

Request for City Council Action

Date: March 25, 2002

To: Council Member Lisa Goodman, Community Development Committee

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

Approved by Chuck Lutz, MCDA Interim Executive Director _____

Subject: A Public Hearing and Request for Preliminary Approval of up to \$165,000,000 in 501(c)(3) Tax-exempt Revenue Bonds on behalf of Fairview Health Services for a project at Fairview-University Medical Center.

Previous Directives: None, project is requesting preliminary approval at this time. Fairview Health Services has made use of tax-exempt revenue bond financing in the past for other projects. The most recent was in 1993 for \$44,570,000 done jointly with the City of Edina for parking lot and other improvements at Fairview-Riverside and Fairview-Southdale.

Ward: 2nd Ward

Neighborhood Group Notification: On March 8, 2002, the West Bank Community Coalition was notified of this pending proposal for Fairview-University Medical Center.

Consistency with *Building a City That Works*: The improvements to the Fairview-University Medical Center are consistent with Goal 4 of preserving and enhancing the urban institutions and amenities that define Minneapolis.

Comprehensive Plan Compliance: Will comply.

Zoning Code Compliance: The medical facilities are zoned OR3-Institutional Office Residence District.

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 501(c)(3) 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: Does not apply. Project is a 501(c)(3) conduit financing that is not subject to Living Wage/Business Subsidy.

Job Linkage: The Fairview-University Medical Center will enter into a voluntary Job Linkage Agreement.

Affirmative Action Compliance: The project will comply with the affirmative action requirements of the City by filing an Affirmative Action Plan.

RECOMMENDATION:

City Council Recommendation: The Interim Executive Director recommends that the City Council adopt the attached Resolution, a summary of which will be published following a Public Hearing held on March 25, 2002 notice of which was published in Finance and Commerce on March 9, 2002 giving Preliminary Approval to the issuance of up to \$165,000,000 in 501(c)(3) Tax-exempt Revenue Bonds on behalf of Fairview Health Services for a project at Fairview-University Medical Center.

PROJECT LOCATION & DESCRIPTION:

Fairview Health Services, a Minnesota 501(c)(3) nonprofit organization, owns and operates the Fairview-University Medical Center located at 2450 Riverside Avenue and 420 Delaware Street S.E. It has been four years since the affiliation of Fairview and the University of Minnesota's Health Center.

It is proposed that the City of Minneapolis issue up to \$165 million in 501(c)(3) tax-exempt revenue bonds as a conduit financing to finance the following projects:

- Acquisition and installation of hospital equipment;
- Construction of improvements and remodeling of hospital facilities;
- Refinancing of outstanding balances on two prior City of Minneapolis revenue bond issues, the Series 1991A and Series 1991B;
- Refinancing of outstanding balance on a Princeton, MN revenue bond for Fairview through a joint powers agreement with the City of Princeton; and
- Funding of debt service reserves for the revenue bond issue and payment of costs of issuance for the bonds.

As part of the hospital's continuing plans for updating and enhancements, a number of improvements are scheduled for the Fairview-University complex. Other recent major building projects have occurred in Red Wing, Fairview Southdale and Fairview Ridges. The improvements at the Fairview-University Medical Center will expand the medical-surgical inpatient capacity, expand the operating room capacity, expand the outpatient clinic space, and expand the parking by adding additional floors to the Yellow Ramp.

TYPE OF FINANCING:

It is anticipated that up to \$165 million in 501(c)(3) tax-exempt revenue bonds will be sold to institutional and retail buyers through the efforts of the underwriting team: RBC Dain Rauscher, Dougherty & Company and Salomon Smith Barney.

The parties currently engaged in structuring the revenue bond financing will be the law firms of Dorsey & Whitney and Kennedy & Graven who will be serving as bond counsel, Nikki Newman, Esq. of the City Attorney's Office, Wells Fargo as bond trustee, and the above-mentioned underwriting team.

Sources:

Tax-exempt Revenue Bonds Series 2002	\$165,000,000
Total	<u>\$165,000,000</u>

Uses:

Refinancing of Minneapolis Series 1991-A and 1991-B	\$ 32,000,000
Refinancing of Princeton, MN Series 1991-C	12,000,000
Construction costs, renovation costs and hospital equipment purchases	100,300,000
Debt Service Reserves	16,300,000
Issuance Costs and Other Project Costs	<u>4,400,000</u>
Total	\$165,000,000

PRESENT EMPLOYMENT:

Fairview Health Services employs 18,000 persons throughout their facilities, with 6,800 employed in Minneapolis facilities.

NEW EMPLOYMENT:

A minimal number of new jobs is expected to be generated, although the project will help retain all the existing jobs.

ASSESSOR'S ESTIMATED ANNUAL TAX INCREASE:

As a tax-exempt 501(c)(3) facility, there is no tax impact as a result of the project.

AFFIRMATIVE ACTION COMPLIANCE:

Project will have a signed affirmative action plan prior to final approval on the bonds.

MCDA IRB POLICIES:

Job Component

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

Fairview-University: 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.

Fairview-University: N.A. All property needed for the various projects is already owned by Fairview Health Services.

Development Standards

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

Fairview-University: Project complies.

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.

Fairview-University: Various pieces of hospital equipment for the hospital facilities, 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.

Fairview-University: 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.

Fairview-University: The proposed financing does include debt refinancing with corresponding debt service savings. A significant number of jobs will be retained and interest savings will reduce patient costs through the availability of updated equipment and facilities.

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.

In addition, 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

UNDERWRITERS:

RBC Dain Rauscher
Dougherty & Company
Salomon Smith Barney

Resolution Giving Preliminary Approval to a Project and its Financing and the Refunding of Certain Outstanding Bonds on Behalf of Fairview Health Services Under the Minnesota Municipal Industrial Development Act; Referring the Project Proposal to the Minnesota Department of Trade and Economic Development for Approval; and Authorizing the Preparation of Necessary Documents

WHEREAS, this Council has received a proposal that the City of Minneapolis (the City) issue its Health System Revenue Bonds (the “Bonds”) for the purposes of (a) financing a portion or all of the cost of a proposed project (the “Project”), on behalf of Fairview Health Services, a Minnesota nonprofit corporation (the “Corporation”), consisting of the acquisition and installation of certain items of equipment in and the construction of certain improvements to and the remodeling of the existing hospital and health care facilities located at 2450 Riverside Avenue and 420 Delaware Street Southeast in the City owned and operated by the Corporation, (b) refunding all or a portion of the City’s outstanding Hospital System Revenue Bonds, 1991 Series A (Fairview Hospital and Healthcare Services), and the City’s outstanding Hospital System Revenue Bonds, 1991 Series B (Fairview Hospital and Healthcare Services) (the “Minneapolis Bonds”); (c) refunding all or a portion of the City of Princeton, Minnesota Hospital System Revenue Bonds, 1991 Series C (Fairview Hospital and Health Care Services), issued for the purpose of acquisition of land and construction of the Corporation’s Northland Regional Hospital, a general acute care hospital located at 911 Northland Drive, Princeton, Minnesota and the acquisition and installation of equipment therein (the “Princeton Bonds”), (d) funding a deposit to the debt service reserve fund securing the Bonds, and (e) paying certain costs of issuance of the Bonds.

WHEREAS, at a public hearing, duly noticed and held on March 25, 2002, in accordance with the Act and Section 147(f) of the Internal Revenue Code of 1986, as amended (the Code), on the proposal to undertake and finance the Project and to refund the Minneapolis Bonds and the Princeton Bonds (collectively, the “Prior Bonds”), all parties who appeared at the hearing were given an opportunity to express their views with respect to the proposal to undertake and finance the Project and refund the Prior Bonds and interested persons were given the opportunity to submit written comments to the City Clerk before the time of the hearing.

NOW THEREFORE BE IT RESOLVED, based on the public hearing, written comments (if any) and such other facts and circumstances as this Council deems relevant:

(a) The welfare of the State of Minnesota requires the provision of necessary health care facilities to the end that adequate health care services be made available to residents of the State of Minnesota at reasonable cost, and the State of Minnesota has encouraged local government units to act to provide such facilities.

(b) The undertaking of the Project and the refunding of the Prior Bonds would further the general purposes contemplated and described in Section 469.152 of the Act.

(c) The existence of the Project and the refunding of the Prior Bonds would further promote the public purposes and legislative objectives of the Act by providing health care services at the lowest possible cost in the City and surrounding area.

(d) This Council has been advised by representatives of the Corporation that conventional, commercial financing to pay the cost of the Project is available only at such high

costs of borrowing that the economic feasibility of acquiring and operating the Project would be reduced from that resulting with the aid of municipal borrowing, and its resulting lower borrowing cost.

(e) This Council has also been advised by representatives of the Corporation that on the basis of their discussions with potential buyers of tax-exempt bonds, revenue bonds of the City (which may be in the form of a revenue note or notes) could be issued and sold upon favorable rates and terms to finance the Project.

(f) The City is authorized by the Act to issue its revenue bonds (i) to finance capital projects consisting of properties used and useful in connection with a revenue producing enterprise engaged in providing health care services, such as that of the Corporation, and (ii) to refund, in whole or in part, bonds previously issued by the City or another municipality under the Act, and the issuance of the bonds by the City would be a substantial inducement to the Corporation to undertake the Project and to refund the Prior Bonds.

FURTHER RESOLVED, on the basis of the information given the City to date, it appears that it would be desirable for the City to issue its revenue bonds, in one or more series, under the provisions of the Act to finance the Project and to refund the Prior Bonds in the maximum aggregate face amount of \$165,000,000, the interest on which will be excludable from gross income under Section 103 of the Code.

FURTHER RESOLVED, that the City proceed with the Project, its financing and the refunding of the Prior Bonds and this Council hereby gives preliminary approval to the Project and the issuance of the Bonds under the Act to finance the Project and refund the Prior Bonds. The issuance of the Bonds to finance the Project shall be subject to approval of the Project by the Minnesota Department of Trade and Economic Development (the "Department"). The Bonds, if issued, shall not constitute a charge, lien or encumbrance, legal or equitable, upon any property of the City, except the revenues specifically pledged to the payment thereof, and each Bond, when, as and if issued, shall recite in substance that the Bond, including interest thereon, is payable solely from the revenues and property specifically pledged to the payment thereof, and shall not constitute a debt of the City within the meaning of any charter, constitutional or statutory limitation.

FURTHER RESOLVED, that the Application to the Department (the "Application"), with attachments, is hereby approved, and the Mayor, Finance Officer and President of the Council or other authorized representatives of the City are authorized to execute said documents on behalf of the City.

FURTHER RESOLVED, that in accordance with Section 469.154, Subdivision 3 of the Act, the Mayor and Finance Officer or other authorized representatives of the City are hereby authorized and directed to cause the Application to be submitted to the Department for approval of the Project. The Mayor, Finance Officer, President of the Council, City Clerk, City Attorney and other officers, employees and agents of the City are hereby authorized and directed to provide the Department with any preliminary information needed for this purpose. The City Attorney is authorized to initiate and assist in the preparation of such documents as may be appropriate to the Project, if approved by the Department.

FURTHER RESOLVED, that a copy of this resolution, shall be maintained by the City Clerk and shall be continuously available for public inspection at the office of the City Clerk in the City Hall during normal business hours of the City on every business day beginning on the earlier of 10 days after adoption of this resolution or the date of issuance of the Bonds and ending on, and including, the date of issue of the Bonds.

FURTHER RESOLVED, that, in accordance with an agreement with the Corporation, any and all direct and indirect costs incurred by the City in connection with the Project and the refunding of the Prior Bonds, whether or not the Project or the refunding is carried to completion, and whether or not the Project is approved by the Department, and whether or not the City by resolution authorizes the issuance of the Bonds, will be paid by the Corporation upon request.