series 2004A Bonds were issued, together with certain other obligations, pursuant to a Bond Trust Indenture dated as of August 15, 2004, as amended by a First Supplemental Trust Indenture dated as of March 1, 2008, each by and between the Issuer and U.S. Bank National Association (the “Series 2004A Bond Trustee”), as bond trustee (the “Original 2004A Bond Indenture”), and the proceeds of the Remarketed Series 2004A Bonds were loaned by the Issuer to the Corporation, together with the proceeds of certain other obligations, pursuant to a Loan Agreement dated as of August 15, 2004, by and between the Issuer and the Corporation (the “Original 2004A Loan Agreement”).

WHEREAS, in connection with the conversion of the Remarketed Series 2004A Bonds to a Fixed Rate, as defined in the Original 2004A Bond Indenture, the Corporation has proposed that the Issuer and the Series 2004A Bond Trustee enter into a Second Supplemental Trust Indenture (the “Series 2004A Supplement”) amending and supplementing the Original 2004A Bond Indenture, a form of which has been made available to the Council prior to this meeting and which has been reviewed to the extent deemed necessary, and has proposed that the

Issuer and the Corporation enter into a First Amendment to Loan Agreement (the “Series 2004A Amendment”) amending and supplementing the Original 2004A Loan Agreement, a form of which has been made available to the Council prior to this meeting and which has been reviewed to the extent deemed necessary.

WHEREAS, a draft of an Official Statement, related to the Series 2010 Bonds and Remarketed Bonds (together, the “Bonds”), has been made available to the Council prior to this meeting and has been reviewed to the extent deemed necessary. The Official Statement will be distributed by the Underwriter to potential purchasers of the Bonds.

NOW, THEREFORE, BE IT RESOLVED, in order to finance the Project, the City hereby authorizes the issuance of the Series 2010 Bonds as revenue bonds under the Act in one or more series, in the aggregate principal amount of up to \$50,000,000 (exclusive of any portion representing original issue discount). The City Finance Officer is hereby authorized to approve the purchase price of the Series 2010 Bonds, provided that the purchase price equals or exceeds 98% of the principal amount of the Series 2010 Bonds less any portion of such principal amount which represents original issue discount; the aggregate principal amount of the Series 2010 Bonds, provided that such principal amount is not in excess of \$50,000,000 (exclusive of any portion representing original issue discount); the maturity schedule of the Series 2010 Bonds, provided that the Series 2010 Bonds mature at any time or times in such amount or amounts not exceeding 40 years from the date of issuance thereof; the provisions for prepayment and redemption of the Series 2010 Bonds prior to their stated maturity; and the interest rates for any series of Series 2010 Bonds, provided that no interest rate exceeds 7.00% per annum. Such approval shall be conclusively evidenced by the execution of the Bond Purchase Agreement as provided herein. The issuance of the Series 2010 Bonds is subject to the approval by the Minnesota Department of Employment and Economic Development as required by the Act.

FURTHER RESOLVED, that the City hereby consents to the conversion to a fixed rate of interest and associated remarketing of the Remarketed Bonds.

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

FURTHER RESOLVED, the Joint Powers Agreement, the Series 2010 Bond Indenture, the Series 2010 Loan Agreement, the Series 1995B Supplement, the Series 1995B Amendment, the Series 2004A Supplement and the Series 2004A Amendment, 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 Joint Powers Agreement, the Series 2010 Bond Indenture, the Series 2010 Loan Agreement, the Series 1995B Supplement, the Series 1995B Amendment, the Series 2004A Supplement and the Series 2004A Amendment 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 hereby consents to the distribution by the Underwriter of the Official Statement to potential purchasers or purchasers of the Bonds in substantially the form made available to the Council at this meeting. The City has not and will not participate in the preparation of the Official Statement and has made no independent investigation with respect to the information contained therein or in the appendices thereto, and the City assumes no responsibility for the sufficiency, accuracy or completeness of such information.

FURTHER RESOLVED, the Bond Purchase Agreement is hereby made a part of this Resolution as fully as though set forth in full herein and is hereby approved in the form made available prior to this meeting and, upon the determination of the terms of the Series 2010 Bonds (within the limitations set forth herein) and the execution of the Bond Purchase Agreement by the Corporation and the Underwriter, the City Finance Officer is hereby authorized and directed to execute the Bond Purchase Agreement on behalf of the City, with such further changes, insertions or omissions therein as do not change the substance of the Bond Purchase Agreement and as may be approved by the City Finance Officer, such approval to be evidenced conclusively by his execution of the Bond Purchase Agreement.

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 Joint Powers Agreement, the Series 2010 Bond Indenture, the Series 2010 Loan Agreement, the Series 1995B Supplement, the Series 1995B Amendment, the Series 2004A Supplement and the Series 2004A Amendment and the Bond Purchase Agreement, 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 Assistant 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 Joint Powers Agreement, the Series 2010 Bond Indenture, the Series 2010 Loan Agreement, the Series 1995B Supplement, the Series 1995B Amendment, the Series 2004A Supplement and the Series 2004A Amendment and the Bond Purchase Agreement as the City official authorized to execute on behalf of the City certificates, requests or consents as provided in the Joint Powers Agreement, the Series 2010 Bond Indenture, the Series 2010 Loan Agreement, the Series 1995B Supplement, the Series 1995B Amendment, the Series 2004A Supplement and the Series 2004A Amendment and the Bond Purchase Agreement.

FURTHER RESOLVED, the Series 2010 Bonds 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.

Certified as an official action of the City Council:

RECORD OF COUNCIL VOTE (X INDICATES VOTE)													
COUNCIL MEMBER	AYE	NAY	NOT VOTING	ABSENT	VOTE TO OVERRIDE	VOTE TO SUSTAIN	COUNCIL MEMBER	AYE	NAY	NOT VOTING	ABSENT	VOTE TO OVERRIDE	VOTE TO SUSTAIN
President Johnson							Goodman						
Reich							Glidden						
Gordon							Schiff						
Hofstede							Tuthill						
Samuels							Quincy						
Lilligren							Colvin Roy						
							Hodges						

PASSED _____
 VETOED _____

DATE

APPROVED NOT APPROVED

ATTEST _____

CITY CLERK

 MAYOR _____ DATE _____