

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

Date: October 6, 2009

To: Council Member Lisa Goodman, Community Development Committee

Subject: A Public Hearing and Request for Preliminary and Final Approval of up to \$420 million in 501(c)(3) Tax-exempt Revenue Bonds as a Joint Issue with the St. Paul HRA for the Allina Health System 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 \$420 million in 501(c)(3) Tax-exempt Revenue Bonds as a Joint Issue with the St. Paul HRA for the Allina Health System Project.

Previous Directives: Allina Health System has made use of tax-exempt revenue bonds in the past for other projects. The most recent was in 2007 for \$500 million to refund existing debt and to finance hospital equipment, improvements and additions to buildings in various locations throughout Minnesota.

Prepared by: Becky Shaw	Phone: 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 Allina Health System Project will generate additional revenue bond administrative fees that are used to support the small business assistance programs of the City of Minneapolis. The collective outstanding revenue bond issues generate revenue bond administrative fees of approximately \$160,000 per year.

Community Impact

- Neighborhood Notification: The Phillips West and Phillips Midtown groups were notified of this pending project.
- 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 ____ Allina Health Systems currently has a job linkage agreement with CPED through 2010.

Supporting Information

Project Location & Description:

Allina Health System is a Minnesota non-profit corporation that delivers health care services to patients in Minnesota and western Wisconsin. Allina owns and operates 11 hospitals and 47 clinics offering a full range of primary and specialty care services including technically advanced inpatient and outpatient care, 24-hour emergency care, medical transportation, pharmacy, home care and hospice services. Allina employs more than 23,900 individuals and has over 2,500 volunteers. Allina hospitals and clinics all share a common mission to deliver exceptional health care and support services to the people in our communities, putting the patient first in everything they do.

Allina Health System is requesting approval from the City of Minneapolis for the issuance of up to \$420 million in tax-exempt revenue bonds. The Series 2009 notes would be issued to refund up to \$250 million in Allina Health Systems Series 2007B bonds, refund up to \$120 million in Allina Health Systems Series 1998 bonds, and to issue up to \$50 million in new money to fund the following projects:

- Finance the acquisition, construction and equipping of a new clinic to be located at 9300 Noble Parkway North in Brooklyn Park, MN.
- Finance the acquisition, construction and equipping of a new clinic to be located in the city of Ramsey, MN.
- Finance the addition of a birth center to the Buffalo Hospital.
- Finance the acquisition, construction and equipping of a new cancer center at Unity Hospital in Fridley, MN.
- Finance the renovation, expansion and equipping of the Cottage Grove Clinic.
- Finance the purchase of fixtures and equipment for the Blaine Clinic and Unity Hospital.
- Finance renovations and improvements to Mercy Hospital, Unity Hospital, Buffalo Hospital, Abbott Hospital, United Hospital and Coon Rapids Clinic.

The team of individuals working as Bond Counsel for the Allina Health System project is currently gaining all approvals from the various cities for this City of Minneapolis and St Paul HRA joint Bond Issuance.

Allina Health System is also requesting an approval from the City of Minneapolis of an amendment to documents related to its Series 2007B Bonds. As part of the December 31, 2008 merger of Wells Fargo & Company and Wachovia Corporation, the Public Finance business of Wells Fargo Brokerage Services will be consolidated with the Public Finance

business of Wachovia Bank in November 2009. Legal counsel has determined that the documents drafted between the City and Wells Fargo Bank need to be amended to reflect the merger of Wells Fargo and Wachovia. The amended documents must clarify the role and assignment of the remarketing agent for the variable rate demand bonds. The attached resolution authorizes the execution of the necessary amendments specific to the Wells Fargo and Wachovia merger.

Type of Financing:

Allina Health System proposes to issue up to \$420 million in 501(c)(3) Tax-exempt revenue bonds. Series 2009A will be issued by Goldman, Sachs & Co, Wells Fargo Brokerage Services and Piper Jaffray & Co. in the amount of up to \$250 million at a fixed rate of approximately 4.44%. Series 2009B and Series 2009C bonds will be Variable Rate Demand Revenue Bonds issued by Goldman, Sachs & Co, JP Morgan Securities and Wells Fargo Brokerage. JP Morgan Chase Bank, N.A. will issue an irrevocable direct pay letter of credit on both the Series 2009B and 2009C Variable Rate bonds.

Sources:

Series 2009A Bonds	\$250,000,000
Series 2009B Bonds	110,000,000
Series 2009C Bonds	<u>50,000,000</u>
Total Sources:	\$ 420,000,000

Uses:

Refund Series 2007B-1 Bonds	\$174,000,000
Refund Series 2007B-2 Bonds	43,500,000
Refund Series 1998 Bonds	120,000,000
Construction/Equipment/Renovations	59,500,000
Reserve Fund	12,000,000
Swap Termination	8,000,000
Cost of Issuance	<u>3,000,000</u>
Total Uses:	\$420,000,000

Present Employment: Allina currently employs about 29,300 throughout the system with about 6,400 individuals in Minneapolis facilities.

New Employment: A minimal number of new jobs are expected to be generated through this project although 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.

Allina Health System: 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.

Allina Health System: In compliance.

Development Standards

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

Allina Health System: 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.

Allina Health System: 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.

Allina Health System: 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.

Allina Health System: 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

UNDERWRITERS:

Goldman, Sachs & Co.

Wells Fargo Brokerage Services

Piper Jaffray & Co.

JP Morgan Securities

City Council Report Final Approval

RESOLUTION
of the
CITY OF MINNEAPOLIS

By _____

RESOLUTION AUTHORIZING THE ISSUANCE AND SALE
OF REVENUE BONDS OF THE CITY AND THE HOUSING AND REDEVELOPMENT
AUTHORITY OF THE CITY OF SAINT PAUL ON BEHALF OF
ALLINA HEALTH SYSTEM, THE AMENDMENT OF TERMS OF THE SERIES 2007
BONDS ISSUED ON BEHALF OF ALLINA HEALTH SYSTEM AND THE EXECUTION
OF DOCUMENTS

WHEREAS, this Council has received a proposal from Allina Health System, 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 "Bonds") under Minnesota Statutes, Sections 469.152 to 469.165 (the "Act"), in one or more series or subseries, for the purposes of (a) refunding all or a portion of the outstanding Health Care System Variable Rate Demand Revenue Bonds, Series 2007B (Allina Health System) (the "Series 2007B Bonds"), issued by the Issuer, (b) refunding all or a portion of the outstanding Variable Rate Demand Revenue Bonds (Allina Health System), Series 1998 Periodic Auction Reset (PARS) issued by the Issuer (the "Series 1998 Bonds"; together with the Series 2007B Bonds, the "Refunded Bonds"); (c) financing a project under the Act consisting of the construction of improvements to and remodeling of the Corporation's health care facilities located or to be located in Cities of Minneapolis, Saint Paul, Blaine, Brooklyn Park, Buffalo, Coon Rapids, Cottage Grove, Fridley and Ramsey and the acquisition and installation of items of equipment therein (the "Project"); (d) pay capitalized interest, if any, on the Bonds and any termination payment payable by the Corporation with respect to any interest rate hedge transactions entered into by the Corporation with respect to the Bonds and the Refunded Bonds; (e) funding a reserve fund for a portion or all of the Bonds and (f) paying certain costs of issuance of the Bonds.

WHEREAS, at a public hearing, duly noticed and held on October 6, 2009, 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 2007B 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 Series 2007B 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 \$420,000,000 aggregate principal amount of the Bonds in one or more series or subseries 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, in connection with the issuance of the Bonds, the City, the HRA and North Suburban Hospital District, Anoka and Ramsey Counties, 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 Bonds will be lent (the "Loan") by the City and the HRA to the Corporation for the purposes described hereinabove.

WHEREAS, pursuant to separate Loan Agreements for each series of Bonds (the "Loan Agreements"), to be entered into between the City, the HRA 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 Issuer an Obligation with respect to each series or subseries of Bonds (the "Obligations"). The Obligations will be issued under the Master Trust Indenture (the "Master Indenture"), dated as of October 1, 1998, between the Corporation and Wells Fargo Bank, National Association, as trustee (the "Master Trustee"), as supplemented and amended by Supplemental Indentures thereto (the "Supplemental Indenture") to be entered into between the Corporation and the Master Trustee. Under the Obligation with respect to each series or subseries of Bonds, the Corporation will unconditionally agree to repay the Loan made by the Issuer under the Loan Agreement with respect to such series or subseries of Bonds in specified amounts and at specified times sufficient to make the necessary payments of principal of, premium, if any, and interest on the Bonds of such series or subseries, when due. In addition, the Loan Agreement for each series of Bonds contains provisions relating to the payment by the Corporation of administrative costs of the Bond Trustee (as hereinafter defined), the administrative fee of the City and of the HRA with respect to such series of Bonds, indemnification, insurance and other agreements and covenants which are required by the Act or which are permitted by the Act and which the Issuer and the Corporation deem necessary or desirable for the sale of such Bonds.

WHEREAS, pursuant to separate Trust Indentures for each series of Bonds (the "Bond Indentures") to be entered into between the City, the HRA and Wells Fargo Bank, National Association, as Trustee (the "Bond Trustee"), drafts of which have been presented 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 with respect to such Bonds (other than the rights specifically retained by the Issuer including, but not limited to, indemnification and administrative fees and expenses), the Obligation with respect to such series or subseries of Bonds, the Master Indenture and the Supplemental Indenture to the Bond Trustee. In addition, the Bond Indenture for each series of Bonds, among other things, sets the interest rates, maturity dates and redemption provisions for such series of 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 such series of Bonds.

WHEREAS, the Bonds will be special limited obligations of the Issuer payable solely from amounts payable under the Obligations by the Corporation and other members of the Obligated Group under the Master Indenture, 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 or the HRA 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 or the HRA to pay any such Bond or the interest thereon, nor to

enforce payment thereof against any property of the City or the HRA except the Obligations. The Bonds shall not constitute a debt of the City or the HRA within the meaning of any charter, constitutional or statutory limitation.

WHEREAS, the Bonds will be purchased from the Issuer by any of Goldman, Sachs & Co., Wachovia Bank, National Association, Piper Jaffray & Co. and J.P. Morgan Securities Inc. (the "Underwriters") pursuant to separate Bond Purchase Agreements with respect to each series or subseries of Bonds (the "Bond Purchase Agreements") between the City, the HRA, the Corporation and one or more of the Underwriters, drafts of which have been made available to the Council prior to this meeting and which have been reviewed to the extent deemed necessary.

WHEREAS, drafts of one or more Official Statements with respect to each series of the Bonds have been made available to the Council prior to this meeting and have been reviewed to the extent deemed necessary. The Official Statements with respect to a series of Bonds will be distributed by the Underwriters therefor to potential purchasers of such series of the Bonds.

WHEREAS, the Issuer has previously issued its Health Care System Variable Rate Demand Bonds, Series 2007C-2 (Allina Health System) (the "Series 2007C-2 Bonds") pursuant to the Act and a Trust Indenture dated as of October 1, 2007, as amended and restated by an Amended and Restated Trust Indenture dated as of June 1, 2008 (the "Series 2007C Indenture").

WHEREAS, the functions of the Remarketing Agent, as defined in the Series 2007C Indenture, for the Series 2007C-2 Bonds are being assigned to Wachovia Bank, National Association, pursuant to an Assignment, Assumption and Amendment of Remarketing Agreement dated as of August 1, 2009.

WHEREAS, in conjunction with such assignment, the Remarketing Agent has requested that the Issuer and the Bond Trustee enter into an amendment to the Series 2007C Indenture (the "Series 2007C Amendment"), 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.

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 or subseries, in the aggregate principal amount of up to \$420,000,000. The City Finance Officer is hereby authorized to approve the purchase price of the Bonds; the aggregate principal amount of the Bonds, provided that such principal amount is not in excess of \$420,000,000; 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; the provisions for prepayment and redemption of the Bonds prior to their stated maturity; and the initial interest rates for any series or subseries of Bonds, provided that no initial interest rate exceeds 7.50% per annum. Such approval for a series or subseries of Bonds shall be conclusively evidenced by the execution of the Bond Purchase Agreement for such series or subseries of Bonds 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 Indentures, the Loan Agreements, the Joint Powers Agreement and the Series 2007C 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 submitted to this meeting, and the City Finance Officer is hereby authorized and directed to execute, acknowledge and deliver the Bond Indentures, the Loan Agreements, the Joint Powers Agreement and the Series 2007C Amendment on behalf of the City with such changes, insertions and omissions therein as do not change the substance of the Bond Indentures, Loan Agreements, the Joint Powers Agreement or the Series 2007C Amendment and as may be approved by the City Finance Officer, such approval to be evidenced conclusively by his execution of the Bond Indentures, the Loan Agreements, the Joint Powers Agreement and the Series 2007C Amendment.

FURTHER RESOLVED, the City hereby consents to the distribution by the Underwriters to potential purchasers of a series of the Bonds of a Preliminary Official Statement with respect to such series of Bonds in substantially the form of the Official Statement with respect to such series of Bonds made available to the Council prior to this meeting if it is determined by the Underwriters and the Corporation to be necessary to distribute a Preliminary Official Statement with respect to such series of Bonds to potential purchasers of such series of Bonds, and consents to the distribution by the Underwriters of the Official Statement with respect to each series of Bonds by the Underwriters to potential purchasers or purchasers of the Bonds of such series in substantially the form submitted to the Council at this meeting. The City has not and will not participate in the preparation of the Preliminary Official Statement or Official Statement with respect to any series of bonds 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 Agreements 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, upon the determination of the terms of a series or subseries of Bonds (within the limitations set forth herein) and the execution of the Bond Purchase Agreement with respect to such series or subseries of Bonds by the Corporation and the applicable Underwriter, the City Finance Officer is hereby authorized and directed to execute the Bond Purchase Agreement with respect to such series or subseries of Bonds 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, that the Series 2007C Amendment is hereby approved, and the City Finance Officer is hereby authorized and directed to execute, acknowledge and

deliver the Series 2007C Amendment on behalf of the City in such form as may be approved by the City Finance Officer, such approval to be evidenced conclusively by his execution of the Series 2007C Amendment.

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 Indentures, the Loan Agreements, the Joint Powers Agreement, the Series 2007C Amendment or the Bond Purchase Agreements, 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 Agreements, the Bond Indentures, the Series 2007C Amendment, the Joint Powers Agreement and the Bond Purchase Agreements as the City official authorized to execute on behalf of the City certificates, requests or consents as provided in the Loan Agreements, the Bond Indentures, the Series 2007C Amendment, the Joint Powers Agreement and the Bond Purchase Agreements.

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.

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						
							Glidden						
Ostrow							Schiff						
Gordon							Remington						
Hofstede							Benson						
Samuels							Colvin Roy						
Lilligren							Hodges						

PASSED _____
 VETOED _____

APPROVED NOT APPROVED

DATE

ATTEST _____
 CITY CLERK

 MAYOR DATE