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

Date: March 25, 2008

To: Council Member Lisa Goodman, Community Development Committee

Subject: A Public Hearing and Request for Preliminary and Final Approval of up to $850 Million in 501(c)(3) Tax-exempt Revenue Bonds for the Fairview Health Services Project.

Recommendation: **The CPED Director recommends that the City Council adopt the attached Resolution giving Preliminary and Final Approval to the issuance of up to $850 Million in 501(c)(3) Tax-exempt Revenue Bonds for the Fairview Health Services Project.**

Previous Directives: Fairview Health Services has made use of tax-exempt revenue bonds in the past for other projects. The most recent was in 2005 for up to $490 million in refunding and new construction project.

Prepared by: Becky Shaw, CPED, Business Finance Phone: 612-673-5066
Approved by: Charles T. Lutz, Deputy Director CPED ________________
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 Fairview Health Services project will generate revenue bond administrative fees of approximately $125,000 a year that are used to support the small business assistance programs of the City of Minneapolis.

Community Impact
- Neighborhood Notification: The Cedar-Riverside West Bank and Seward Neighborhoods have been notified of this refunding request.
- 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: The proposed 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 both the City Ordinance and the State Act unless the intent of the bond financing is to create jobs and the net benefit is greater than $100,000.
- Job Linkage Yes __X__ No ____ Fairview Health Services currently has a job linkage agreement with CPED and would extend this agreement through 2013.

Supporting Information

We have received a proposal to issue up to $850 million in tax-exempt revenue bonds to finance both the construction of a replacement children's hospital and the refunding of outstanding debt for Fairview Health Services.

The new money portion of this bond issue will be used to construct a replacement children's hospital at Fairview University of Minnesota Medical Center, on the parking space at 25th Avenue South and Riverside Avenue. The new facility will be a 220,000 sq. ft., 96-bed, inpatient tower equipped with its own 12,750 sq. ft. children's emergency room. The new facility will allow for more efficient and specialized treatment of children housed under one roof. Currently the pediatrics units are separated by multiple floors, buildings and even a river. The new facility will not increase the number of pediatric hospital beds, but will bring pediatric specialists closer together allowing families, clinicians and patients to interact more easily. The facility will feature amenities such as moving walls revealing televisions, video games and internet terminals for children and families, as well as beds and refrigerators for family members spending the night. The relocation of the current children's hospital to the new facility will allow for a 15,000 sq ft expansion of surgical areas and major remodeling of existing imaging and surgical areas. The proceeds of the bonds will also be used for the acquisition and installation of new medical equipment and various improvements in the Riverside Ave Children's Hospital, existing Minneapolis facility, Burnsville facility, Red Wing facility, Hibbing facility, and the Wyoming facility. Fairview hopes to complete the Children's Hospital project by the end of 2010.

Up to $650 million will be issued to refund various series of outstanding bonds, many of which had been credit enhanced by bond insurance. The bond insurance industry has been shaken lately due to guarantees by the major bond insurers of sub-prime mortgage and related collateralized debt obligations. The rating agencies of Moody's, Standard & Poors and Fitch have either downgraded or put many of these agencies in the municipal bond insurance industry on a negative watch. In addition to the troubles in the bond insurance industry, are the market failures occurring in the auction rate securities resulting in steady increases in the interest rates. Health Care providers across the country have been rushing to refund outstanding debt packages in an attempt to either convert outstanding portfolios from auction rate debt to variable or fixed rate bonds, or to replace debt backed by bond insurance with other forms of credit enhancement. At this time, Fairview is proposing to issue up to $650 million of refunding bonds to take out the following series of bonds to achieve a lower interest rate:

- Outstanding Health Care System Revenue Bonds, Series 1997A, issued by the Minnesota Agricultural and Economic Development Board which were issued to finance acquisition, equipping and construction to facilities in Minneapolis, Wyoming, Edina and Hibbing.

- Outstanding Health Care System Revenue Bonds, Series 2004A, issued by the City of Minneapolis to refund outstanding debt and construction and improvements to the Minneapolis Facility
- Outstanding Health Care System Revenue Bonds, Series 2005A, 2005B, 2005C, and 2005D issued by the City of Minneapolis to refund outstanding debt and fund improvements and construction to the Minneapolis, Burnsville, Red Wing, Hibbing, Wyoming, Edina, and Princeton facilities.

Type of Financing:

It is anticipated that up to $850 million in fixed rate or swap rate, credit enhanced bonds will be issued to build the new facility and refund outstanding debt.

Sources:	
Series 2008 Bonds	$850,000,000
Total Sources:	$850,000,000
Uses:	
Refinance 1997A Bonds	12,000,000
Refinance 2004A Bonds	38,000,000
Refinance 2005A Bonds	75,000,000
Refinance 2005B Bonds	165,000,000
Refinance 2005C Bonds	165,000,000
Refinance 2005D Bonds	72,000,000
Construct Children's Hospital	321,000,000
Various Issuance Fees	2,000,000
Total Uses:	$850,000,000

Present Employment: Fairview Health Services employs over 20,000 people throughout their facilities with about 7,300 employed in Minneapolis facilities.

New Employment: All jobs will be retained; all new jobs will be reported through CPED job linkage although few are projected at this point.

Assessor's Estimate Annual Tax Increase: As a tax-exempt 501(c)(3) facility, there is no tax impact as a result of this refunding and revenue bond issuance.

Affirmative Action Compliance: Fairview currently has an affirmative action plan on file with the City of Minneapolis.

CITY IRB POLICIES:

Job Component — Minimum standard of one (1) job per 1,000

	square feet of building area. <u>Fairview:</u> In compliance.
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>Fairview:</u> In compliance.
Development Standards	Compliance with the Land Use Plan of the City's Comprehensive Plan. <u>Fairview:</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. <u>Fairview:</u> 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. <u>Fairview:</u> 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. <u>Fairview:</u> All existing jobs will be retained.
<u>IRB CAP:</u>	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.
<u>BOND COUNSEL:</u>	Dorsey & Whitney LLP

UNDERWRITER:	RBC Capital Markets Citigroup Global Markets, Inc.

RESOLUTION
of the
City of Minneapolis

AUTHORIZING THE ISSUANCE AND SALE
OF REVENUE BONDS OF THE CITY ON BEHALF OF
FAIRVIEW HEALTH SERVICES AND THE EXECUTION OF DOCUMENTS

WHEREAS, this Council has received a proposal from Fairview Health Services, a Minnesota nonprofit corporation (the "Corporation") that the City of Minneapolis (the "City") issue its revenue bonds (the "Bonds") under Minnesota Statutes, Sections 469.152 to 469.165 (the "Act"), in one or more series, for the purposes of (a) refunding all or a portion of the outstanding Health Care System Revenue Bonds, Series 1997A (Fairview Hospital and Healthcare Services) (the "Series 1997A Bonds"), issued by the Minnesota Agricultural and Economic Development Board (the "Board"); (b) refunding all or a portion of the Health Care System Revenue Refunding Bonds, Series 2004A (Fairview Health Services) (the "Series 2004A Bonds") issued by the City; (c) refunding all or a portion of the outstanding Health Care System Revenue Refunding Bonds, Series 2005A, 2005B and 2005C (Fairview Health Services) (the "Series 2005ABC Bonds") issued by the City; (d) refunding all or a portion of the outstanding Health Care System Revenue Bonds (Fairview Health Services), Series 2005D (the "Series 2005D Bonds") issued by the City; (e) financing a project under the Act consisting of the construction and equipping of improvements to and remodeling of the Corporation's health care facilities located in the City, Burnsville, Red Wing, Hibbing and Wyoming, Minnesota and the acquisition and installation of items of equipment therein (the "Project"); (f) if required in connection with the issuance and sale of the Bonds, funding a deposit to the debt service reserve fund securing the Bonds; and (g) paying certain costs of issuance of the Bonds.

WHEREAS, at a public hearing, duly noticed and held on March 25, 2008, 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 and to refund the Series 1997A Bonds, the Series 2004A Bonds, the Series 2005ABC Bonds and the Series 2005D Bonds (collectively the "Refunded 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 to refund the Refunded 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 $850,000,000 aggregate principal amount of the Bonds in one or more series under the authority contained in the Act to finance the Project and to refund the Refunded Bonds 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 Bonds.

WHEREAS, the proceeds of the Bonds will be lent (the "Loan") by the City to Corporation, in order to finance the Project and to refund the Refunded Bonds, to fund a debt service reserve fund for the Bonds if required in connection with the issuance and sale of the Bonds and to pay certain costs of issuance of the Bonds.

WHEREAS, pursuant to one or more Loan Agreements (whether one or more, the "Loan Agreement"), to be entered into between the City and the Corporation, 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 "Notes"). The Notes will be issued under the Master Trust Indenture (the "Master Indenture"), dated as of November 1, 1985, between the Corporation, as successor to Carondelet Community Hospitals, Inc. and U.S. Bank National Association, formerly known as First Trust National Association, as trustee (the "Master Trustee"), as supplemented and amended by one or more Supplemental Indentures thereto (whether one or more the "Supplemental Indenture") to be entered into between the Corporation and the Master Trustee. Under the Notes, the Corporation 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 Bonds, when due. In addition, the Loan Agreement contains provisions relating to the payment by the Corporation of administrative costs of the Bond Trustee (as hereinafter defined), 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 Bonds. Pursuant to a Fee Agreement (the "Fee Agreement") between the City and the Corporation, 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 agree to pay the administrative fee of the City with respect to the Bonds.

WHEREAS, pursuant to one or more Indentures of Trusts (whether one or more, the "Bond Indenture") to be entered into between the City and Wells Fargo Bank, National Association, as Trustee (the "Bond Trustee"), 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 rights specifically retained by the City including, but not limited to, indemnification and administrative fees and expenses), the Notes, the Master Indenture and the Supplemental Indenture to the Bond Trustee. In addition, the Bond Indenture, among other things, sets the interest rates, maturity dates and redemption provisions for the 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 City and the Corporation deem necessary or desirable in connection with the sale of the Bonds.

WHEREAS, pursuant to the terms of one or more Escrow Agreements (whether one or more, the "Escrow Agreement"), to be entered into between the City, the Corporation and an escrow agent (the "Escrow Agent"), 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, a portion of the proceeds of the Bonds will be deposited with the Escrow Agent and applied, with other available funds of the Corporation and any funds held by the trustee of the Refunded Bonds, for the purpose of defeasing the Refunded Bonds.

WHEREAS, the Bonds will be special limited obligations of the City payable solely from amounts payable by the Corporation under the Notes, other than to the extent payable from the proceeds of the Bonds. The Bonds 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 Bond shall ever have the right to compel any exercise of the taxing power of the City to pay any such Bond or the interest thereon, nor to enforce payment thereof against any property of the City except the Notes. The Bonds shall not constitute a debt of the City within the meaning of any charter, constitutional or statutory limitation.

WHEREAS, the Bonds will be purchased from the City by Citigroup Global Markets Inc., RBC Capital Markets Corporation or such other investment banking firm selected by the Corporation, either acting jointly or separately with respect to a series of Bonds (the original purchaser or purchasers of any series of Bonds is herein called the "Underwriter") pursuant to one or more Purchase Contracts (whether one or more, the "Bond Purchase Agreement") between the City, the Corporation and the Underwriter of the bonds to which such Bond Purchase Agreement relates, 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, a draft of an Official Statement related to 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 provide for the financing of the Project and the refunding of the Refunded Bonds, the City hereby authorizes the issuance of the Bonds as revenue bonds under the Act in one or more series, in the aggregate principal amount of up to $850,000,000 (exclusive of any portion representing original issue discount). The City Finance Officer is hereby authorized to approve the purchase price of the Bonds, provided that the purchase price equals or exceeds 98% of the principal amount of the Bonds less any portion of such principal amount which represents original issue discount; the aggregate principal amount of the Bonds, provided that such principal amount is not in excess of $850,000,000 (exclusive of any portion representing original issue discount); the maturity schedule of the Bonds, provided that the Bonds mature at any time or times in such amount or amounts not exceeding 30 years from the date of issuance thereof; the provisions for prepayment and redemption of the Bonds prior to their stated maturity; and the initial interest rates for any series of Bonds, provided that no initial interest rate exceeds 6.00% per annum. Such approval shall be conclusively evidenced by the execution of the Bond Purchase Agreement as provided herein by the City Finance Officer. The issuance of the Bonds is subject to the approval by the Minnesota Department of Employment and Economic Development as required by the Act.

FURTHER RESOLVED, each Bond shall be executed on behalf of the City by the manual or facsimile signatures of the City Finance Officer. The Bonds when executed and delivered shall contain a recital that they are issued pursuant to the Act. The Bond Trustee 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 such 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 or sealed such Bonds had not ceased to be such officer of the City.

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

FURTHER RESOLVED, the City hereby consents to the distribution by the Underwriter to potential purchasers of the Bonds of a Preliminary Official Statement in substantially the form of the Official Statement submitted to the Council prior to this meeting if it is determined by the Underwriter and the Corporation to be necessary to distribute a Preliminary Official Statement to potential purchasers of the Bonds, and consents to the distribution by the Underwriter of the Official Statement by the Underwriter to potential purchasers or purchasers of the Bonds in substantially the form submitted to the Council prior to this meeting. The City has not participated and will not participate in the preparation of the Preliminary Official Statement or 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 submitted to this meeting and, upon the determination of the terms of the 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 Mayor, the City Clerk, the City Finance Officer and all other officers of the City are hereby authorized and directed to execute and deliver all other documents which may be required under the terms of the Bond Indenture, the Loan Agreement, the Fee Agreement, the Escrow Agreement or 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 Mayor, the City Clerk, the City Finance Officer or any other officer of the City named in any instrument to be executed on behalf of the City in connection with the issuance of the Bonds, the acting Mayor, Assistant City Clerk, Acting Finance Officer or other officer 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 Loan Agreement, the Bond Indenture 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 Loan Agreement, the Bond Indenture and the Bond Purchase Agreement.

FURTHER RESOLVED, the 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.