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April 11, 2018

City of Northfield, Minnesota  
801 Washington Street  
Northfield, MN 55057  
Attn: Brenda Angelstad, Finance Director

Re: Proposed issuance of a conduit revenue financing by the City of Red Wing for the benefit of Benedictine Health System, with Host Approval by the City of Northfield

Dear Brenda and City Council Members,

Benedictine Living Community of Northfield LLC, a Minnesota nonprofit limited liability company, or an affiliate thereof, (the "Borrower"), the sole member of which is Benedictine Health System, a Minnesota nonprofit corporation, has requested the issuance of conduit revenue bonds in a principal amount of approximately \$25,000,000 (the "Conduit Bonds"), pursuant to Minnesota Statutes, Chapter 462C to (i) finance the acquisition and construction of an approximately 97 unit independent living, assisted living and memory care facility to be located adjacent to and immediately to the west of Northfield Hospital and Clinics located at 2000 North Avenue, in Northfield, Minnesota ("Northfield"), (ii) fund reserves including capitalized interest, working capital and debt service reserves, and (iii) pay certain costs of issuance (collectively, the "Project").

Northfield plans to issue tax-exempt bonds for its own purposes in 2018. Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), permits each issuer of tax-exempt obligations to designate up to \$10,000,000 of tax-exempt bonds as "qualified tax-exempt obligations" (sometimes referred to as "bank-qualified bonds") that are eligible for purchase by banks and other financial institutions for the full benefit of the tax exemption. The designation of bonds as "bank-qualified" creates more demand for the bonds and consequently a lower interest cost. In order to remain under the \$10,000,000 limit and issue its own bonds as bank-qualified bonds, Northfield has requested that the City of Red Wing ("Red Wing") consider issuing the Conduit Bonds on behalf of the Borrower. Red Wing already expects to issue more than \$10,000,000 of bonds in 2018 so issuing the Conduit Bonds will not negatively affect Red Wing.

Even though the Project is located in Northfield, state and federal law permit Red Wing to issue bonds for a facility in Northfield as long as Northfield consents after a public hearing and enters into an agreement with Red Wing regarding the financing. Benedictine Health System and its affiliates have facilities located in many communities throughout Minnesota, including Red Wing.

Under federal tax law, before Red Wing can issue the Bonds it needs "host approval" from Northfield after a public hearing because the Project is located in Northfield. The policy reason for that is that the local governing body provides the best access for local citizens to comment on the financing.

In addition, state law (Minnesota Statutes, Chapter 462C and Section 471.656) requires that, in order to issue bonds for a housing project located outside of its territorial limits, Red Wing must receive consent from Northfield and enter into a Joint Powers Agreement between Northfield and Red Wing under which Red Wing is authorized to issue the Bonds. These provisions are intended to give Northfield an element of control and oversight over bond financed projects located in Northfield.

The Bonds will not constitute general or moral obligations of Northfield or Red Wing and will not be secured by or payable from any property or assets of Northfield and will not be secured by any taxing power of Northfield or Red Wing. The Bonds will not affect any debt limitation imposed on Northfield or Red Wing and the issuance of the Bonds will not have any adverse impact on the credit rating of Northfield or Red Wing, even in the event that the Borrower encounters financial difficulties with respect to the facilities to be financed with the proceeds of the Bonds.

Please contact me if you have any questions.

Sincerely,  
*Jenny Boulton*