



Legislation Text

File #: Res. 2018-135, **Version:** 1

City Council Meeting Date: December 11, 2018

To: Mayor and City Council

From: Ben Martig, City Administrator

Consider Northfield Hospital & Clinic Second Amended and Restated Indenture of Trust.

Action Requested:

The Northfield City Council considers approving the attached Resolution authorizing the execution of a Second Amended and Restated Indenture of Trust Between the City of Northfield, Minnesota and Wells Fargo Bank, National Association.

Summary Report:

The Council Finance Policy Subcommittee met on Monday, December 3rd and is supportive of a recommendation for the Council to approve this amendment to the Indenture.

The Northfield Hospital & Clinics Board met on Thursday, November 29 and approved a recommendation for the City to approve the “proposed definition” as outlined in summary form in the attached Powerpoint presentation. Chief Financial Officer (CFO) Scott Edin requested that the Bond indenture amendment to clarify in writing that Pension expense is not to be included as an Operating Expense. This is the way all of the Bankers agreed that it should be handled; but he wanted to codify this more permanently that this was interpreted this way by future Bank & Hospital representatives.

There is a covenant (Debt Service Coverage ratio) that measures an organizations ability to repay the debt. In summary, it takes the amount of Profit in Cash (ie. EBIDA) divided by the annual Debt payment. The indenture requires a minimum of 1.2 times coverage. Since the pension Expense is not a Cash expense (i.e. there is no written check to the State of MN) everyone agrees that is shouldn't be subtracted from hospital profits for purposes of this equation.

The following are some specific items of note that Jenny Boulton with Kennedy & Graven felt are relevant in discussions for perspective:

1. Northfield Hospital is an instrumentality of the City and therefore the 2015 and 2016 hospital revenue bonds are revenue obligations of the City (payable solely from Hospital revenues). Consequently, this change is in the City's interest, as the issuer of the bonds, in that it helps ensure that the coverage tests under the Indenture are not inadvertently negatively impacted as a result of a post-issuance change in accounting rules that weren't intended to be considered in measuring debt service coverage.
2. The banks that hold the bonds are willing to agree to this change in the Indenture because they agree that was not how debt service coverage was intended to be measured.

3. Northfield Hospital is a municipal entity so it is impacted the same way as other governmental entities that participate in public pension programs and are subject to GASB accounting standards.

According to Jenny Boulton, Kennedy & Graven legal counsel for the city on debt issuance (and advisor on this issue) summarized that this action is strongly recommended as it relates to this issue and comparatively for any municipal special revenue debt (non-General Obligation debt). However, non-general obligation debt is not as common of an occurrence for municipalities.

City staff did seek another legal opinion from Catherine Courtney, Attorney/Shareholder with Briggs & Morgan. She reviewed correspondence related to the proposed revisions and offered the following comments as a limited review:

“I’ve now reviewed the documents that you sent me and I have no substantive comments. The intent of the proposed amendment is to keep the debt service coverage calculations as they were at the time the Indenture was originally entered into, despite the intervention of a change in the GASB accounting rules for pensions. So, the City is essentially agreeing to keep things the same as they have always been. The only change was an outside event and the parties are agreeing to not make any change to the way debt service coverage is calculated as a result of that outside event.

Otherwise, I think that the bullet-point summary provided by John Henningsgard of Piper Jaffray is the best explanation of the intervening event that we are trying to avoid. Also, it appears that the bondholders have already agreed to the proposed amendment.”

Ms. Courtney did disclose that Briggs & Morgan represented the bondholders for the Series 2016 Bonds issued under this Indenture. Her “quick initial look” at the proposed amendment indicates that consent of the bondholders will be obtained by the Trustee prior to its execution of the amendment. Briggs & Morgan’s representation of the bondholders ceased upon the closing of the transaction in 2016 and they have not been requested by the bondholders to review the proposed amendment. While this prior representation may be “adverse” under applicable ethics rules, I accepted to have them complete the limited review despite this. This legal review is in addition to Jenny Boulton with Kennedy & Graven who sees her role in providing counsel both to the Hospital who has engaged her on this work and the City whom she assists on debt related issues.

Attachments

- The attachment labeled as “Amended Bond Documents” is a Powerpoint presented to the Northfield Hospital & Clinic at their Thursday, November 30th meeting. This is a good overview summary.
- The attachment labeled as “Moody’s GASB Pension Report 2017” was prepared by Moody’s and reflects their analysis in dealing with this accounting change. This information was provided by John Henningsgard of Piper Jaffray.
- The attachment shows the full redline amendment proposed for the Second Amended and Restated Indenture of Trust Between the City of Northfield, Minnesota and Wells Fargo Bank, National

Association

- The attachment labeled as GASB Pension Accounting Can Skew Debt Service Coverage” was prepared by John to summarize the Moody’s report and describe the impact on the Northfield Hospital directly. This is a deeper dive of information related to this issue if you’d really like to get into the detail of this recommendation.

Alternative Options:

This is in the best interest of the City and really an administrative function. Staff does not see any relevant alternative actions to consider.

Financial Impacts:

Summarized in background.

Tentative Timelines:

Effective upon approval.