

SUBJECT: Revenue Bond Financing for Southcentral Foundation

PREPARED BY: Administration

DATE: October 12, 2000

FOR AGENDA OF: October 23, 2000

SUMMARY:

Please read the following letter from Southcentral Foundation regarding revenue bond financing.

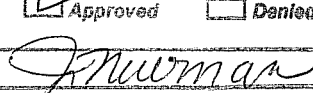
Our city Attorney, Tom Klinkner, will give you an update on this revenue bond financing request.

RECOMMENDED ACTION:

Council consideration of continuing to serve as issuer for revenue bonds for Southcentral Foundation.


Reviewed by: SARAH PALIN, Mayor

Attachment: Southcentral Foundation letter

Presented to council on 10/23/00
Action taken: Approved Denied
other _____
Verified by 

Southcentral Foundation

Mayor Sarah Palin
City of Wasilla
290 East Herning Avenue
Wasilla, Alaska 99654-7091

Re: Revenue Bond Financing for Southcentral Foundation

Dear Mayor Palin:

On behalf of Southcentral Foundation, I request that the City of Wasilla act as issuer for \$10,000,000 of revenue bonds for Southcentral. The following information explains this request.

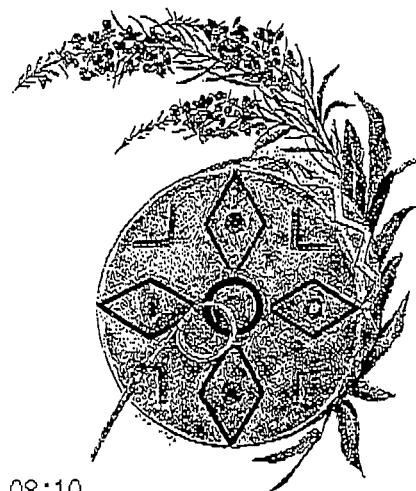
Southcentral is an Alaska nonprofit corporation recognized as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Southcentral provides health care services for Alaska Natives living within its service area, which includes the City. Approximately 1,703 Wasilla residents have been recipients of Southcentral/ANMC services and approximately 2,903 "Valley" residents have accessed these services.

National Bank of Alaska has proposed to loan Southcentral \$10,000,000 to finance part of the cost of a new primary care center that Southcentral is building in Anchorage. Construction of this facility will directly benefit residents of the City that receive services from Southcentral, even though the facility will not be located in the City. Interest on bonds issued by a municipality to provide financing money for Southcentral is exempt from federal income tax, and NBA has proposed to make its loan to Southcentral at a tax exempt interest rate if the loan is made through the use of a tax exempt municipal bond.

State law authorizes the City to issue revenue bonds that are payable from a specific revenue source, such as a utility, a particular facility, or a particular organization. These revenue bonds are payable only from the specified source, and not from the City's general tax revenue. The revenue bond to be issued by the City to make a loan to Southcentral would be structured so that only Southcentral, and not the City, would be responsible for repayment of the debt. Under this revenue bond structure, the City acts only as a "conduit" for the borrowed funds.

In the proposed financing for Southcentral, NBA will purchase a revenue bond from the City, and the City will loan the bond proceeds to Southcentral. The City

4501 Diplomacy Drive, Suite 200 • Anchorage, Alaska 99508
(907) 265-4900 • Fax (907) 265-5925



will be obligated to repay this bond only from loan payments that are made by Southcentral. If Southcentral fails to repay its loan, and, in turn, there are no funds to make payments on the bond, NBA has no recourse against the City, but must look only to Southcentral to recover the amount of the loan.

The City will enter into a loan agreement with Southcentral. The loan agreement will require Southcentral to repay the loan from the City, and provide for remedies if Southcentral fails to pay. The City will assign its rights under its loan agreement to NBA. Thus, Southcentral will make loan payments directly to NBA, and Southcentral and NBA will deal directly with each other on matters of loan administration and enforcement of Southcentral's obligations under the loan agreement. The City will have no responsibility for administering the loan or pursuing recovery from Southcentral in the event of Southcentral's default on the loan.

NBA will receive most favorable tax treatment as owner of the bond if the bond is issued by a municipality that does not issue more than \$10,000,000 in tax exempt bonds during the calendar year 2000. I understand that the City does not intend to issue any other tax exempt debt during calendar year 2000. Therefore, if the City issued a \$10,000,000 bond for Southcentral in calendar year 2000, NBA would receive this favored tax treatment as owner of the bond, with a resulting savings in interest expense to Southcentral. To obtain the benefits of this most favored tax treatment, Southcentral requests that the City issue the bond before December 31, 2000.

In consideration of the City's serving as issuer for this financing, Southcentral will pay the City a fee of \$25,000, and pay all legal expenses and other out-of-pocket costs that the City incurs in connection with the issuance of the bond.

If the terms of this proposal are acceptable to the City, please so indicate by signing and returning the enclosed copy of this letter, retaining the original for your files. We look forward to working with you.

Yours truly,

SOUTHCENTRAL FOUNDATION



ACCEPTED AND APPROVED this ____ day of October 2000.

CITY OF WASILLA

By: _____

Sarah Palin, Mayor

LAW OFFICES

BIRCH, HORTON, BITTNER AND CHEROT

A PROFESSIONAL CORPORATION

1127 WEST SEVENTH AVENUE • ANCHORAGE, ALASKA 99501-3399 • TELEPHONE (907) 276-1550 • (800) 478-1550 • FACSIMILE (907) 276-3680

HAL R. HORTON (1944-1998)

THOMAS L. ALBERT*†
RONALD G. BIRCH**
WILLIAM H. BITTNER
KATHRYN A. BLACK
DOUGLAS S. BURDIN*
SUZANNE CHEROT
ALLISON M. ELLIS*†
KATHLEEN TOBIN ERB

MAX D. GARNER
DAVID KARL GROSS
TINA M. GROVIER
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THOMAS F. KLINKNER
HARVEY A. LEVIN*†

STANLEY T. LEWIS
THOMAS McDERMOTT
BARBARA A. MILLER*
GREGORY A. MILLER
MICHAEL J. PARISE
REBECCA C. PAULI
TIMOTHY J. PETUMENOS
ELISABETH H. ROSS**

KATHLEEN SCHAECHTERLE, OF COUNSEL

* D.C. BAR
** D.C. AND ALASKA BAR
† MARYLAND BAR
‡ VIRGINIA BAR
ALL OTHERS ALASKA BAR

115 CONNECTICUT AVE., N.W.
SUITE 1200
WASHINGTON, D.C. 20036
(202) 659-5800
FACSIMILE (202) 659-1027

WRITER'S DIRECT DIAL (907) 263-7268 • FAX (907) 276-3680 • E-MAIL tklinkner@bhb.com

October 16, 2000

via FACSIMILE and FIRST CLASS MAIL

Mayor and Council Members
City of Wasilla
290 East Herning Avenue
Wasilla, Alaska 99654-7091

RECEIVED

OCT 17 2000

CITY OF WASILLA
CLERK'S OFFICE

RECEIVED

OCT 17 2000

CITY OF WASILLA, ALASKA

Re: Proposal by Southcentral Foundation for Revenue Bond Financing
Our File No. 505,777.1

Ladies and Gentlemen:

Southcentral Foundation has requested that the City of Wasilla issue revenue bonds to finance a project to be constructed by Southcentral in Anchorage. This responds to your request that I comment on Southcentral's proposal.

Before making its proposal to the City, Southcentral had asked that I act as bond counsel in connection with this financing. When Southcentral informed me that they were having difficulty finding an issuer for the financing that met the qualifications required by National Bank of Alaska, their lender, I suggested that Southcentral request the City to act as issuer for the financing. As city attorney, I will represent the City in this transaction, although my fee will be paid by Southcentral.

The following explains the City's role in the proposed financing. The City would issue a tax-exempt revenue bond, in the amount of \$10,000,000, the loan amount that Southcentral has requested. National Bank of Alaska will purchase the bond from the City for \$10,000,000, and the \$10,000,000 sale proceeds of the bond will be loaned to Southcentral under the terms of a loan agreement between the City and Southcentral. Under the loan agreement, Southcentral will agree to make payments equal to the debt service payments under the bond. The terms of the bond will provide that the loan payments from Southcentral will be the only source for payments of principal and interest on the bond. National Bank of Alaska, as owner of the bond, will have no recourse against the City or the City's assets if Southcentral fails to make loan payments. At the time the bond is issued, the City will assign its rights as lender under the loan agreement to

Mayor and Counsel Members
City of Wasilla
October 16, 2000
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National Bank of Alaska. Under this assignment, Southcentral will make loan payments directly to National Bank of Alaska, and Southcentral and National Bank of Alaska will deal directly with each other on matters of loan administration and enforcement of Southcentral's obligations under the loan agreement. The City will have no responsibility for administering the loan or pursuing recovery from Southcentral if Southcentral defaults on the loan.

As stated above, the City will have no obligation to pay debt service on the bond from any source other than loan payments from Southcentral. If Southcentral fails to make loan payments, the City will not be responsible for making bond debt service payments from its own funds. In addition to this limitation on the City's liability being contained in the bond documents, at the closing of the transaction, National Bank of Alaska will sign a letter addressed to the City stating, among other things, that in entering into this financing transaction (i) it is not relying on the credit of the City, (ii) it has made its own investigation of the creditworthiness of Southcentral and the project that is being financed, and (iii) that it is a sophisticated investor capable of evaluating the merits of the financing without relying on any information concerning the City. Finally, Southcentral will agree to indemnify the City from any liability in connection with the financing.

The City is authorized to issue this bond to finance a project in Anchorage, because Southcentral will use the project to provide health care services to residents of the City. In addition, Southcentral has agreed to pay the City the sum of \$25,000 for acting as issuer of the bond.

The only limitation on the City that will result from the City's participation in this financing will be that the City must agree not to issue any other tax exempt bonds during the calendar year 2000. I understand that the City does not plan to issue any tax exempt bonds for other purposes during the current calendar year.

I will attend the October 23 Council meeting, and will be available at that time to answer any questions that you have concerning this matter.

Yours truly,

BIRCH, HORTON, BITTNER and CHEROT



Thomas F. Klinkner