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MEMORANDUM

TO: Blaine City Council
FROM: Scott Lepak, General Counsel for the North Suburban Hospital District
RE: Questions and Answers associated with the proposed Petition for Dissolution of the North Suburban Hospital District.
DATED: December 5, 2016

This office represents the North Suburban Hospital District. Please accept this memo as an informational item in support of the proposed Petition for Dissolution. We understand that Allina has already given the City a presentation on the Mercy Hospital – Unity Campus concept.

1. What is the North Suburban Hospital District?

The North Suburban Hospital District is a separate governmental subdivision created in 1960 to build Unity Hospital. The District is comprised of the cities of Blaine, Fridley, Mounds View, Spring Lake Park, and Hilltop. Its Board consists of six elected members: one from each city and one at-large member.

2. Has the Hospital District ever actually run Unity Hospital?

No. The Hospital District has never operated Unity Hospital. The Hospital has always operated under a lease agreement with another entity to operate the day to day operations of the actual hospital. The Hospital District's role is primarily that of a landlord with a focus on providing updated and needed facilities. The Hospital District owns the physical hospital building, the land underneath the hospital, and several other properties surrounding the hospital.

3. What is the relationship between Allina Health Systems and the Hospital District?

Allina and the Hospital District are two completely separate and independent entities. The Hospital District is a political subdivision that has taxing and bonding authority to collect property taxes or bond for capital improvements to provide funding for physical improvements to the hospital building.

When the Hospital District issues bonds, the bond proceeds are spent on a Unity project and Allina (and its predecessor organizations) paid the Hospital District back for the bond amounts.

4. Can Allina purchase the Hospital?

Yes. In 1963, the state passed a special law providing that the Hospital District may lease the facilities and that the lease may include an option to purchase by the entity that operated the Hospital. Pursuant to this law, this clause was included in the leases that have governed the operation of the Hospital.

The option to purchase provided that Allina had to pay off all of the outstanding bonds that the Hospital District issued for capital improvements to the property and hospital building. As of 2013, all bonds have been paid. That meant that Allina can exercise this option at any time.

5. What role did the Hospital District play in the proposed changes discussed by Allina to the Mercy and Unity campuses?

The Hospital District had no role in these proposed changes.

6. What was the Hospital District's response to the proposed changes by Allina?

Based upon the proposed changes, the Hospital District Board discussed the changes and possible options at its public meetings beginning on April 13, 2016. It came to the conclusion that the consolidation prevents the Hospital District from spending tax money to fund capital improvements to the Unity campus going forward from the date these changes become effective.

7. Why did the Hospital District determine that it could no longer continue to fund these capital improvements to Unity?

The Hospital District's authority to make improvements to Unity is subject to the public purpose doctrine. The Hospital District must make a determination that any expenditure of tax dollars has a public (rather than private) purpose and that such tax dollars are needed for the improvement to occur.

With the consolidation of operations under the Mercy Hospital – Unity Campus concept, the Hospital District determined that the five member cities should not be required to pay for a Hospital that served a broader scope of individuals than a traditional stand alone hospital focused on the care of the residents of those five cities. The consolidation of operations also made it difficult, if not impossible, for the Hospital District to establish that the tax dollars raised by the Hospital District were needed for a specific Unity project.

8. Why is this matter before the City?

On September 14, 2016, the Hospital District unanimously approved a resolution stating its intention to seek dissolution because Unity is no longer a full service community hospital, and therefore the Hospital District no longer has a public purpose to spend ad valorem tax dollars to fund capital improvement projects for the building.

With this stated intention, the matter is now before the City. Pursuant to state law, a member City may petition for dissolution. The petition in the form of a Resolution must be approved by a two-thirds vote of the City Council. The Resolution is then transmitted to the Hospital District.

10. How would dissolution of the Hospital District actually work?

If the Hospital District Board accepts the petition, the Hospital District must do an accounting of all funds, pay off all creditors, sell off all property it owns, and then finally affect an order of formal dissolution. This is anticipated to be a lengthy process that would go well into 2017.

Most importantly, upon the Hospital District formally going “out of business”, all remaining District funds are sent back to the member cities. The Hospital Board has suggested that the money be divided on a per capita basis to the population of the member cities, but it is requesting the City petitioning the Hospital District for dissolution to provide input and suggest the manner of distribution in the petition.

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