



Legislation Text

File #: R-1617-31, **Version:** 1

RESOLUTION R-1617-31: A RESOLUTION APPROVING AND AUTHORIZING THE NORMAN REGIONAL HOSPITAL AUTHORITY TO REFUND ALL OUTSTANDING SERIES HOSPITAL REVENUE BONDS (THE "REFUNDED BONDS") TO BE ACCOMPLISHED BY THE ISSUANCE OF BONDS, NOTES OR OTHER EVIDENCES OF INDEBTEDNESS, ON A TAX-EXEMPT OR TAXABLE BASIS, AT A PREMIUM OR DISCOUNT, IN THE AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED TWO HUNDRED MILLION DOLLARS (\$200,000,000) TO PROVIDE FUNDS NECESSARY TO REDEEM ALL OUTSTANDING SERIES BONDS AND PAY THE COSTS OF ISSUANCE; APPROVING AND AUTHORIZING THE EXECUTION AND DELIVERY OF DOCUMENTS IN CONNECTION THEREWITH; AND WAIVING COMPETITIVE BIDDING PURSUANT TO 60 O.S. SECTION 176(F).

BACKGROUND: Norman Regional Health Systems (NRHS) is a public trust operated under the authority of the Oklahoma Public Trust statutes (60 O.S. §176 et seq.). The City of Norman is the beneficiary of the public trust. As a beneficiary of the public trust, the Norman City Council is required to consider and approve of debt issuances of the public trust. The NRHS Board has moved forward to refinance and refund all prior debt issuances. This item is being brought forward seeking City Council concurrence with the anticipated action of the NRHS Board.

DISCUSSION: Included with the Agenda packet is a memorandum from Grant Ostlund of Ponder and Co. (financial advisors) to Ken Hopkins, Chief Financial Officer of Norman Regional Health Systems, that details the transaction and the attendant savings to the NRHS that will come from this refunding and refinancing. To summarize the main points, the proposal is to refund (refinance) the entire NRHS debt portfolio which totals \$190,500,000. No additional debt is being incurred for new projects.

In November of 2015, after several years of continued financial improvement and with the completion of the Moore replacement facility on the near-term horizon, Moody's Investors Service upgraded NRHS to "Baa2" (stable). In June of 2016, Standard and Poor's upgraded NRHS to "BBB" (stable). The credit rating upgrades in combination with historically low tax-exempt interest rates for healthcare providers has provided NRHS with an opportunity to restructure its debt portfolio to:

- Eliminate variable rate exposure and exposure to an inefficient auction rate market process
- Generate cash flow savings
- Modernize the legal documentation controlling the issuance of debt.

The debt will be issued in two series: the Series 2016 Bonds and the Series 2017 Bonds. The Series 2016 Bonds will reflect the debt funded in 2016 to redeem/refund all bonds issues except the portion of the Series 2007 Bonds not eligible for an advance refunding. The Series 2017 Bonds will reflect the debt funded in 2017 to defease the \$32.755 million of Series 2007 Bonds not refunded in 2016.

While it is anticipated the bonds will be priced in mid- October, it is estimated that the total interest cost on the debt has been included as Attachment A.

As explained in the Ponder memorandum, the principal reductions are made possible primarily due to lower reserve requirements. The 2013 refunding extends the maturity to 2029, but avoids a balloon payment currently scheduled for 2023. The 2015 refunding cost is not significant, but allows for certain cleanup of the Master Bond Indenture language that provides additional flexibility to handle future debt issuance needs.

In total, the transaction will generate significant economic savings to NRHS due to the lower interest rate on the proposed debt and due to the lower amount of overall debt outstanding. Under current market conditions, the transition will generate approximately \$27.0 million of present value savings (14.2% of the total amount of debt redeemed and refunded) and approximately \$54.632 million of annual cash flow savings. The all-in Total Interest Cost of the transaction will be 3.37%.

RECOMMENDATION: Based on a review of the information provided by the NRHS regarding the refinancing of its debt portfolio, it is anticipated the rate will be lowered and the interest savings will be significant over the life of the Bonds. No revenues, assets, or credit of the City of Norman, as beneficiary of the NRHS Public Trust, are being pledged to support the refinancing. It is recommended the City Council, acting as the Beneficiary of the NRHS Public Trust, consent to the proposed refinancing. If you have questions or need additional information, City Legal and Finance Staff, as well as representatives of the NRHS will be available at the meeting, or you may contact us individually before the meeting as well.