



Staff Report

File #: 16-121

Version: 1

Date: 7/11/2016

Item #: 4.a.

TO: Mayor and City Council

THROUGH: Steve Powers, City Manager

FROM: Kacey Duncan, Deputy City Manager

SUBJECT:

Resolution No. 2016-31 Authorizing the Approval of Revenue Bonds Issued by the Hospital Facility Authority of the City of Salem, Oregon, in an Aggregate Principal Amount not to Exceed \$13,000,000.

Ward(s): All Wards

Councilor(s): All Councilors

Neighborhood(s): All Neighborhoods

ISSUE:

Shall the City Council adopt Resolution No. 2016-31 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 \$13,000,000, and authorizing the City Manager to enter into an agreement with the Yakima Valley Farm Workers Clinic indemnifying the City from all claims arising from the City's participation in the approval and use of the bonds?

RECOMMENDATION:

Adopt Resolution No. 2016-31 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 \$13,000,000, and authorizing the City Manager to enter into an agreement with the Yakima Valley Farm Workers Clinic indemnifying the City from all claims arising from the City's participation in the approval and use of the bonds.

SUMMARY AND 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 No. 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 that hospital facilities are provided in municipalities. The Authority's board members are appointed by the City Council.

Attached is a 2015 memo from the Authority's Bond Counsel, Doug Goe, which provides some background on the Authority, its purpose, and the role of the City (Attachment 1).

The Authority has recently approved a request by the Yakima Valley Farm Workers Clinic, a nonprofit 501(c)(3) corporation (Borrower), to help finance a multi-service clinic to be located at 255 Lancaster Drive NE, in unincorporated Marion County. The clinic will be owned and operated by the Borrower. The Authority is prepared to issue debt obligations, in one or more series, in an aggregate principal amount not to exceed \$13,000,000, to finance the project costs of the clinic.

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 by: (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 representatives of the governmental unit issuing such obligations.

Because the project is located outside of the corporate limits of the City of Salem, Marion County is the governmental unit having jurisdiction over the area in which the project is located. The Marion County Board of Commissioners held a public hearing on June 29, 2016, and issued an order consenting to the financing and authorizing an intergovernmental agreement with the Authority (Attachment 3).

In order to facilitate the debt issuance, the Authority has requested that the City Council adopt Resolution No. 2016-31 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. In addition, the Authority has requested that the City Council hold a public hearing in order to fulfill the legal requirements of the Code. The public hearing will provide a reasonable opportunity for members of the public to express their views, orally and in writing, regarding the purposes and proceeds of the bonds. The Authority has previously requested resolutions to finance improvements for the Salem Hospital and Capital Manor. Both of these previous requests were approved by the City Council.

FACTS AND FINDINGS:

1. Yakima Valley Farm Workers Clinic has requested that the Authority issue revenue bonds to finance the costs of, or the reimbursement for, the acquisition, design, development, remodel, construction, improvements, renovations, and equipping of a multi-service clinic. The clinic would offer medical; dental; pharmacy; laboratory; behavioral health; Women, Infants, and Children (WIC); and community health services and related facilities.
2. The 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 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.
3. 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.

4. As required by the Code, the City of Salem will conduct a public hearing on July 11, 2016, 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 June 27, 2016. A copy of the Affidavit of Publication of the Notice of Public Hearing is attached to this report (Attachment 4).
5. The Authority is the actual issuer of the bonds, not the City. The City's approval is required for the sole purpose of complying with Internal Revenue Service regulations. City Council approval via a resolution is a prerequisite to issuance of the revenue 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 the Yakima Valley Farm Workers Clinic. The revenue 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.
6. 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 or the construction, acquisition, operation, or use of the 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 reimbursed by the Borrower.

David Lacy
Senior Fiscal Analyst

Attachments:

1. Memorandum from Douglas Goe, Bond Counsel for the Hospital Facility Authority
2. Resolution No. 2016-31
3. Marion County Order Authorizing the Intergovernmental Agreement
4. Affidavit of Publication of the Notice of Public Hearing
5. Agreement Regarding City Costs and Liabilities

06/30/2016