

Minneapolis Community Development Agency

Request for City Council Action

Date: September 30, 2003

To: Council Member Lisa Goodman, Community Development Committee

Prepared by Bob Lind, Manager, Business Finance Division, Phone 612-673-5068

Approved by Lee Sheehy, CPED Executive Director
Chuck Lutz, CPED Deputy Executive Director _____

Subject: A Public Hearing and Request for Final Approval of \$87,000,000 in 501(c)(3) Tax-exempt Health Care Revenue Bonds as a Joint Issue with the City of Saint Paul HRA and the City of Minneapolis for the Group Health Plan, Inc. Project (HealthPartners, Inc.)

Previous Directives: In 1992 the cities of St. Paul and Minneapolis jointly issued \$55 million in Tax-exempt 501(c)(3) Revenue Bonds for various Group Health Plan, Inc. projects in eighteen cities. At this time HealthPartners is requesting up to \$85 million to refund the 1992 bonds and to finance the rehab costs for medical facilities and equipment located in ten cities.

Wards: 2 and 10.

Neighborhood Group Notification: The following neighborhood groups were notified on August 25, 2003: Calhoun Area Residents Action Group (CARAG), Prospect Park/East River Road Improvement Association and the West Bank Community Coalition.

Consistency with *Building a City That Works*: The proposed project is consistent with Goal 4 of preserving and enhancing the urban institutions and amenities that define Minneapolis.

Comprehensive Plan Compliance: The existing Minneapolis facilities are in compliance with the Minneapolis Plan and are consistent with the goals for the Community Corridors and Activity Centers as defined in the Minneapolis Plan.

Zoning Code Compliance: The existing facilities are in compliance.

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Impact on the MCDA Budget:

No financial impact

Action requires an appropriation increase to the MCDA Budget

Action provides increased revenue for appropriation increase

Action requires use of contingency or reserves

Other financial impact (Explain): The issuance of tax-exempt revenue

bonds will generate annual administrative fees that are used to support the small business assistance programs of the City.

Living Wage/Business Subsidy: The proposed project is a 501(c)(3) conduit financing that is not subject to Living Wage/Business Subsidy.

Job Linkage: Does not apply to revenue bond financing. CPED staff will be working with HealthPartners, Inc. on a job linkage agreement.

Affirmative Action Compliance: HealthPartners will complete its Affirmative Action Plan prior to the bond closing.

RECOMMENDATION:

City Council Recommendation: The Executive Director recommends that the City Council adopt the attached Resolution following a Public Hearing held on September 30, 2003, notice of which was published in Finance and Commerce on September 13, 2003, giving Final Approval to the issuance of \$87,000,000 in 501(c)(3) Tax-exempt Health Care Revenue Bonds as a joint issue with the City of Saint Paul HRA and the City of Minneapolis for the Group Health Plan, Inc. Project (HealthPartners, Inc.)

Background/Supporting Information

PROJECT LOCATION & DESCRIPTION:

In 1992 the City of Minneapolis and the St. Paul HRA jointly issued \$55 million in Tax-exempt 501(c)(3) Revenue Bonds for Group Health, Inc. to finance a number of facilities and improvements located in a variety of metro cities. HealthPartners was formed in 1992 with the merger of Group Health and MedCenters Health Plan. HealthPartners is headquartered in Bloomington, with over 9,700 employees throughout their system and serving over 660,000 members.

At this time, HealthPartners, Inc. (Group Health, Inc.) is requesting that the 1992 Bonds be refinanced, with a current outstanding balance of \$46.7 million. In addition to refinancing the 1992 Bonds, HealthPartners would also like to finance new money projects at various HealthPartners sites in an amount up to \$30 million. The \$30 million would be used to finance and reimburse for capital improvements and equipment at the various medical clinics. The various HealthPartners facilities are located in ten cities: Anoka, Bloomington, Brooklyn Center, Eden Prairie, Lakeville, Maplewood, Mendota Heights, Roseville, St. Paul and Minneapolis.

The Minneapolis medical clinics are located at:

2220 Riverside Avenue South - Ward 2 Cedar-Riverside West Bank

2701 University Avenue Southeast - Ward 2 Prospect Park East River Road

3001 Hennepin Avenue - Ward 10 CARAG

TYPE OF FINANCING:

The total financing is expected to be up to \$87 million, to be jointly issued by the City of Minneapolis and the St. Paul HRA. The refinancing portion of the 2003 Bonds will be amortized over the remaining term of 19 years (2022), with the new money 2003 Bonds amortized over a 30 year term (2033). The Bonds will carry a HealthPartners bond rating of BBB+ by Standard & Poor's.

Sources:

Revenue Bonds	\$87,000,000
Equity	5,700,000
	<u>\$92,700,000</u>

Uses:

Refinancing of the 1992 Bonds	\$49,000,000
Renovation Costs and Equipment	35,000,000
Debt Service Reserve	7,500,000
Professional & Issuance Costs	1,200,000
	<u>\$92,700,000</u>

ASSESSOR'S ESTIMATED ANNUAL TAX INCREASE:

Tax-exempt facilities.

AFFIRMATIVE ACTION COMPLIANCE:

Affirmative Action Plan will be on file with the City prior to bond closing.

MCDA IRB POLICIES:

Job Component	Minimum standard of one (1) job per 1,000 square feet of building area. <u>HealthPartners:</u> N.A.
Property Improvements	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. <u>HealthPartners:</u> In compliance.
Development Standards	Compliance with the Land Use Plan of the City's Comprehensive Plan. <u>HealthPartners:</u> 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.

HealthPartners: In compliance. Various pieces of medical equipment are being purchased, the majority of which are considered fixtures.

Restaurant/Bank

IRB financing is allowed for a restaurant or a bank if it is built or rehabilitated in an MCDA 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.

HealthPartners: N.A.

Tax-exempt Institution

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

HealthPartners: The refinancing of the 1992 Bonds will result in cost savings that are being used to finance the renovation costs at the Minneapolis facilities preserving the services and jobs provided to Minneapolis residents.

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:

Briggs & Morgan

UNDERWRITERS:

U.S. Bancorp Piper Jaffray Inc.
Wells Fargo Brokerage Services, LLC

Giving approval to a health care project for Group Health, Inc. and authorizing the issuance of health care facility revenue bonds therefor under Minnesota Statutes, Sections 469.152 through 469.1651, as amended; and authorizing the execution of necessary documents.

WHEREAS, this City Council (the "Council") of the City of Minneapolis, Minnesota (the "City"), on September 26, 2003, gave preliminary approval to the joint issuance by the City and the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota (the "HRA"), of approximately \$85,000,000 health care facility revenue bonds for the Group Health Plan, Inc. Project; and

WHEREAS, the City caused to be published notices of public hearings (copies of which with proof of publication are on file in the office of the Clerk) on the proposal of Group Health Plan, Inc., a Minnesota nonprofit corporation (the "Company") that the City and the HRA finance a Project (as defined below), and the City (through the Community Development Committee of the Council) conducted the public hearings at 1:30 p.m. on September 16, 2003 and September 30, 2003, at which hearings all persons who appeared were given an opportunity to express their views with respect to the Project; and

WHEREAS, the City, the HRA, the Company and the original Purchaser of the health care facility revenue bonds (the "Purchaser", as defined below) have agreed upon sufficient details of the health care facility revenue bonds to enable the City to adopt this final bond resolution (the "Resolution") on this date:

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Minneapolis, Minnesota, as follows:

1. Proposal. The Council has received a proposal from the Company that the City and the HRA undertake to jointly finance a certain Project as herein described, pursuant to the Minnesota Municipal Industrial Development Act, Minnesota Statutes, Sections 469.152 through 469.1651 (the "Act"), and a joint powers agreement (the "Joint Powers Agreement") pursuant to Minnesota Statutes, Section 471.59, through issuance by the City and the HRA of their Health Care Facility Revenue Bonds (Group Health Plan, Inc. Project), Series 2003, (the "Bonds"), and in accordance with a Contract of Purchase, including the Letter of Representation attached thereto (collectively, the "Bond Purchase Contract") by and among the HRA, the City, the Company, and U.S. Bancorp Piper Jaffray, Inc. and Wells Fargo Brokerage Services, LLC (collectively, the "Purchaser").

2. Project. The Bonds shall be issued to refund the Joint Issuers' outstanding Health Care Facility Revenue Bonds, Series 1992 (the "Series 1992 Bonds") and finance or refinance various capital expenditures made by the Company at facilities located in various municipalities in the State of Minnesota (collectively, the "Project").

3. Structure. Pursuant to a Loan Agreement dated as of October 15, 2003 (the "Loan Agreement") by and between the City, the HRA and the Company, the City and the HRA will loan the proceeds of the Bonds to the Company (the "Loan") to finance the Project. The Company's obligation to repay the Loan will be evidenced by a Series 2003 Master Note (the "Note"), a form of which is set forth in the Master Trust Indenture (defined below). The Note will be issued by the Company pursuant to a Master Trust Indenture (the "Master Trust Indenture") dated as of October 15, 2003, by and among the Company, HealthPartners, Inc. and HealthPartners Administrators, Inc., (collectively, the "Obligated Group"), and Wells Fargo Minnesota National Association as master trustee (the "Master Trustee"), as supplemented by the Supplemental Master Indenture No. 1 by and between the Obligated Group and the Master Trustee and dated as of October 15, 2003 (as supplemented, the Master Trust Indenture"). The payments to be made by the Company (and other members of the Obligated Group) under the Loan Agreement and the Note are fixed so as to produce revenue sufficient to pay the principal of, premium, if any, and interest on the Bonds when due. It is further proposed that the City and the HRA assign their rights to the payments under the Note and certain other rights under the Loan Agreement to Wells Fargo Minnesota National Association (the "Bond Trustee") as security for payment of the Bonds under an Indenture of Trust (the "Bond Indenture") by and between the City, the HRA and the Bond Trustee. The Purchaser proposes to buy the Bonds pursuant to the Bond Purchase Contract, and to offer the Bonds for sale to the public pursuant to an Official Statement (the "Official Statement"). A Tax Compliance Agreement dated as of October 15, 2003, among the City, the HRA, the Company and the Bond Trustee (the "Tax Compliance Agreement") will be entered into to ensure compliance with the provisions of the Internal Revenue Code of 1986, as amended.

4. Preliminary and State Approval. This Council by action taken on September 26, 2003, gave preliminary approval to the Project. Application to the Commissioner of the Department of Employment and Economic Development of the State of Minnesota for approval of the Project as tending to further the purposes and policies of the Act has been made. The Bonds shall not be sold to the Purchaser unless and until such approval is obtained.

5. Forms of Documents Submitted. Pursuant to the preliminary approval of this Council, forms of the following documents have been submitted to the Council for approval:

- (a) the Loan Agreement;
- (b) the Note (not to be executed by the City or the HRA);
- (c) the Master Indenture (not to be executed by the City or the HRA);
- (d) the Joint Powers Agreement;
- (e) the Bond Indenture;

- (f) the Bond Purchase Contract; and
- (g) the Tax Compliance Agreement.

6. Findings. It is hereby found, determined and declared that:

- (a) the Project will further the proposed policies of the Act, and the findings made in the preliminary resolution of the City adopted on September 26, 2003 with respect to the Project are hereby ratified, affirmed and approved;
- (b) the purpose of the Project is, and the effect thereof will be, to promote the public welfare by providing for the continuation of the health care operations of the Company in the various municipalities in the State of Minnesota;
- (c) the Act authorizes the acquisition, construction and installation of the facilities and equipment to be refinanced by the Bonds, the issuance and sale of the Bonds, the execution and delivery by the City of the Joint Powers Agreement, Loan Agreement, Bond Purchase Contract and Bond Indenture (collectively the "Bond Documents"), the performance of all covenants and agreements of the City contained in the Bond Documents, and the performance of all other acts and things required under the constitution and laws of the State of Minnesota to make the Bond Documents and Bonds valid and binding obligations of the City in accordance with their terms;
- (d) it is desirable that the Bonds be issued by the City and the HRA upon the terms set forth in the Bond Indenture;
- (e) the payments under the Loan Agreement and Note are fixed to produce revenue sufficient to provide for the prompt payment of principal of, premium, if any, and interest on the Bonds issued under the Bond Indenture when due, and the Loan Agreement and Bond Indenture also provide that the Company is required to pay all expenses of the operation and maintenance of the facilities to be refinanced by the Bonds, including, but without limitation, adequate insurance thereon and insurance against all liability for injury to persons or property arising from the operation thereof, and all taxes and special assessments levied upon or with respect to the premises of said facilities and payable during the term of the Loan Agreement and Bond Indenture;
- (f) under the provisions of Minnesota Statutes, Section 469.162, and as provided in the Loan Agreement and Bond Indenture, the Bonds are not to be payable from or charged upon any funds other than the revenue pledged to the payment thereof; the City and the HRA are not subject to any liability thereon; no holder of any Bond shall ever have the right to compel any exercise by the City or the HRA of its or their taxing powers to pay any of the Bonds or the interest or premium thereon, or to enforce payment thereof against any property of the City or the HRA except the interests of the City and the HRA in the Loan Agreement and the Note which have been assigned to the Bond Trustee under the Bond Indenture; the Bonds shall not constitute a charge, lien or encumbrance, legal or equitable, upon any property of the City or the HRA except the interests of the City and the HRA in the Loan Agreement and the Note which have been assigned to the Bond Trustee under the Bond Indenture; the Bonds shall recite that the Bonds do not constitute or give rise to a pecuniary liability or moral obligation

of the City, the HRA, the State of Minnesota or its political subdivisions, and that the Bonds, including interest thereon, are payable solely from the revenues pledged to the payment thereof; and the Bonds shall not constitute a debt of the City or the HRA within the meaning of any constitutional or statutory limitation.

- (g) the Bonds are, and are hereby designated to be, program bonds as defined in Resolution 88R-021 of the Council adopted January 29, 1988, and as amended by Resolution 97R-402 of the City adopted December 12, 1997.

7. Approval of Forms; Execution. Subject to the approval of City Attorney, and the provisions of paragraphs 9 and 11 hereof, the forms of the Bond Documents and exhibits thereto and all other documents listed in paragraph 5 hereof are approved substantially in the form submitted (except as otherwise provided for the Official Statement in paragraph 8 hereof). Subject to the provisions of paragraph 9 hereof, the Bond Documents, in substantially the forms submitted, are directed to be executed in the name and on behalf of the City by the Mayor, City Clerk and Finance Officer. Any other City documents and certificates necessary to the transaction described above shall be executed by the appropriate City officers. Copies of all of the documents necessary to the transaction herein described shall be delivered, filed and recorded as provided herein and in the Loan Agreement and Bond Indenture.

8. Official Statement. The City hereby consents to the preparation and distribution of a Preliminary Official Statement and final Official Statement to brokers, dealers and other potential Purchaser; provided that it is understood that the HRA has relied upon the Company and the Purchaser and legal counsel retained by them to assure the accuracy and completeness of the information set forth in the Preliminary Official Statement and Official Statement and that therefore the City has not participated, and will not participate significantly, in the preparation of the Preliminary Official Statement or the Official Statement, that it has not made, and will not make, any independent investigation of the information contained therein, and it assumes no responsibility for the accuracy or completeness of such information, other than the information with respect to the City under the headings "The Issuer" and "Litigation".

9. Issuance; Acceptance of Offer. The City, jointly with the HRA shall proceed forthwith to issue the Bonds, in the form and upon the terms set forth in the Bond Indenture and this Resolution, but only if the Bonds when issued are rated by one or more nationally recognized rating agencies at least at investment grade. The Bonds shall be issued in an aggregate principal amount (including any original issue discount) not to exceed \$87,000,000, shall be payable or prepayable at such time or times, shall bear interest at such rate or rates not to exceed for any Bond seven percent (7.00%) per annum, shall be purchased by the Purchaser at such price, not less than ninety-nine percent (99%) of the original principal amount of the Bonds (disregarding as original principal amount for this purpose any original issue discount), and shall be subject to such other terms and conditions as the officers of the City, the HRA, the Company and the Purchaser shall agree to, which agreement shall be deemed to have been made upon execution of the Bond Purchase Agreement by the officers of the City and the HRA. The Officials are hereby authorized and directed to execute the Bond Purchase Contract at a time consistent with such effect of its execution. The Mayor, City Clerk and Finance Officer are hereby authorized and directed, in conjunction with the appropriate officers of the City, to

prepare and execute the Bonds as prescribed in the Bond Indenture and to deliver them to the Bond Trustee for authentication and delivery to the Purchaser.

10. Records and Certificates. The Clerk Clerk and other officers of the City are authorized and directed to prepare and furnish to the Purchaser certified copies of all proceedings and records of the City relating to the Bonds, and such other affidavits and certificates as may be required to show the facts relating to the legality of the Bonds as such facts appear from the books and records in the officers' custody and control or as otherwise known to them; and all such certified copies, certificates and affidavits, including any heretofore furnished, shall constitute representations of the HRA as to the truth of all statements contained therein.

11. Changes in Forms Approved; Absent and Disabled Officers. The approval hereby given to the various documents referred to above includes approval of such additional details therein as may be necessary and appropriate and such modifications thereof, deletions therefrom and additions thereto as may be necessary and appropriate and approved by the City Attorney and by the City officials authorized herein to execute or accept, as the case may be, said documents prior to their execution; and said City officials are hereby authorized to approve said changes on behalf of the City. The execution of any instrument by the appropriate officer or officers of the City herein authorized shall be conclusive evidence of the approval of such document in accordance with the terms hereof. In the event of absence or disability of the Mayor, City Clerk or Finance Officer, any of the documents authorized by this Resolution to be executed may be executed without further act or authorization of the Council by any member of the Council or any duly designated acting official, or by such other officer or officers of the Council as, in the opinion of the City Attorney, may act in their behalf.

12. Headings; Terms. Paragraph headings in this Resolution are for convenience of reference only and are not a part hereof, and shall not limit or define the meaning of any provision hereof. Capitalized terms used but not defined herein shall have the meanings given them in the Bond Indenture or Loan Agreement.