

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

**REPORT TO THE COMMISSIONERS**

**DATE: July 12, 2017**

**REGARDING: RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF  
CONDUIT REVENUE BONDS ON BEHALF OF FAIRVIEW  
HEALTH SERVICES, WITH MULTIPLE FACILITIES LOCATED IN  
SAINT PAUL, UNDER MINNESOTA STATUTES 469.152  
THROUGH 469.1655, AND THE EXECUTION OF RELATED  
DOCUMENTS Districts 7 and 17 and Wards 1 and 2**

## **Requested Board Action**

Staff requests HRA approval for the issuance of conduit health care system revenue bonds for Fairview Health Services, a nonprofit corporation (the “Borrower”), in an amount not to exceed \$225,000,000; and execution of related documents.

## **Background**

The Borrower is an integrated academic health system, and along with its affiliates and subsidiaries, one of the leading health care providers in Minnesota. The Borrower offers a broad continuum of health care services through its hospitals, clinics and other facilities in the metropolitan area, as well as in communities throughout greater Minnesota and the upper Midwest. It owns and operates the University of Minnesota Medical Center, including the University of Minnesota Masonic Children’s Hospital, the teaching hospital of the University of Minnesota. In total, the Borrower operates over 119 primary and specialty care clinics, six ambulatory care centers, over 40 retail and specialty pharmacies, as well as senior care housing and long-term care facilities, hospice and home care, medical transportation and an insurance plan.

On June 1, 2017, Fairview Health Services acquired the HealthEast Care System. Fairview Health Services and HealthEast provided care in complementary service areas, with HealthEast serving Saint Paul and the east metro, and Fairview Health Services serving the west, south, central and north metro as well as northern Minnesota. A map of the HealthEast hospital facilities located in Saint Paul (St. Joseph’s and Bethesda) is attached. Combining the two

organizations created synergies that enable the Borrower to meet the challenges of a rapidly-evolving health care market.

The HRA has received an application from the Borrower to issue up to \$225,000,000 in conduit revenue bonds (the “Series 2017 Bonds”) to:

- Refund \$140,860,000 of the Series 2015A bonds issued by the HRA for HealthEast (which bonds refunded prior HRA issued bonds for HealthEast facilities located throughout Saint Paul and other locations in the east metro);
- Refund \$24,320,000 of the Series 2012 B/C bonds issued by the HRA for HealthEast (which bonds refinanced construction of the HealthEast Woodwinds Hospital in Woodbury); and
- Refinance Fairview Health Services debt related to the Grand Itasca Clinic and Hospital in Grand Rapids, MN, with an estimated outstanding balance of \$31,600,000 (which obligations were used to purchase the facility in early 2017).

The Borrower is pursuing this transaction in order to consolidate HealthEast debt under the Fairview Health Services Master Trust Indenture (relating to existing Fairview Health Services debt), allowing the simplification of disclosure and reporting, as well as the elimination of operational constraints due to bond covenants. In order to achieve their goals, the Series 2017 Bonds need to close within six months of the June 1 acquisition date. As detailed above, Fairview Health Services has primarily operated in Minneapolis and adjacent metro area, along with northern Minnesota and will expand their coverage into Saint Paul and the east metro with the acquisition of HealthEast. Fairview Health Service’s existing debt consists primarily of tax-exempt borrowing done through the City of Minneapolis. The intention going forward, after this bond issue is completed, will be for the HRA and City of Minneapolis to jointly issue debt to benefit the Borrower’s system serving the greater metro area (similarly to Allina Health and Children’s Hospitals).

The HRA also issued taxable bonds for HealthEast in 2015 (Series 2015 B/C/D). These bonds will be refunded directly by the Borrower.

**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. The bond closing is scheduled to be completed in August, 2017.

**Financing Structure**

The Borrower is working with Citigroup Global Markets Inc. and RBC Capital Markets, LLC to underwrite the bond financing. The Series 2017 Bonds will be sold as rated, fixed-rate, tax-exempt bonds with an anticipated final maturity of November 15, 2047, and net interest cost of 4.40%. The Borrower is seeking a rating from Moody's and S&P, and expects to receive a rating in the single "A" category. If this rating is achieved, the Series 2017 Bonds will be sold in \$5,000 minimum denominations, in accordance with our conduit bond policy. The Borrower is currently rated A2 and A+.

The estimated financing sources and uses for the transaction are shown in the table on the following page:

**Estimated Financing Sources and Uses:**

	<b>HealthEast Refunding</b>	<b>Grand Itasca Refinancing</b>	<b>Total Series 2017</b>
<b><u>Sources of Funds</u></b>			
Par Amount of Bonds	\$162,215,000	\$28,125,000	\$190,340,000
Premium	\$23,684,015	\$3,761,438	\$27,445,453
<b>Total Sources of Funds</b>	<b>\$185,899,015</b>	<b>\$31,886,438</b>	<b>\$217,785,453</b>
<b><u>Uses of Funds</u></b>			
Refunding of Series 2015A	\$163,054,837		\$163,054,837
Refunding of Series 2012 B/C	\$21,220,000		\$21,220,000
Refinancing of Grand Itasca Debt		\$31,600,000	\$31,600,000
Costs of Issuance/Underwriter Disc.	\$1,624,178	\$286,438	\$1,910,616
<b>Total Uses of Funds</b>	<b>\$185,899,015</b>	<b>\$31,886,438</b>	<b>\$217,785,453</b>

**PED Credit Committee Review**

The PED Credit Committee will review the proposal for conduit bonds on July 10, 2017, for adherence with PED's conduit bond policies.

**Compliance**

The proceeds from the Series 2017 Bonds will not be used for construction in Saint Paul, therefore vendor outreach and labor standards will not apply. The Borrower 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**

The Borrower employs a combined 32,700 in Minnesota, with 5,200 located in Saint Paul. The Borrower works to improve the health of communities within Minnesota, and is dedicated to providing health and well-being programs and services that meet the needs of a diverse clientele. Saint Paul residents and those who have been served by HealthEast facilities will benefit from the Borrower's expanded health system. The proposed financing will improve the financial condition of the Borrower.

**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 \$225 million in conduit revenue bonds by the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota (HRA) for Fairview Health Services. Notice of time, place, and purpose of this hearing was published in the Legal Ledger, the official newspaper of the Authority on the 26<sup>th</sup> of June, 2017, and in the Pioneer Press, a newspaper of general circulation in the City on the 24<sup>th</sup> of June, 2017. 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:**

The HRA Executive Director recommends approval for the issuance of conduit health care system revenue bonds for Fairview Health Services in an amount not to exceed \$225,000,000; and execution of related documents.

**Sponsored by: Commissioner Noecker**

**Staff:** Jenny Wolfe, 266-6680

**Attachments**

**Attachment** – Map of Hospital Facilities in Saint Paul