

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

REPORT TO THE COMMISSIONERS

DATE: October 10, 2012

**REGARDING: RESOLUTION OF THE HOUSING AND REDEVELOPMENT AUTHORITY OF THE CITY OF SAINT PAUL, MINNESOTA, APPROVING ISSUANCE OF REFUNDING BONDS UNDER THE MINNESOTA MUNICIPAL INDUSTRIAL DEVELOPMENT ACT, AND APPROVING AND AUTHORIZING THE EXECUTION OF DOCUMENTS IN CONNECTION THEREWITH.
(HealthEast Care System Project) (Citywide)**

Requested Board Action

Approval for the HRA to issue conduit hospital facility revenue bonds (“Revenue Bonds”) for HealthEast Care System in an amount not to exceed \$41 million to refund revenue bonds originally issued by the Washington County HRA in 1998 (“Prior Bonds”). The specific actions being requested of the HRA Board are as follows:

- Approve issuance of Revenue Bonds;
- Approval of documents, including, The Loan Agreements, The Revenue Bonds, The Series 2012C Bond Indenture, The Master Notes; The Second Amendment to Mortgage and Memorandum of Understanding; all in substantially final form and on file with the HRA; and
- Designate Briggs and Morgan, Professional Association, as bond counsel.

Background

In July, 1998, the Washington County HRA issued \$49.135 million of Series 1998 revenue bonds to finance the construction and equipping of the HealthEast Woodwinds facility located in Woodbury, Minnesota. The Borrower, HealthEast Care System, is proposing the refunding as an opportunity to reduce interest costs through a lower interest rate and to reduce their outstanding principal by use of the debt service reserve, and desires to complete the refunding transaction with Briggs and Morgan (Bond Counsel). The Washington County HRA’s conduit bond policy would not enable the use of Briggs and Morgan as Bond Counsel to complete the refunding. HealthEast requested that the HRA complete the refunding since earlier this year we issued \$10.905 million in refunding bonds using Briggs and Morgan as Bond Counsel for the

HealthEast Care System. The overall HealthEast Care System, which includes St. Joseph's Hospital in St. Paul, benefits from the completion of the refunding by reducing borrowing costs. The Washington County HRA consented to the St. Paul HRA's issuance of the refunding bonds, a requirement of MN Statutes 469.155.

Additionally, the following conduit debt of the HRA and Port Authority remain outstanding:

- HRA jointly issued new money and refunding bonds in 2005 for HealthEast to finance projects including the St. Joseph's Hospital expansion and refund bonds previously issued in 1993, 1994 and 1996. The total outstanding principal as of 8/31/2012 is \$195 million.
- The Port Authority issued two series of Lease Revenue Bonds in 2005 for the HealthEast Midway Campus Project. The total outstanding principal as of 8/31/2012 is \$22,335,000 (Series 2005-3A) and \$14,055,000 (Series 2005-3B).

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 further action is required. The requested action provides all necessary approvals. A closing is anticipated to occur within 30 days.

Financing Structure

The bonds will be structured in two series and directly purchased with fixed interest rates as follows: approximately \$26 million will be purchased by Siemens Financial Services, Inc. with a ten year term (2022), annual interest rate estimated at 3.55%, and \$9 million balloon due at maturity; approximately \$15 million will be purchased by GE Financial Services, Inc. also with a ten year term and annual interest rate estimated at 3.82%. The maturity date is five years earlier than under the Prior Bonds. The Bond Purchasers will execute an investor letter. See **Attachment B** for a financing summary prepared by Bank of America Merrill Lynch which includes a Sources and Uses of Funds and Debt Service Schedule projected as of 9/25/2012.

The existing debt service reserve fund and debt service fund associated with the Prior Bonds (expected to be \$4,500,000 and \$5,836,000 respectively) will be utilized to pay interest and redeem a portion of the currently outstanding bonds.

Finance Team

The Finance Team includes GE Government Finance Inc. and Siemens Public Inc. (bond purchasers), Briggs & Morgan (bond counsel), Wells Fargo Corporate Trust (trustee), and Bank of America Merrill Lynch (placement agent).

PED Credit Committee Review

Credit Committee reviewed the refunding on October 1, 2012 and found that the transaction is consistent with PED's conduit bond policy in relation to the structure and fees.

Compliance

N/A - Bond refinancing only, no new construction.

Green/Sustainable Development

N/A - Bond refinancing only, no new construction.

Environmental Impact Disclosure

N/A - Bond refinancing only, no new construction.

Historic Preservation

N/A

Public Purpose/Comprehensive Plan Conformance

The Comprehensive Plan includes Land Use Plan Strategy 2.8 -- Work with health care institutions to assess proposed development projects, including expansion of facilities beyond their existing campuses.

The statutory authority requires that the refunding (the Project) furthers the purposes stated in Section 469.152, Minnesota Statutes; that the effect of the Project, if undertaken, will be to help assure that adequate health care services will be made available to the residents of the state and the City at reasonable costs and will otherwise further those other purposes set forth in Minnesota Statutes, Section 469.152.

Recommendation:

The HRA Executive Director recommends adoption of the attached Resolution (**Attachment A**) authorizing the issuance of up to \$41 million in conduit revenue bonds to refund the Prior Bonds.

Sponsored by: Dave Thune

Staff: Jenny Wolfe, 266-6680

Attachments

- **Attachment A -- Resolution**
- **Attachment B – Financing Summary**