

HOUSING AND REDEVELOPMENT AUTHORITY OF THE CITY OF SAINT PAUL, MINNESOTA

REPORT TO THE COMMISSIONERS

DATE: DECEMBER 14, 2016

REGARDING: RESOLUTION AMENDING RES PH #16-419 AND WAIVING INTERNAL POLICY ON CONDUIT DEBT TO AUTHORIZE THE ISSUANCE AND SALE OF CONDUIT SENIOR HOUSING AND HEALTH CARE REVENUE REFUNDING BONDS IN DENOMINATIONS OF \$25,000 FOR THE CARONDELET VILLAGE PROJECT, 525 FAIRVIEW AVENUE SOUTH, AND APPROVING RELATED DOCUMENTS, DISTRICT 15, WARD 3

Requested Board Action

The requested action includes authorization to issue conduit revenue refunding bonds for CV Senior Housing LLC (the “Borrower”) with \$25,000 minimum denominations instead of the \$100,000 minimum denominations authorized in the original resolution approved on November 9, 2016.

Background

On November 9, 2016, the HRA Board approved Resolution RES PH #16-419 authorizing the issuance of up to \$50M in refunding bonds for the Carondelet Village housing project (Series 2016A: \$36.5M publicly offered & Series 2016B: \$10.5M privately placed with the Sisters of Carondelet). The resolution required \$100,000 minimum denominations consistent with our conduit bond policy for the non-rated Series 2016A bonds, and that each initial purchaser execute an investor letter. (Background information on RES PH #16-419 is attached.)

Piper Jaffray brought the \$36.5M bond offering to the investor market just before the HRA action, and was scheduled to price the Series 2016A bonds two weeks later, which followed the presidential election. They have not been able to price the transaction to a level that achieves Carondelet’s annual savings amount of \$400,000 for the total debt service, including the Series 2016B bonds, set by their Board, due to turmoil in the fixed income markets. The index that broker/dealers use to sell tax-exempt bonds known as the Municipal Market Data (“MMD”) has increased 0.57% since the election and the benchmark 10-year Treasury Note has increased 0.48% since the election. Additionally many large institutional investors are not currently purchasing tax-exempt bonds, but instead are investing in the stock market. Piper Jaffray, on behalf of the Borrower, is requesting that the HRA reduce the minimum denominations to

\$25,000 with an investor letter in order for the transaction to proceed this year. With the lower minimum denominations, they will be able to market the Series 2016A bonds to retail investors, money managers and/or smaller institutional buyers. If we do not approve the change they will likely pull the transaction and wait until 2017.

The minimum denominations are set by the PED Credit Committee, based on PED and Finance staff recommendations, to ensure that only sophisticated investors hold the bonds and that they understand that neither the City nor HRA is backing the repayment. The request for the lower minimum denominations would still require each initial purchaser to execute an investor letter certifying their sophistication and understanding of the risk, etc., and only apply to the publicly-offered Series 2016A bonds.

Budget Action

N/A

Future Action

N/A

Financing Structure

If the resolution is approved, the Series 2016A bonds will be sold in minimum denominations of \$25,000 with an investor letter, which requires a waiver of the HRA's internal conduit bond policy for non-rated obligations. The Series 2016B obligations will be taxable and not issued by the HRA.

- Piper Jaffray is the underwriter for the publicly-offered tax-exempt Series 2016A bonds. The 2016A bonds will be non-rated, fixed rate bonds sold in an estimated principal amount of \$38,820,000, with a final maturity date of 12/1/2047 (31 years), and estimated average interest rate of 4.84%. The Series 2016A bonds will be sold on a negotiated-sale basis to the retail and institutional investor marketplace to qualified institutional buyers or accredited investors.
- The Series 2016B obligations will be taxable, subordinate debt not issued by the HRA. The Series 2016B obligations will be purchased by the Sisters of St. Joseph, in the

estimated principal amount of \$10,500,000 with an estimated interest rate of 5.00%, and a final maturity date of 12/1/2047.

The total cost of the financing is currently estimated to total \$51,744,766 as shown below:

Sources of Funds	Amount
Proceeds from Series 2016A	38,820,000
Original Issue Discount Series 2016A	(\$657,281)
Proceeds from Series 2016B	10,500,000
Transfer from 2010 Bonds DS Fund	941,918
Transfer from 2010 Bonds DSR Fund	2,140,129
Total Sources	\$51,744,766

Uses of Funds	Amount
Series 2010 Refunding Escrow	\$49,703,317
Debt Service Reserve Fund	1,196,261
Costs of Issuance/Misc.	845,188
Total Uses	\$51,744,766

As a result of the refunding, the annual debt service will be reduced by approximately \$400,000, and the final maturity will be extended five years to 12/1/2047.

PED Credit Committee Review

The PED Credit Committee reviewed the request for the waiver on December 5, 2016. Staff recommended approval for two reasons: 1) The bonds to be refunded were issued in \$25,000 minimum denominations when they were issued in 2010 (a waiver was approved by the HRA Board authorizing the sale of the bonds); and 2) The bond market is in flux right now and this change would open this transaction to more investor participants to increase the likelihood that the refunding will be able to occur. The PED Credit Committee approved the request for the waiver of the minimum denominations.

Compliance

N/A

Green/Sustainable Development

N/A

Environmental Impact Disclosure

N/A

Historic Preservation

N/A

Public Purpose

The public purpose is providing necessary housing opportunities for seniors in a variety of care levels, and to improve the health and safety of the residents through an integrated services center. The proposed refunding will reduce debt service for the Borrower and enable the housing opportunities to continue long-term.

Recommendation:

HRA Executive Director recommends approval of the attached resolution which authorizes the issuance of conduit revenue refunding bonds for CV Senior Housing LLC (the “Borrower”) with \$25,000 minimum denominations instead of the \$100,000 minimum denominations authorized in the original resolution.

Sponsored by: Commissioner Tolbert

Staff: Jenny Wolfe, 266-6680

Attachment:

- Attachment – Background Information