

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

REPORT TO THE COMMISSIONERS

DATE: May 27, 2015

REGARDING: **RESOLUTION GIVING APPROVAL TO A PROJECT; AUTHORIZING THE ISSUANCE AND SALE OF CONDUIT REVENUE BONDS UNDER MINNESOTA STATUTES, SECTIONS 469.152 THROUGH 469.165, AS AMENDED; AND AUTHORIZING THE EXECUTION OF NECESSARY DOCUMENTS (HEALTHEAST CARE SYSTEM) Districts 4, 7, 13, 17 and Wards 1, 2, 4, 6**

Requested Board Action

Staff requests HRA approval for the issuance of conduit hospital facility revenue bonds for the HealthEast Care System, a nonprofit corporation (the “Borrower”), in an amount not to exceed \$360,000,000; and approval of related documents.

Background

HealthEast operates a diversified health care system that provides a continuum of health services, including acute-care, rehabilitation, chronic care, in-patient and out-patient surgery, primary care, hospice, home care, and medical transportation through its four hospitals (St. Joseph’s, Bethesda, St. Johns and Woodwinds), two surgery centers, and 14 primary care clinics, plus other facilities.

The HRA has received a request from HealthEast Care System to issue up to \$360,000,000 in conduit revenue bonds (the “Series 2015 Bonds”) to:

- Refund \$192,475,000 of bonds issued by the HRA in 2005;
- Refinance \$60,000,000 of a taxable loan;
- Purchase the HealthEast Midway office at 1690 University Avenue West from the Port Authority through redemption of Port Authority bonds issued in 2005 (the “Port Bonds”); and
- Finance and refinance improvements made to HealthEast facilities in Saint Paul and Woodbury.

The proceeds from the bonds issued by the HRA in 2005 were used to expand and renovate St. Joseph's Hospital, and to refund bonds previously issued in 1993, 1994 and 1996.

The Saint Paul facilities impacted by the Series 2015 Bonds include: St. Joseph's Hospital, Bethesda Hospital, the HealthEast Midway Office, and the HealthEast Medical Transportation facility located at 799 Reaney Avenue. A map of these facilities is included in Attachment B.

The City of Woodbury will hold a public hearing and consider a resolution approving the bond issuance for the HealthEast project in Woodbury on May 27. The Port Authority Board of Commissioners will consider a resolution on May 26 to authorize the refunding of the Port Bonds.

Budget Action

This is a conduit bond issue. The bonds shall not constitute an indebtedness, liability, general or moral obligation, or pledge of the faith or credit or taxing power of the HRA, City of Saint Paul, or any agency or political subdivision thereof, and shall not constitute indebtedness of any of the foregoing within the meaning of any constitutional, statutory, or charter provision, nor be a charge against their respective general assets, credit or taxing powers, and do not grant the owners or holders of the bonds any right to have the HRA, City of Saint Paul or any agency or political subdivision thereof to levy any taxes or appropriate any funds for the payment of the principal thereof or interest thereon. Principal and interest on the bonds are payable solely out of the revenues and other sources pledged to the payment thereof as described in the bond documents.

Future Action

No future action is needed.

Financing Structure

Hammond Hanlon Camp, LLC (H2C) is serving as Financial Advisor to HealthEast for the bond financing. The current structure proposes four series of bonds, with a single series comprising a fixed rate tax-exempt public offering in the approximate principal amount of \$151,720,000 (Series 2015A), and three series comprising taxable variable rate direct placements with lenders

in the approximate principal amount of \$133,665,000 (Series 2015B, 2015C, 2015D) (collectively the “Series 2015 Bonds”). The Series 2015A Bonds will be initially purchased by the lead underwriter, J.P. Morgan Securities; the lenders for the Series 2015B, 2015C and 2015D Bonds include JPMorgan Chase, Fifth Third and Siemens. The final maturity for all series of bonds will be November 15, 2044.

The Series 2015 Bonds will be rated by Fitch and Standard & Poor’s. A rating in the BBB category is projected. The Series 2015 Bonds will be issued in minimum bond denominations depending on the rating, consistent with PED’s conduit bond policy. The resolution authorizes the issuance of the Series 2015 Bonds in minimum denominations of \$25,000 subject to obtaining a rating in at least the BB category; in minimum denominations of \$5,000 subject to obtaining a rating in the BBB category or higher; or otherwise the Bonds will be issued in minimum denominations of \$100,000.

The current estimated sources and uses for the transaction are shown in the table below:

Sources of Funds	Public Offering Series 2015A	JP Morgan Series 2015B	Fifth Third Series 2015C	Siemens Series 2015D	Total Sources
Bond Principal	\$151,720,000	\$56,055,000	\$49,190,000	\$28,420,000	\$285,385,000
Premium	9,772,829	-	-	-	9,772,829
Transfer - DSR Fund	9,906,537	2,679,990	5,106,426	-	17,692,953
Transfer - Bond Fund	706,780	191,203	364,317	-	1,262,300
Total Sources	\$172,106,146	\$58,926,193	\$54,660,743	\$28,420,000	\$314,113,082

Uses of Funds	Series 2015A	Series 2015B	Series 2015C	Series 2015D	Total Uses
Refunded Principal	\$165,185,000	\$51,682,565	\$52,670,000	\$21,987,435	\$291,525,000
Escrow Dep./Interest	3,599,908	929,723	1,575,891	74,440	6,179,962
HealthEast Expenses	-	5,000,000	-	5,000,000	10,000,000
Prepayment Penalty	1,051,296	834,340	-	1,114,364	3,000,000
Costs of Issuance	2,269,942	479,565	414,852	243,761	3,408,120
Total Uses	\$172,106,146	\$58,926,193	\$54,660,743	\$28,420,000	\$314,113,082

As a result of this bond issuance, HealthEast will achieve significant cash flow savings over the next several years with the restructuring of principal payments and lower interest costs.

PED Credit Committee Review

The PED Credit Committee reviewed the proposal for conduit bonds on May 18, 2015, and found it to be consistent with PED's conduit bond policy.

Compliance

The proceeds from the Series 2015 Bonds will not be used for construction in Saint Paul, therefore vendor outreach and labor standards will not apply. HealthEast is aware of our Affirmative Action requirements in Chapter 183.04 and will be submitting an Affirmative Action Plan to the City.

Green/Sustainable Development

N/A

Environmental Impact Disclosure

N/A

Historic Preservation

N/A

Public Purpose/Comprehensive Plan Conformance

HealthEast is an important health care institution in Saint Paul employing 4,183 in the City and 7,174 statewide. The proposed conduit bond issuance will improve the financial condition of their organization.

Statement of Chairman (for Public Hearing)

“Being duly authorized by the Board of Commissioners to conduct this Public Hearing, the hearing is now open. This is a Public Hearing called for the purpose of approving the issuance of approximately \$360 million in conduit revenue bonds by the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota (HRA) for the HealthEast Care System Project. Notice of time, place, and purpose of this hearing was published in the Legal Ledger, the official newspaper of the Authority on the 11th and 14th of May, 2015, and in the Pioneer Press, a newspaper of general circulation in the City on the 9th and 14th of May, 2015. The Affidavits of

Publication of each of the Notice of Public Hearing will be made a part of these proceedings. Is there anyone who wishes to be heard on this matter? If not, the Chair will declare this Public Hearing adjourned.”

Recommendation:

HRA Executive Director recommends approval of the Resolution which provides authorization for the issuance of up to \$360,000,000 in conduit revenue bonds for HealthEast Care System and approving related documents.

Sponsored by: Commissioner Thune

Staff: Jenny Wolfe, 266-6680

Attachments

Attachment B – Map of Facilities in Saint Paul