



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

Date: June 23, 2015

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 \$135,000,000 in 501(c)(3) Tax-exempt Revenue Bonds for Fairview Health Services Project

Recommendation: Adopt the attached resolution giving Preliminary and Final Approval of up to \$135,000,000 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 several projects. Most recently, City Council authorized the issuance of \$850 million in tax-exempt revenue bonds on April 4, 2008. The Series 2008 bonds will remain outstanding.

Prepared by: Becky Shaw, Sr. Economic Development Specialist 673-5066

Approved by: D. Craig Taylor, Executive Director CPED _____

Charles T. Lutz, Deputy Director CPED _____

Presenters in Committee: Becky Shaw

Financial Impact

- Action is within the business plan.
- Other financial impact: The issuance of revenue bonds for the Fairview Health Services project will generate revenue bond administrative fees that are used to support the small business assistance programs of the City of Minneapolis.

Community Impact

Neighborhood Notification: Cedar Riverside neighborhood has been notified.

City Goals: A hub of economic activity and innovation.

Comprehensive Plan: This proposed financing is in compliance with the Minneapolis Plan for sustainable growth.

Zoning Code: Projects will comply.

Supporting Information

Fairview Health Services owns and operates a network of hospitals and clinics throughout Minnesota. The City of Minneapolis has a longstanding relationship with Fairview Health Services and has issued revenue bonds for various projects throughout the metro area for many years. We have recently received a request from Fairview Health Services for approval of up to \$135,000,000 in 501(c)(3) tax-exempt revenue bond financing. The bond project will consist of the refunding of four outstanding revenue bonds, and the issuance of a new money portion for two new projects.

Included in the refunding are:

Minnesota Agricultural and Economic Development Board, Series 1997A in the amount of \$5,694,377,

Minnesota Agricultural and Economic Development Board, Series 2000A in the amount of \$4,015,963,

City of Minneapolis, Health Care System Revenue Bonds, Series 2002B in the amount of \$8,317,264,

City of Minneapolis, Health Care System Revenue Bonds, Series 2005D in the amount of \$75,605,440.

The new money portion of the project will be for \$33,340,000. Approximately \$30,800,000 will be used for the renovation and expansion of Fairview Southdale in Edina. The emergency department for Fairview Southdale was built in the 1990s. It is inefficient, has undersized care rooms and is unable to meet current or future patient demand. This project consists of replacing and expanding the Emergency Department, expanding and relocating the Urgent Care Clinic, and adding a new 18-bed Observation Unit which allows more availability in the Emergency Department.

The remaining \$4,200,000 will be used for the University of Minnesota Medical Center (UMMC) Elevator Project. The project includes a campus wide modernization and decommissioning of elevators. New elevator code requirements were passed in 2007. The new requirements were enacted recently into law by the Minnesota Legislature. UMMC has 60 elevators on both the East and West Bank in Minneapolis. Because of the building code change, there are 29 elevators that no longer meet current codes. As a result of this financing, 24 will be upgraded and 4 decommissioned altogether.

Type of Financing

The bonds will be rated and will be underwritten by RBC Capital Markets and Citigroup.

Sources:

Series 2015 Bonds	118,655,000
Premium	10,482,238
<u>Debt service reserve</u>	<u>1,232,762</u>
TOTAL SOURCES	\$130,370,000

Uses:	
Refund 1997A Bonds	5,617,671
Refund 2000A Bonds	5,191,440
Refund 2002B Bonds	8,207,087
Refund 2005D Bonds	74,563,625
Fairview Southdale Project	30,800,000
UMMC Elevator Project	4,200,000
<u>Cost of Issuance</u>	<u>1,786,000</u>
TOTAL USES	\$130,370,000

Present Employment: Fairview Health Services currently employs 22,000 individuals throughout the metro area.

New Employment: As a result of this financing, Fairview Health Services will add approximately 30-40 new technical positions in the Fairview Southdale facility. No new permanent jobs will be added as a result of the elevator updates.

Assessor’s Estimate Annual Tax Increase: N.A – Tax-exempt Revenue Bonds

Affirmative Action Compliance: Fairview Health Services will comply with affirmative action plan for new construction portion of the bonds.

CITY IRB POLICIES:

Job Component	Minimum standard of one (1) job per 1,000 square feet of building area. Fairview: 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. Fairview: In compliance.
Development Standards	Compliance with the City’s Comprehensive Plan. Fairview: 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.

Fairview: 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: A significant number of jobs will be preserved and interest savings will assist in improving the quality and cost of care.

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

UNDERWRITERS:

RBC Capital Markets
Citigroup

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

WHEREAS, this Council has previously 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, as amended, the Minnesota Municipal Industrial Development Act (the "Act"), in one or more series, on behalf of the Corporation.

WHEREAS, the Corporation owns and operates (i) University of Minnesota Medical Center, located at 500 Harvard Street in the City, which consists of hospital and other health care related facilities, and owns and operates other facilities in the City located at 2450 Riverside Avenue, 420 Delaware Street Southeast and 2020 Minnehaha Avenue South in the City (the "Minneapolis Facilities"), (ii) Fairview Southdale Hospital, an acute care hospital and other health care related facilities located at 6401 and 6400 France Avenue South, Edina, Minnesota (the "Edina Facilities"), (iii) Fairview Ridges Hospital, an acute care hospital and other health care related facilities located at 201 Nicollet Boulevard, Burnsville, Minnesota (the "Burnsville Facilities"), (iv) Fairview Lakes Medical Center, an acute care hospital and other health care related facilities located at 5200 Fairview Boulevard, Wyoming, Minnesota (the "Wyoming Facilities"), (v) Fairview Northland Medical Center, an acute care hospital and other health care related facilities located at 911 Northland Drive, Princeton, Minnesota (the "Princeton Facilities") and (vi) Fairview Clinics – Chisago City, a clinic located at 11725 Stinson, Chisago City, Minnesota (the "Chisago Facilities"). The Corporation is the sole member of Range Regional Health Services, which owns and operates Fairview Range Medical Center, an acute care hospital and other health care related facilities located at 750 East 34th Street, Hibbing, Minnesota (the "Hibbing Hospital"). Range Regional Health Services is the sole member of Mesaba Clinic, which owns and operates Fairview Mesaba Clinic which is attached to the Hibbing Hospital (the "Hibbing Clinic"; together with the Hibbing Hospital, the "Hibbing Facilities"). The Corporation was previously the sole member of Fairview Red Wing Health Services, which owned and operated the facility formerly known as Fairview Red Wing Medical Center, an acute care hospital and other health care related facilities located at 701 Fairview Boulevard, Red Wing, Minnesota (the "Red Wing Facilities").

WHEREAS, the Bonds will be issued to: (a) refund all or a portion of the 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") for the purpose of (i) financing the acquisition, construction and improvement of a portion of the Minneapolis Facilities and the acquisition and installation of items of equipment therein, (ii) financing the construction and equipping of the Wyoming Facilities, (iii) financing the remodeling of the Chisago Facilities, (iv) financing the acquisition of cooling towers and chillers at the Edina Facilities, (v) refunding bonds issued by the City of Edina to finance the construction of improvements to the Edina Facilities and the acquisition and installation of items of equipment therein, and (vi) refunding bonds issued by the City of Hibbing to finance the construction and equipping of the Hibbing Hospital and the acquisition and installation of items of equipment therein; (b) refund all or a portion of the Health Care System Revenue Bonds, Series 2000A (Fairview Health Services) (the "Series 2000A Bonds") issued by the Board for the purpose of (i) financing the construction and equipping of the Red Wing Facilities, (ii) financing the construction of an addition to and renovation of the Burnsville Facilities and the acquisition

and installation of items of equipment therein, (iii) financing the construction of an addition to and the renovation of the Edina Facilities and the acquisition and installation of items of equipment therein and of a new parking ramp to serve the Edina Facilities, (iv) financing the construction and equipping of the Hibbing Clinic, (v) financing of an addition to the Wyoming Facilities, and (vi) refund certain outstanding bonds of the City of Red Wing issued to finance and refinance a hospital facility in the City of Red Wing; (c) refund all or a portion of the Health Care System Revenue Refunding Bonds, Series 2002B (Fairview Health Services) (the “Series 2002B Bonds”), issued by the City for the purpose of refunding all or a portion of the City’s Hospital System Revenue Refunding Bonds, 1991 Series A (Fairview Hospital and Healthcare Services), the City’s Hospital System Revenue Bonds, 1991 Series B (Fairview Hospital and Healthcare Services), and the City of Princeton’s Hospital System Revenue Bonds, 1991 Series C (Fairview Hospital and Healthcare Services), which bonds were issued to refund the Minneapolis Community Development Agency Hospital System Revenue Refunding Bonds, 1985 Series A (Fairview Community Hospitals), financing the acquisition of certain assets, including real estate and equipment, and costs related to the Minneapolis Facilities, and finance costs of acquiring land and constructing and equipping the Princeton Facilities; (d) refund all or a portion of the Health Care System Revenue Bonds (Fairview Health Services), Series 2005D (the “Series 2005D Bonds”) issued by the City for the purpose of financing the construction of improvements to and remodeling of the Edina Facilities, Burnsville Facilities, Wyoming Facilities and Princeton Facilities and the acquisition and installation of items of equipment therein; (e) finance a project under the Act (the “Project”) consisting of the acquisition, improvement and equipping of the Minneapolis Facilities, including campus-wide elevator modernizations and decommissions at the Minneapolis Facilities, and the acquisition, improvement and equipping of the Edina Facilities, including the construction of a new and expanded emergency department; and (f) pay certain costs of issuance of the Bonds.

WHEREAS, upon the sale of the Red Wing Facilities, proceeds of the Series 2000A Bonds allocable to such facilities were reallocated to the Minneapolis Facilities.

WHEREAS, at a public hearing, duly noticed and held on June 23, 2015, in accordance with the Act and Section 147(f) of the Internal Revenue Code of 1986, as amended, on the proposal to issue the Bonds to finance the Project and the refunding of the Series 1997A Bonds, the Series 2000A Bonds, the Series 2002B 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 financing, 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 \$135,000,000 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 by the City to the Corporation (the “Loan”) in order to finance the Project and the refunding of the Refunded 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, drafts of which have been made available to the Council prior to this meeting and which have been reviewed to the extent deemed necessary, the Corporation will issue to the City its note or other evidence of indebtedness (whether one or more, the “Note”) under the Master Trust Indenture (the “Master Indenture”), dated as of August 1, 2015, between the Corporation and its affiliates from time to time obligated thereunder, and U.S. Bank 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, as the Combined Group Representative (as defined in the Master Indenture), and the Master Trustee. Under the Note, the Corporation and other Obligated Affiliates (as defined in the Master Indenture), if any, will unconditionally agree to repay or guaranty, respectively, 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 defined herein), and 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 the Loan Agreement between the City and the Corporation, 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 bond trustee (the “Bond Trustee”), drafts of which have been made available to the Council prior to this meeting and which have 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 Note, 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 the Bond Indenture, the bond indentures relating to the Refunded Bonds or of one or more Escrow Agreements (whether one or more, the “Escrow Agreement”), which may be entered into between the Corporation and an escrow agent (the “Escrow Agent”), a portion of the proceeds of the Bonds will be deposited with the Escrow Agent or the trustee for the Refunded Bonds 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 and Obligated Affiliates under the Note, 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 Note and Loan

Agreement. 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. and 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, one or more Preliminary Official Statements related to the Bonds (whether one or more, the "Preliminary Official Statement"), have been made available to the Council prior to this meeting. The Preliminary Official Statement will be distributed by the Underwriter to potential purchasers of the Bonds. The City has not participated in the preparation of or the review of the Preliminary Official Statement.

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 not to exceed \$135,000,000. The City Finance Officer is hereby authorized to approve (i) 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; (ii) the aggregate principal amount of the Bonds, provided that such principal amount is not in excess of \$135,000,000; (iii) the maturity schedule of the Bonds, provided that the Bonds mature at any time or times in such amount or amounts not exceeding 40 years from the date of issuance thereof; (iv) the provisions for prepayment and redemption of the Bonds prior to their stated maturity; and (v) the initial interest rates for any series of Bonds, provided that no initial interest rate exceeds 7.00% 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 of the Bonds 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. 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 such Bonds had not ceased to be such officer of the City.

FURTHER RESOLVED, the Bond Indenture and the Loan Agreement are hereby made a part of this Resolution as fully as though set forth in full herein and are hereby approved in the forms made available to the Council prior to this meeting, and the City Finance Officer is hereby authorized and directed to execute, acknowledge and deliver the Bond Indenture and the Loan Agreement, on behalf of the City, with such changes, insertions and omissions therein as do not change the substance of the Bond Indenture or Loan Agreement, and as may be approved by the

City Finance Officer, such approval of such officer and the City to be evidenced conclusively by his execution of the Bond Indenture and the Loan Agreement.

FURTHER RESOLVED, the City hereby consents (i) to the distribution by the Underwriter to potential purchasers of the Bonds of the Preliminary Official Statement in substantially the form of the Preliminary Official Statement made available 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 (ii) to the distribution by the Underwriter of one or more Official Statements related to the Bonds (whether one or more, the "Official Statement") by the Underwriter to purchasers of the Bonds in substantially the form of the Preliminary Official Statement made available 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 made available to the Council prior 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 of such officer and the City 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 Bond Indenture, the Loan 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 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 by this Council.

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 City's contracting requirements incorporated into the Loan Agreement shall apply only to construction which has taken place or will take place within the City limits of the City.

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.

FURTHER RESOLVED, this resolution shall take effect upon publication.