

Legislation Details (With Text)

File #: 22-11 **Version:** 1

Type: Resolution **Status:** Passed

In control: City Council

On agenda: 1/24/2022 **Final action:** 1/24/2022

Title: Conduit financing for the Hospital Facility Authority of the City of Salem.

Ward(s): All Wards
Councilor(s): All Councilors
Neighborhood(s): All Neighborhoods
Result Area(s): Good Governance; Safe, Reliable and Efficient Infrastructure.

Sponsors:

Indexes:

Code sections:

Attachments: 1. Memorandum regarding Hospital Facility Authority Duties and Responsibilities, 2. Resolution 2022-2, 3. Affidavit of Publication, 4. Hospital Facility Authority Public Hearing Report, 5. Agreement Regarding City Costs and Liabilities, 6. Conduit Financing Primer, 7. Memorandum from Carol McCoog

Date	Ver.	Action By	Action	Result
1/24/2022	1	City Council	approved	Pass

TO: Mayor and City Council

THROUGH: Steve Powers, City Manager

FROM: Josh Eggleston, AIC Chief Financial Officer

SUBJECT:

Conduit financing for the Hospital Facility Authority of the City of Salem.

Ward(s): All Wards
Councilor(s): All Councilors
Neighborhood(s): All Neighborhoods
Result Area(s): Good Governance; Safe, Reliable and Efficient Infrastructure.

SUMMARY:

Approval of the resolution will provide conduit financing for revenue bonds on behalf of Capital Manor continuing care retirement facilities located in Salem. The Authority is the actual issuer of the bonds and the City's approval is required for the sole purpose of complying with Internal Revenue Service regulations.

ISSUE:

Shall the City Council adopt Resolution No. 2022-2 authorizing the approval of revenue bonds, in one or more series, to be issued by the Hospital Facility Authority of the City of Salem, Oregon, in an aggregate principal amount not to exceed \$70,000,000, and authorizing the City Manager to enter into an agreement with Capital Manor, indemnifying the City from all claims arising from the City's participation in the approval and use of the bonds?

RECOMMENDATION:

Adopt Resolution No. 2022-2 authorizing the approval of revenue bonds, in one or more series, to be issued by the Hospital Facility Authority of the City of Salem, Oregon, in an aggregate principal amount not to exceed \$70,000,000, and authorizing the City Manager to enter into an agreement with Capital Manor, indemnifying the City from all claims arising from the City's participation in the approval and use of the bonds.

FACTS AND FINDINGS:

The bonds will not constitute a debt or obligation of the City of Salem, nor shall the revenue bonds be payable from a tax of any nature levied upon any property within the City of Salem nor within any other political subdivision of the State of Oregon.

The Hospital Facility Authority has approved the issuance of revenue bonds and has requested that the City Council approve this issuance for the limited purpose of allowing the revenue refunding bonds to bear interest excludable from gross income for federal income tax purposes under the Code. The Authority has established and will follow and maintain tax guidelines to help ensure that the tax-exempt status of its obligations is maintained for the life of those obligations. Additionally:

- The Authority has employed Orrick, Herrington & Sutcliffe LLP, as bond counsel and special counsel to the Authority on all matters related to the revenue bonds. The City has employed Hawkins, Delafield and Wood LLP as bond counsel and special counsel on matters related to the bonds. Carol McCoog of Hawkins, Delafield and Wood has provided a memo to Council on this matter (attachment 7).
- As required by the Code, the Authority conducted a public hearing on January 10, 2022 to allow members of the public to express their views, orally or in writing, regarding the issuance of the revenue bonds and the use of the bond proceeds. Notification of the public hearing was published in the *Salem Statesman Journal* on January 3, 2022. A copy of the Affidavit of Publication of the Notice of Public Hearing is attached to this report (attachment 3), as well as a copy of the Public Hearing Report (attachment 4).
- City Council approval via resolution is a prerequisite to issuance of the revenue refunding bonds. Without that approval, the bond issue cannot proceed. Bonds issued by the Authority

are conduit revenue bonds, and the proceeds of the bonds are loaned to a qualified private, non-profit entity, which in this case is Capital Manor.

- The City and the Borrower will enter into an “Agreement Regarding City Costs and Liabilities” (attachment 5), indemnifying the City of Salem from all claims arising from the City’s participation in the approval of the Bonds for the acquisition, development, construction, improving, remodeling and equipping of the Borrower’s continuing care retirement facilities financed with the Bonds. The City of Salem will be compensated for all direct expenses related to the issuance of this debt plus a fee of \$10,000, whether the bonds are actually executed or not. The Borrower will assume and reimburse all costs of this bond issue, including trustee expenses, underwriter fees, and legal fees in connection with the issuance of the revenue bonds. The costs of bond counsel and special counsel for the Authority and the costs for counsel to the underwriter will also be paid by the Borrower.

BACKGROUND:

The Hospital Facility Authority of the City of Salem, Oregon (Authority), is a public authority created pursuant to State statute by the Salem City Council on September 24, 1973 (Resolution 73-272). The purpose of the Authority is to acquire, own, lease, sell and otherwise dispose of hospital facilities, and to authorize the issuance of bonds and other obligations in order to ensure that hospital facilities are provided in municipalities. Hospital facilities are defined to include adult congregate living facilities, such as Capital Manor’s continuing care retirement facilities. The Authority’s board members are appointed by the City Council. The Authority’s Bond Counsel, Douglas Goe, has provided a memo which details background information on the Authority, its purpose and the role of the City (attachment 1). Included in this report is a primer on conduit financing generally provided by the Authority’s Bond Counsel (attachment 6).

The Authority has recently approved a request by Capital Manor, INC a non-profit 501(c)(3) corporation (Borrower), to issue revenue bonds, in one or more series, and in an aggregate principal amount not to exceed \$70,000,000 to:

- Pay all or a portion of the costs or reimbursing costs, of capital projects at the Borrower’s continuing care retirement community;
- Refund the Authority’s Revenue Refunding Bonds (Capital Manor Project) Series 2012, dated June 13, 2012, and issued in the original aggregate principal amount of \$50,135,000;
- Fund a debt service reserve account, if necessary and;
- Pay certain costs of issuance of the Bonds.

Section 147(f) of the Internal Revenue Code of 1986 (the Code) requires that qualified 501(c)(3) obligations (in this case, the bonds) be approved: (1) the applicable elected representatives of the governmental unit having jurisdiction over the area in which the project is located; and (2) the applicable elected representative of the governmental unit issuing such obligations. The City Council fulfills both requirements.

In order to facilitate the debt issuance, the Authority has requested that the City Council adopt

Resolution No. 2022-2 (attachment 2) to authorize this issuance for the limited purpose of allowing the revenue bonds to bear interest that is excludable from gross income for federal income tax purposes under the Code.

Kelli Blechschmidt
Management Analyst I

Attachments:

1. Memorandum from Douglas Goe, Bond Counsel for the Hospital Facility Authority
2. Resolution No. 2022-2
3. Affidavit of Publication Providing Notice of the Public Hearing
4. Hospital Facility Authority Public Hearing Report
5. Agreement Regarding City Costs and Liabilities
6. Conduit Financing Primer provided by Orrick, Herrington & Sutcliffe, LLP
7. Memorandum from Carol McCoog, Bond Counsel for the City of Salem