



Staff Report

File #: 16-244

Version: 1

Date: 9/26/2016

Item #: 3.2b.

TO: Mayor and City Council

THROUGH: Steve Powers, City Manager

FROM: Kacey Duncan, Deputy City Manager

SUBJECT:

Resolution No. 2016-47 Authorizing the Approval of Revenue Refunding Bonds Issued by the Hospital Facility Authority of the City of Salem, Oregon, in an Aggregate Principal Amount not to Exceed \$225,000,000, to allow Salem Health to refinance certain bonded indebtedness

Ward(s): All Wards

Councilor(s): All Councilors

Neighborhood(s): All Neighborhoods

ISSUE:

Shall the City Council adopt Resolution No. 2016-47 authorizing the approval of revenue refunding 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 \$225,000,000, and authorizing the City Manager to enter into an agreement with Salem Health indemnifying the City from all claims arising from the City's participation in the approval and use of the bonds?

RECOMMENDATION:

Adopt Resolution No. 2016-47 authorizing the approval of revenue refunding 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 \$225,000,000, and authorizing the City Manager to enter into an agreement with Salem Health 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, Douglas Goe, which provides background information on the Authority, its purpose, and the role of the City (Attachment 1).

On September 20, 2016, the Board of the Authority conducted a required TEFRA hearing, and after considering the materials, and receiving no testimony, adopted a resolution approving a request by Salem Health (formerly known as Salem Hospital), a nonprofit 501(c)(3) corporation (Borrower), to issue revenue refunding bonds, in one or more series, and in an aggregate principal amount not to exceed \$225,000,000 to finance and/or refinance the costs of the following projects (collectively the Project):

1. Refund all or a portion of the Authority's Revenue Bonds (Salem Hospital Project), Series 2006A, dated November 15, 2006 and issued in the original aggregate principal amount of \$120,000,000 (the "2006A Bonds");
2. Refund all or a portion of the Authority's Revenue Bonds (Salem Hospital Project), Series 2008A, dated October 8, 2008 and issued in the original aggregate principal amount of \$59,710,000 (the "2008A Bonds");
3. Refund or restructure all or a portion of the Authority's Revenue Bonds (Salem Hospital Projects), Series 2013A and Series 2013B, each dated June 27, 2013 and issued in the original aggregate principal amount of \$70,000,000 (the "2013 Bonds" and together with the 2006A Bonds and the 2008A Bonds, the "Refunded Bonds"); and
4. Pay 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 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. The City Council fulfills both requirements.

In order to facilitate the debt issuance, the Authority has requested that the City Council adopt Resolution No. 2016-47 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.

FACTS AND FINDINGS:

- Salem Health has requested that the Authority issue revenue refunding bonds to finance and/or refinance the costs of the following Project:
 1. Refund all or a portion of the Authority's Revenue Bonds (Salem Hospital Project), Series

2006A, dated November 15, 2006 and issued in the original aggregate principal amount of \$120,000,000 (the "2006A Bonds");

2. Refund all or a portion of the Authority's Revenue Bonds (Salem Hospital Project), Series 2008A, dated October 8, 2008 and issued in the original aggregate principal amount of \$59,710,000 (the "2008A Bonds");
 3. Refund or restructure all or a portion of the Authority's Revenue Bonds (Salem Hospital Projects), Series 2013A and Series 2013B, each dated June 27, 2013 and issued in the original aggregate principal amount of \$70,000,000 (the "2013 Bonds" and together with the 2006A Bonds and the 2008A Bonds, the "Refunded Bonds"); and
 4. Pay costs of issuance of the Bonds.
- 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 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.
 - 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.
 - As required by the Code, the Authority conducted a public hearing on September 20, 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 September 6, 2016. 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).
 - 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 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 Salem Health. 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.
 - Salem Health will use the proceeds of the bonds to refinance existing debt, attain a lower interest rate, and extend the term of one of the bonded debts to align with the expected useful life of the facility.

- 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
Interim Financial Services Administrator

Attachments:

1. Memorandum from Douglas Goe, Bond Counsel for the Hospital Facility Authority
2. Resolution 2016-47
3. Affidavit of Publication of the Public Hearing
4. Public Hearing Report
5. Agreement Regarding City Costs and Liabilities

09/15/2016