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HEALTH CARE FACILITIES

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Financing the Health Care Future

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Executive Director
Donna A. Murr

Washington Health Care Facilities Authority

410 11th Avenue S.E., Suite 201

Olympia, WA 98504

Thursday, September 8, 2016 Meeting Minutes

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

Members Present:

David Schumacher, Governor's Designee/Member, Chair
John Wiesman, Secretary of Health/Member, by conference speakerphone
Ron Sperling, Public Member

Authority Staff Present:

Donna Murr, Executive Director
Shannon Govia, Assistant Executive Director
Ashlee Frye, Chief Financial and Compliance Officer
Danni Miller, Executive Assistant/Office Manager

Others Present:

Dan Gottlieb, Authority Bond Counsel, Hillis Clark Martin & Peterson P.S.
Matt Swafford, Authority Financial Advisor, Melio & Company, by conference speakerphone
Raul Ardelean, Authority Financial Advisor, Melio & Company, by conference speakerphone
Bryan Victor, Authority Bond Counsel, Orrick, Herrington & Sutcliffe LLP
Rusty Fallis, Authority Assistant Attorney General
Sue Painter, Vice President and Treasurer, Providence Health & Services

Mr. Schumacher called the meeting to order at 11:06 a.m. after noting a quorum was present consisting of himself, John Wiesman and Ron Sperling.

Review, discussion and possible action regarding the Minutes of August 12, 2016.

After discussion and upon motion by Mr. Sperling and seconded by Mr. Wiesman, the minutes of the August 12, 2016 Authority meeting were unanimously accepted by roll call vote.

Review, discussion and possible action regarding the acceptance of an amendment to the 2015 application for financial assistance submitted by Providence Health & Services.

Ms. Murr summarized the application amendment request submitted by Providence Health & Services (PH&S). In June 2015, the Authority accepted an application from PH&S and Western Health Connect, on behalf of Kadlec Regional Medical Center (Kadlec), in the amount of \$356,015,000. A portion of the application was for new money to construct four additional floors and a new parking garage at Kadlec's River Pavilion Tower and to reimburse PH&S for capital expenditures incurred at Providence Sacred Heart Medical Center. The remaining portion was to advance refund and defease a portion of the Authority's Series 2006A Bonds (Providence Health and Services) and to advance refund and defease all of the Authority's Series 2006C and 2006D Bonds (Providence Health & Services).

The original plan of finance provided for the issuance of two series of publically offered bonds – the Series 2015A Bonds for the new money piece and the Series 2015B Bonds for the refunding piece. On July 16, 2015, the Authority adopted Resolution No. 2015-09 authorizing the issuance and sale of the Authority's Series 2015A Bonds in an amount not to exceed \$77,635,000 and Resolution No. 2015-10 authorizing the issuance and sale of the Authority's Series 2015B Bonds in an amount not to exceed \$278,380,000. The Series 2015A Bonds were successfully sold and the transaction closed on August 12, 2015. Prior to the sale of the Series 2015B Bonds, PH&S made a determination that the market wasn't favorable for the advance refundings and it would not be beneficial to proceed with the sale of those bonds; therefore, the transaction was put on hold.

On July 7, 2016, the Authority received a letter from PH&S asking to amend its 2015 application to allow them to move forward with a current refunding of all the outstanding Series 2006A Bonds in a direct placement transaction with two lenders: Wells Fargo Municipal Capital Strategies, LLC and Banc of America Public Capital Corp. The amendment merely changes the type of bond issue from a public offering to a direct placement and requests that all of the Series 2006A Bonds be refunded and defeased at this time. The refunding of the Authority's Series 2006C and 2006D Bonds will not be part of this transaction. Ms. Murr urged the Authority's acceptance of this amended application.

Ms. Murr introduced Ms. Sue Painter, Vice President and Treasurer of PH&S. Ms. Painter explained the reason for only refunding the 2006A Bonds and not the 2006C and 2006D Bonds. The 2006C and 2006D bonds have a significant amount of negative arbitrage. The bonds were originally issued in auction form and in 2008 they were

converted to fixed rate bonds with a new call date of 2018. Ms. Painter stated that for those reasons it is prudent for PH&S to not refinance the 2006C and 2006D Bonds at this time.

Mr. Sperling inquired whether the refinancing was primarily rate based or whether there were any other factors or issues at this time. Ms. Painter responded by stating that there are no other issues or factors involved. PH&S is trying to change the mix of fixed and variable rate loans and this is just a portion of a much larger nationwide financing that is happening at this time. Direct placement introduces the variable portion to PH&S's comprehensive financing plan.

In response to Mr. Sperling's inquiry regarding the decision to have two different placements to this financing, Ms. Painter stated that PH&S put out RFPs to various banks and basically determined the reason for two placements is because of capacity issues with the banks. Due to the capacity of the banks it was determined that PH&S would require the use of two separate banks. It was a decision made by the banks and not PH&S.

Mr. Sperling then inquired whether PH&S perceived it to be more advantageous from a cost stand point to go direct placement versus public sale? Ms. Painter responded by stating that the primary reason for using direct placement versus public sale for this transaction is simply the size of PH&S's debt portfolio. Direct placement provides an opportunity to diversify.

There being no further discussion, without public comment and upon motion by Mr. Sperling, seconded by Mr. Wiesman, the amendment to the 2015 application for financial assistance submitted by PH&S was unanimously accepted by roll call vote.

Review, discussion and possible action regarding the adoption of Resolution No. 2016-08 approving the amended application for financial assistance and authorizing the issuance and sale of bonds for Providence Health & Services.

Ms. Murr summarized Resolution No. 2016-08, which if adopted, will approve the amended application for financial assistance and authorize the issuance and sale of the Authority's 2016D Bonds and 2016E Bonds for Providence Health & Services (PH&S) in an initial principal amount of not to exceed \$110,000,000 for each series of bonds. The proceeds will be used to refund and defease, on a current basis, all outstanding Series 2006A Bonds and to pay the costs of issuance. The proceeds of these prior bonds were used to refinance debt originally issued for the benefit of Providence Services in Spokane in order to bring them into the PH&S Obligated Group. The Series 2016D Bonds will be purchased by Wells Fargo Municipal Capital Strategies, LLC and the Series 2016E Bonds will be purchased by Banc of America Public Capital Corp. Primary bondholder security will be Master Note Obligations and bond trustee held funds. A Certificate of Need is not required per the Department of Health. Feasibility is to be determined by the lenders and each have provided the Authority with the required Private Placement Investor Letter. The TEFRA Hearing was held on August 11, 2016, and no individuals testified for or against the bonds. The interest rate on the two bonds will be variable.

The interest rate has been initially determined at the Bank Index Rate Mode: Series 2016D Bonds will be 67% of 1-month LIBOR plus 60 basis points with a 9-year initial period and the 2016E Bonds will be 67% of 1-month LIBOR plus 52 basis points with an 8-year initial period. The bond trustee will be U.S. Bank National Association. Based on current estimates of taxable vs. tax exempt interest rates, the estimated interest cost reduction is \$38.4 million over the life of the bonds. Based on the information in the amended application, information provided in the Private Placement Investor Letters and the due diligence review provided by bond counsel, Ms. Murr recommended the adoption of Resolution No. 2016-08 for the benefit of PH&S.

In response to Mr. Sperling's request for clarification regarding the terms of these bonds, Ms. Murr stated the initial variable rate period for the Series 2016D Bonds is 9 years and the initial variable rate period for the Series 2016E Bonds is 8 years respectively, with the latest estimate showing an amortization of 20 years for each series.

Ms. Murr once again introduced Ms. Sue Painter, who thanked Mr. Gottlieb and the Authority for their assistance with this transaction.

Mr. Gottlieb of Hillis Clark Martin & Peterson P.S., serving as bond counsel for this transaction, summarized the documents presented for approval and indicated that they are all in good order.

There being no further discussion, without public comment and upon motion by Mr. Sperling, seconded by Mr. Wiesman, Resolution No. 2016-08 was unanimously adopted by roll call vote.

Review, discussion and possible action affirming the renewal of the Authority's D&O Liability Insurance Coverage.

A motion is necessary to affirm the renewal coverage provided by National Union Fire Insurance Co. and Market American Insurance Company for the Authority's public officials and employment practices liability insurance for a one-year term. The total premium is \$65,959, which is \$81 higher than what the Authority paid last year. Ms. Gellermann has reviewed the information provided by our broker and supports the recommendation to affirm the renewal as presented.

There being no further discussion, without public comment and upon motion by Mr. Sperling, seconded by Mr. Wiesman, the Board affirmed the renewal of the Authority's D&O Liability Insurance Coverage.

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.

Adjournment:

There being no further business, the meeting was adjourned at 11:36 a.m.

John Wiesman, Secretary