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**CITY OF SAINT PAUL**  
**INTRODUCTION TO CONDUIT REVENUE  
BONDS FOR CHILDREN'S HEALTH CARE**

December 4, 2024



# CONDUIT REVENUE BONDS FOR NONPROFIT

- Conduit revenue bonds are special, limited revenue obligations of the governmental issuer (i.e., the HRA or City) and generally provide tax-exempt interest rates for the borrower
- The bonds are repayable solely from the revenues of the borrower and not of the governmental issuer
- The bonds do not include a general or moral obligation of the governmental issuer and are not secured by any taxing powers of the governmental issuer

**The HRA and City undertake no risk by issuing the bonds**

**A nonprofit borrower cannot access tax-exempt financing without a conduit issuer (governmental issuer)**



## CONDUIT REVENUE BONDS FOR NONPROFIT

- The conduit borrower secures the loan funds either through a private lender or a bond underwriter
- The HRA serves only as a conduit for project financing, therefore due diligence into the project and the entities involved is completed by the private lender or bond underwriter
- If a conduit borrower defaults on their obligation, there is not any adverse impacts to the HRA or City
- In the absence of this type of financing, conventional financing (i.e., taxable interest rates) could be sought for the project.



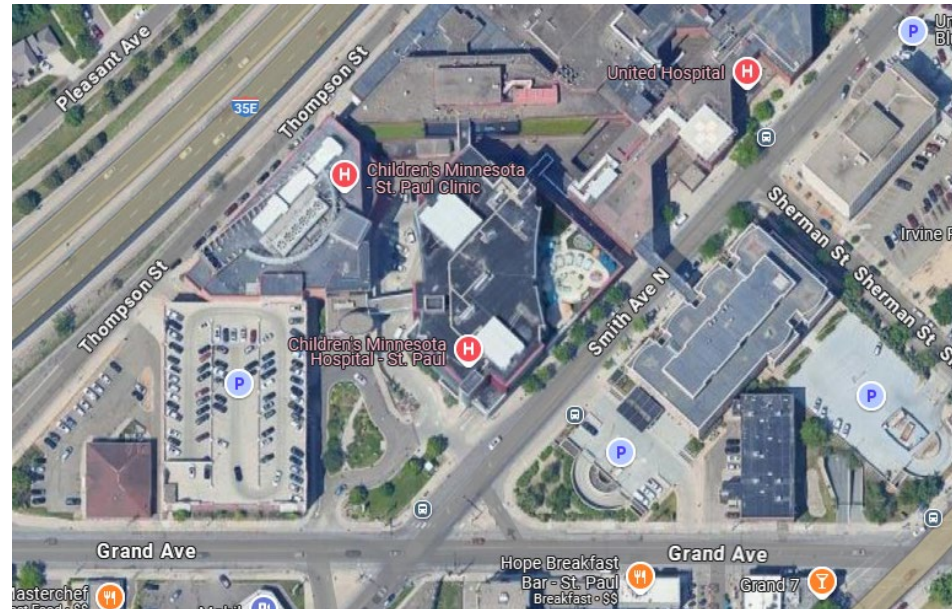
## CONDUIT REVENUE BONDS FOR NONPROFIT

- The HRA issues conduit revenue bonds for organizations who are tax exempt under Section 501(c)(3) of the Internal Revenue Code (nonprofit entities)
  - Including **Hospitals and health care providers**
- There is no limit on the amount of bonds the HRA can issue for qualified 501c3 organizations (nonprofit entities)
- Minnesota statutes enable two or more governmental entities to jointly issue bonds for qualifying projects
- The HRA and Minneapolis have a long history of jointly issued conduit revenue bonds for the Children's Health Care organization, with the most recent transaction issued in October 2020



# CHILDREN'S HEALTH CARE PROPOSAL

Children's Health Care is a Minnesota nonprofit corporation that provides a broad range of pediatric health care services for the treatment and care of infants, children, and adolescents in the upper Midwest, including the promotion and administration of charitable care, research, and educational activities. Children's owns and operates two tertiary acute care facilities: Children's - Minneapolis; and **Children's - Saint Paul, located at 345 Smith Avenue**



Children's employs 6,146 full and part-time employees in Minnesota, including 1,443 in Saint Paul.





## CHILDREN'S HEALTH CARE PROPOSAL

- Application to the HRA to jointly issue up to \$221 million in conduit revenue bonds with Minneapolis, to refinance/refund the 2020 bonds and finance new projects, **including \$61.9 million to benefit Saint Paul**, as follows:
  - an electronic medical records system (\$31.19 million allocated to Saint Paul facility);
  - Purchase and expansion of Garden View medical building (est. \$16 million for purchase and \$4 million for expansion);
  - Renovation of pharmacy clean room and surrounding area (est. \$6 million); and
  - Renovation of emergency room (est. \$2 million).



## CHILDREN'S HEALTH CARE PROPOSAL

- The proposed bonds will be sold as fixed rate tax-exempt revenue bonds through a public offering underwritten by JP Morgan and Piper Sandler.
- The bonds will be rated, based solely on Children's credit. Children's is currently rated by both Fitch (AA) and S&P Global (AA-).
- The expected final maturity is 8/15/2044, which increases the final maturity by 7 years from the 2020 bonds to be refunded.
- Estimate \$75 million for refunding, ~\$147 million for new spending and ~\$2 million for financing costs



## CHILDREN'S HEALTH CARE PROPOSAL

- As stated earlier, conduit revenue bonds are special, limited revenue obligations of the governmental issuer and are repayable solely from the revenues of the borrower and not of the governmental issuer
- The bonds do not include a general or moral obligation of the City, HRA or Minneapolis and are not secured by any taxing powers of the City, HRA or Minneapolis
- The HRA receives fees for issuing the bonds
  - Past practice includes utilizing Minneapolis' fee structure, which enables the HRA to share 50% of the total fees generated
- The HRA is currently collecting fees from the 2020 bonds and project increased fees with the additional 7 years of collections





## GOVERNMENTAL APPROVALS

- The HRA Board is required to authorize the issuance of the bonds and to hold a public hearing
- The City Council is also required to approve the public hearing as the elected representative of the governmental unit
- Resolutions will be considered by both the HRA Board and City Council on December 11
- Children's anticipates closing on the financing in February and completing the projects in Saint Paul during 2025 and 2026



## COMPLIANCE REQUIRED FOR CONDUIT REVENUE BONDS

- The following compliance will be required for the Saint Paul project:
  - Affirmative Action/Equal Employment Opportunity (AA/EEO) – Requiring all contractors/subs to have goals for project hours for minorities and women; and to file an affirmative action program registration to diversify and implement fair employment practices with its workforce
  - Prevailing wages on construction labor requiring onsite workers whose duties are physical or manual to be paid weekly minimum prevailing rates including fringe benefits
  - Vendor Outreach Program – project-specific goals for purchasing goods and services from certified Small, Women-Owned and Minority-Owned businesses



# CHILDREN'S HEALTH CARE PROPOSAL

- The following members of the Children's Health Care team are here to address the HRA Board and answer any questions:
  - Brenda McCormick – Chief Financial Officer and Senior Vice President
  - Amanda Jansen – Director of Public Policy
  - Dr. Emily Chapman – Chief Medical Officer and Senior Vice President of Medical Affairs



# Questions?

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