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HEALTH CARE FACILITIES

A U T H O R I T Y

*Financing the Health Care Future*

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Ronald K. Sperling

Executive Director  
Donna A. Murr

**Washington Health Care Facilities Authority  
410 11th Avenue S.E., Suite 201  
Olympia, WA 98504  
Thursday, July 10, 2014 Meeting Minutes**

A special meeting was held at the office of the Washington Health Care Facilities Authority, pursuant to Authority meeting notices mailed to all members of the Authority, and to all persons who requested such meeting notice, and those members of the media presently on the mailing list for receiving meeting notices of the Washington Health Care Facilities Authority.

#### Members Present:

John Wiesman, Secretary of the Department of Health/Member  
David Schumacher, Governor's Designee/Member, by conference speakerphone  
AnnaLisa Gellermann, Insurance Commissioner's Designee/Member, by conference speakerphone  
Ron Sperling, Public Member, by conference speakerphone

#### Authority Staff Present:

Donna Murr, Executive Director  
Shannon Govia, Assistant Executive Director  
Ashlee Frye, Chief Financial and Compliance Officer

#### Others Present:

Dan Gottlieb, Authority Bond Counsel, Hillis Clark Martin & Peterson P.S.  
Sarah Fries, Intern, Hillis Clark Martin & Peterson P.S.  
John Myers, Authority Bond Counsel, Orrick Herrington Sutcliffe, LLP, by conference speakerphone  
Jan Schorr, Authority Financial Advisor, Melio & Company, by conference speakerphone  
Beth Chevalier, Authority Financial Advisor, Melio & Company, by conference speakerphone  
John Ryan, Authority Assistant Attorney General  
Gary McLaughlin, Executive Vice President of Finance & CFO Overlake Hospital Medical Center  
Don Wee, CEO Tri-State Memorial Hospital  
Herbert Bone III, Corporate Treasurer Fred Hutchinson Cancer Research Center  
Diane Albrecht, Director of Capital Finance Catholic Health Initiatives, by conference speakerphone

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Chuck Katz, Counsel for Catholic Health Initiatives, by conference speakerphone  
Sue Painter, Vice President/Treasurer Providence Health & Services  
Randy Stamper, Attorney at Law, Stamper Rubens PS  
Tomas Zrust, Vice President U.S. Bank National Association  
Steve Bro, U.S. Bank National Association  
Ken Vallrugo, Managing Director, Merrill Lynch, by conference speakerphone

Mr. Wiesman called the meeting to order at 2:30 p.m. after noting a quorum was present consisting of himself, AnnaLisa Gellermann, David Schumacher, and Ron Sperling.

**Review, discussion and possible action regarding the Minutes of June 12, 2014.**

After discussion and upon motion by Mr. Sperling and seconded by Ms. Gellermann, the minutes of the June 12, 2014 Authority meeting were unanimously accepted by roll call vote.

**Review, discussion and possible action regarding the adoption of Resolution No. 2014-04 approving the application for financial assistance and authorizing the issuance and sale of bonds for Overlake Hospital Medical Center.**

Ms. Murr introduced Gary McLaughlin, Executive Vice President of Finance & Chief Financial Officer of Overlake Hospital Medical Center.

Ms. Murr presented Resolution No. 2014-04 which authorizes the issuance of bonds for Overlake Hospital Medical Center in an amount not to exceed \$65,000,000, the proceeds of which will be used to refund and defease all of the outstanding Series 2005A/B Bonds and pay the issuance costs. The proceeds of the Series 2005 A/B Bonds were used to finance the construction of a new patient care tower and associated equipment at Overlake Hospital Medical Center. This financing is going to be a 25 year term fixed interest rate public sale underwritten by Bank of America Merrill Lynch & RBC Capital Markets. The primary security is a deed of trust and the Series 2014 Direct Note Obligation issued under the master trust indenture. No Certificate of Need is required as confirmed by the Department of Health. The bonds will be rated based on the rating of Overlake Hospital Medical Center, currently A2 by Moody's and A by Standard & Poors. A TEFRA hearing was held on July 7, 2014, at which no individuals testified for or against the project. The bond trustee is U.S. Bank National Association. The estimated public benefit in reduced interest cost is \$3 million. Ms. Murr recommended final approval of the application for financial assistance and adoption of Resolution No. 2014-04 based on the determinations made as required by Authority Rules.

Mr. Gottlieb summarized the loan documents presented for approval and indicated that they are all in good order with one correction on page one of Resolution No. 2014-04 – the not to exceed amount should be \$65,000,000. With that correction, his firm is prepared to issue its opinion that the bonds are legal, valid, binding and tax exempt should the Authority approve the financing.

Mr. McLaughlin thanked Mr. Gottlieb and his firm for pulling this together quickly and working long nights and weekends to get the transaction ready for pricing next week.

Ms. Schorr gave an overview on the market update provided by Bank of America Merrill Lynch. In response to Mr. Sperling's inquiry regarding why it has taken so long to get to this point from the initial date of application and then the fast turnaround for pricing, Mr. McLaughlin explained that when the application was presented last year, the refunding savings were significant, however shortly thereafter, the market took a turn and the savings diminished. Now that the market has rebounded the savings have returned. Mr. Gottlieb also added that because the hospital's fiscal year end is June 30<sup>th</sup>, the financial statements that are required to be included in the offering document will be stub numbers through May 30, 2014. Once the auditors begin working on hospital's June 30, 2014 audit, they would not be allowed to provide their standard bring down letter and the bonds would not be able to be marketed until the audit was completed – sometime in October.

After further discussion, without public comment and upon motion by Mr. Sperling and seconded by Mr. Schumacher, Resolution No. 2014-04 was unanimously accepted by roll call vote.

**Review, discussion and possible action regarding the adoption of Resolution No. 2014-05 approving the application for financial assistance and authorizing the issuance and sale of a bond for Tri-State Memorial Hospital.**

Ms. Murr introduced Don Wee, Chief Executive Officer of Tri-State Memorial Hospital.

Mr. Govia presented Resolution No. 2014-05 which authorizes the issuance of a bond for Tri-State Memorial Hospital in an amount not to exceed \$13,200,000. Proceeds of the loan will be used to refinance the outstanding principal balance of the Series 2005 Bond Issue, fund and reimburse Tri-State for the construction and renovation of a medical office building expansion, and to pay costs of issuance. This will be a Quick Loan private placement and the bond will be purchased by Wells Fargo Bank, N.A. The interest rate will be fixed at 3.40% for the initial term. Tri-State Memorial Hospital estimated interest savings of \$3,312,665. No Certificate of Need was required per Department of Health. A TEFRA hearing was held on July 7, 2014, at which no individual testified for or against the project. Mr. Govia recommended final approval of the application for financial assistance and adoption of Resolution 2014-05 based on determination made as required by Authority Rules.

Mr. Gottlieb summarized the documents presented for approval and indicated that they are all in good order and that his firm is prepared to issue its opinion should the Authority approve the financing.

Mr. Wee thanked the Authority and Wells Fargo for helping with this transaction.

In response to Mr. Sperling's inquiry regarding the reduced amount requested Mr. Govia explained that as Tri-State worked through the financing process it was identified that funds would be necessary in order to complete the project. Mr. Gottlieb added that when submitting an application the Borrowers may request a higher amount than is necessary as a contingency. Based on the appraisal by Wells Fargo the final par issuance amount was deemed to be in the best interest of all parties.

After further discussion, without public comment and upon motion by Mr. Sperling and seconded by Mr. Schumacher, Resolution No. 2014-05 was unanimously accepted by roll call vote.

**Review, discussion and possible action regarding the adoption of Resolution No. 2014-06 approving the application for financial assistance and authorizing the issuance and sale of a bond for Fred Hutchinson Cancer Research Center.**

Ms. Murr introduced Herbert Bone III, Corporate Treasurer of Fred Hutchinson Cancer Research Center.

Mr. Govia presented Resolution No. 2014-06 which authorizes the issuance of a bond for Fred Hutchinson Cancer Research Center (FHCRC) in an amount of \$4,435,000 to refinance the outstanding Series 2007 Bonds. The proceeds of the Series 2007 Bonds were used for the purpose of acquiring the land and the building located at 820 Minor Ave. N. in Seattle, and to pay costs of issuance. This will be a Quick Loan private placement and the bond will be purchased by U.S. Bank National Association. The interest rate will be variable based on LIBOR. FHCRC estimated interest savings of \$400,000. No Certificate of Need was required per Department of Health. A TEFRA hearing was held on July 7, 2014, at which no individual testified for or against the project. Mr. Govia recommended final approval of the application for financial assistance and adoption of Resolution 2014-06 based on determination made as required by Authority Rules.

Mr. Gottlieb summarized the documents presented for approval and indicated that they are all in good order and that his firm is prepared to issue its opinion should the Authority approve the financing.

Mr. Bone thanked the Authority, Bond Counsel, and U.S. Bank for helping with this transaction.

Ms. Murr added that the 2007 bond issue has a maturity date of November 2014.

In response to Mr. Sperling's inquiry regarding what FHCRC's plan is following the current 7 year initial term, Mr. Gottlieb explained that FHCRC and the bank will discuss at that time if they will come back to the Authority to refinance.

After further discussion, without public comment and upon motion by Mr. Schumacher and seconded by Mr. Sperling, Resolution No. 2014-06 was unanimously accepted by roll call vote.

**Review, discussion and possible action regarding the application for financial assistance submitted by Providence Health & Services.**

Ms. Murr introduced Sue Painter, Vice President/Treasurer of Providence Health & Services.

Ms. Murr summarized the application submitted by Providence Health & Services (PH&S) for \$100,000,000. The transaction will be a fixed rate public sale underwritten by Bank of America

Merrill Lynch. No Certificate of Need is required per the Department of Health. The bonds will be rated based on the rating of PH&S, which is currently AA3/AA-/AA by Fitch/Moody's/Standard & Poors. The bond trustee is U.S. Bank National Association and the estimated public benefit interest savings is \$31.1 million over the life of the bonds.

Approximately \$47.3 million will be used for an Ambulatory Care Center at Swedish Edmonds including the replacement of the Emergency Department (24 exam rooms, 2 trauma rooms and a Behavioral Health pod with 4 exam rooms); construction and remodeling of outpatient diagnostic imaging; 10 observation units; and 8 Urgent Care exam rooms. Approximately \$49.5 million will be used to refinance a portion of the Series 2009A Direct Obligation Notes (taxable) coming due October 1, 2014. Proceeds of this taxable issue were used to finance a portion of the construction of the Everett Tower. The remaining proceeds will be used to pay the costs of issuance.

Ms. Painter thanked Ms. Murr for summarizing the application and added that they are preparing to come to next month's board meeting to finalize this transaction and hope to close around September 10, 2014. Ms. Murr added that PH&S has facilities in Alaska, Washington, Oregon, California, and Montana and the proceeds of these bonds will only be used for their Washington State facilities. Ms. Murr also noted that PH&S and Kadlec Health System recently announced a proposed affiliation and Ms. Painter confirmed the transaction has closed.

After further discussion, without public comment and upon motion by Mr. Sperling and seconded by Ms. Gellermann, the application for financial assistance submitted by Providence Health & Services was unanimously accepted by roll call vote.

**Review, discussion and possible action regarding authorization to enter into a Voluntary Closing Agreement relating to the Series 2008A Bonds issued for the benefit of Catholic Health Initiatives (CHI).**

Ms. Murr introduced Diane Albrecht, Director of Capital Finance with CHI and Chuck Katz, an Attorney with the law firm of Polsinelli representing CHI in this matter.

Ms. Murr stated that the Authority issued bonds in November 2007 in the principal amount of \$289,425,000 and loaned the proceeds to CHI for the benefit of its Washington State affiliate, Franciscan Health System. Earlier this year CHI, through its post-issuance compliance due diligence, discovered that an amount of proceeds of the Series 2007 Bonds equal to \$83,403 had been used to finance projects that did not comply with federal tax law requirements thus constituting a Tax Law Violation. All of the then outstanding Series 2007 Bonds were reissued in 2008 in two separate series, the Series 2008A Bonds and the Series 2008D Bonds. In order to remediate the Tax Law Violation, CHI redeemed and discharged \$35,000 in principal amount of the Series 2008A Bonds on January 29, 2014 and requested the Authority seek a Voluntary Closing Agreement pursuant to the VCAP procedures established by the Internal Revenue Service (IRS) for this purpose. Ms. Murr stated that the Authority played no part in the Tax Law Violation but is required to request the closing agreement because it is treated as the taxpayer as a conduit issuer. Ms. Murr also mentioned that CHI should be commended for their post issuance compliance diligence relating to their tax exempt bonds. The IRS has provided a draft of a proposed closing agreement which requires CHI to redeem and retire an additional \$50,000

principal amount of the Series 2008A Bonds and pay a fine of \$1,000 to the U.S. Treasury prior to the execution of the Voluntary Closing Agreement.

Ms. Albrecht thanked Ms. Murr for the detailed summary and didn't have anything to add.

Mr. Gottlieb added that this is a process that the IRS is encouraging all issuers to do and we may see more of these in the future.

In response to Mr. Ryan's inquiry asking if this is happening with other issues and whether there is ongoing disclosure responsibility of the Authority Mr. Gottlieb stated he has seen these with other issuers and does not believe there is any ongoing disclosure responsibilities for the Authority. Ms. Murr added the Authority is considering adding this topic to its next Customer Education Seminar.

Mr. Sperling made the following motion after further discussion and without public comment: "The Authority hereby authorizes entering into a Closing Agreement with respect to the Series 2008A Bonds among the Authority, the IRS and Catholic Health Initiatives, and authorizes the Executive Director to execute, on behalf of the Authority, such a Closing Agreement in substantially the form of the draft presented to the Authority on this date, with such changes as are deemed by the Executive Director to be in the best interests of the Authority, which shall be conclusively presumed by the execution thereof". The motion was seconded by Ms. Gellermann and was unanimously adopted by roll call vote.

#### **Executive Directors Report.**

Ms. Murr reviewed the Executive Director's Report presented in the board materials including the status of Authority financings, financial statements, status report and debt service report. She also indicated that our June 30, 2014 audit will begin shortly and thanked Ms. Frye for overseeing the board meeting.

#### **Adjournment:**

There being no further business, the meeting was adjourned at 3:45 p.m.

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John Wiesman, Secretary