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HEALTH CARE FACILITIES

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Financing the Health Care Future

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**Washington Health Care Facilities Authority
410 11th Avenue S.E., Suite 201
Olympia, WA 98504
Wednesday, January 25, 2017 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:

Lieutenant Governor Cyrus Habib, Member, by conference speakerphone
AnnaLisa Gellermann, Insurance Commissioner's Designee/Member, by conference speakerphone
John Wiesman, Secretary of Health/Member/Chair, by conference speakerphone

Authority Staff Present:

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

Others Present:

Brandon Pond, Authority Bond Counsel, Hillis Clark Martin & Peterson P.S., by conference speakerphone
Mark Melio, Authority Financial Advisor, Melio & Company, by conference speakerphone
Raul Ardelean, Authority Financial Advisor, Melio & Company, by conference speakerphone
Rusty Fallis, Authority Assistant Attorney General, by conference speakerphone
Libby Hollingshead, Director of Operations and Legislative Liaison, Office of the Lieutenant Governor, by conference speakerphone
Robert Turner, Senior Vice President, Kaufman Hall & Associates LLC, by conference speakerphone
Warren Hewitt, Vice President & Chief Administrative Officer, Seattle Children's Hospital, by conference speakerphone

Donna Reinhart, Director of Treasury Services, Seattle Children's Hospital, by conference speakerphone

Herb Bone, Corporate Treasurer, Fred Hutchinson Cancer Research Center, by conference speakerphone

Mr. Wiesman called the meeting to order at 9:02 a.m. after noting a quorum was present consisting of himself, Lieutenant Governor Habib, and Ms. AnnaLisa Gellermann.

Review, discussion and possible action regarding the Minutes of December 14, 2016.

After discussion and upon motion by Ms. Gellermann and seconded by Mr. Wiesman, the minutes of the December 14, 2016 Authority meeting were accepted by a majority roll call vote. Lieutenant Governor Habib did not attend the December 14, 2016 board meeting and as a result did not vote on the approval of the minutes. The motion passed with a 2/3 majority.

Review, discussion and possible action regarding the adoption of Resolution No. 2017-01 approving an amendment to the Authority's Refunding Revenue Bond, Series 2012B (Fred Hutchinson Cancer Research Center) and authorizing the execution, authentication and delivery thereof.

Pursuant to Resolution No. 2012-11 of the Authority, adopted on August 9, 2012, the Authority issued its Refunding Revenue Bond, series 2012B on August 30, 2012, and lent the proceeds thereof to Fred Hutchinson Cancer Research Center. Bank of America, N.A., purchased the Series 2012B Bond, which bears interest at a daily rate based on LIBOR, and upon such purchase, the Authority assigned all of its rights, title and interest in the Loan Agreement to the Purchaser as part of the security for the repayment of the Bond. Fred Hutch and the Purchaser have agreed to amend the Loan Agreement to reflect technical changes to LIBOR that have occurred since the issuance of the Bond, and have requested that the Authority make conforming amendments to the Bond.

Resolution No. 2017-01, if adopted, would approve the amendments to the Bond that conform to amendments that are being made to the Loan Agreement to reflect technical changes to LIBOR that have occurred since the issuance of the Bond, and authorizes the execution, authentication and deliver of the amended Bond.

Authority bond counsel, Hillis Clark Martin & Peterson P.S., has prepared and reviewed the proposed amendments, and has determined that such amendments will not adversely affect the exclusion of the interest on the Bond from gross income of the Purchaser for purposes of federal income taxation.

A motion is necessary to adopt Resolution No. 2017-01, which would approve the amended Series 2012B Bond and authorize the execution, authentication and delivery of the amended Series 2012B Bond. Mr. Govia urged adoption of Resolution No. 2017-01 for the benefit of Fred Hutch.

There being no further discussion, no member of the public requesting the opportunity to comment, and upon motion by Ms. Gellermann, seconded by Mr. Wiesman, Resolution No. 2017-01 was unanimously adopted by roll call vote.

Review, discussion and possible action regarding the acceptance of an amendment to the 2016 application for financial assistance submitted by Fred Hutchinson Cancer Research Center.

Ms. Murr introduced Mr. Herb Bone, Corporate Treasurer, Fred Hutchinson Cancer Research Center who is available to answer any questions the Authority may have.

Mr. Govia summarized the amendment request. Fred Hutchinson Cancer Research Center submitted an application for financial assistance in the amount not-to-exceed \$213,900,000 that was accepted by the Authority on November 15, 2016. Proceeds of the loan are to be used to refinance various outstanding Authority bonds and for relocation, renovation & remodeling of several facilities. More specifically, the proceeds will be used for: the relocation of Fred Hutch's Cell Processing Facility and Biologics Production Facility to off-site leased space and the build-out of the leased space to accommodate these two research support programs, to be followed by the renovation of the previously occupied space in the Thomas Building to lab space to accommodate new faculty recruits; the renovation of existing available lab space in the Hutchinson, Weintraub, Thomas, Arnold and Eastlake buildings to accommodate new faculty recruits and their specific lab programs; and the modernization of existing elevators in the Weintraub and Hutchinson buildings and conversion of computer server room and corridor space in the Thomas building to faculty office and support space.

The requested amendment would increase the not-to-exceed amount requested to \$228,889,000. Specifically, the amount anticipated to be utilized for the remodeling and renovation aspects of the financing would be increased by \$15 million.

A motion is necessary to accept the application as amended in an amount not-to-exceed \$228,889,000. Mr. Govia urged the acceptance of the amended application. Mr. Govia re-introduced Mr. Herb Bone, Corporate Treasurer of Fred Hutch.

Mr. Bone stated that the amendment request if accepted would match the amount approved by the Board of Fred Hutchinson Cancer Research Center. Mr. Bone also stated that the original application submitted to the Authority was submitted between Fred Hutch Board Meetings. The initial project estimate and application amount was submitted to the Fred Hutch Board for approval and the board requested additional funding for the project, resulting in the need for an amendment to the application submitted to the Authority.

There being no further discussion, no member of the public requesting the opportunity to comment, and upon motion by Ms. Gellermann, seconded by Mr. Wiesman, the amendment to the 2016 application for financial assistance submitted by Fred Hutchinson Cancer Research Center was unanimously accepted by roll call vote.

Review, discussion and possible action regarding the acceptance of an application for financial assistance submitted by Seattle Children's Hospital.

Ms. Murr introduced Mr. Warren Hewitt, Vice President of Finance & CAO and Ms. Donna Reinhart, Director of Treasury Services from Seattle Children's Hospital as well as Robert Turner, Financial Advisor to Seattle Children's Hospital, from Kaufman Hall & Associates.

Ms. Murr summarized the application for financial assistance submitted by Seattle Children's Hospital, a not-for-profit regional pediatric medical center and research institute located in Seattle, WA. Children's provides a comprehensive range of inpatient and outpatient diagnostic and therapeutic services and are the only academic hospital devoted to the medical, surgical and developmental needs of children in the four-state area of Washington, Alaska, Montana and Idaho. Seattle Children's is applying for a loan in the amount of \$339,357,000.

There are three components to the plan of finance:

1. Funding \$126.4 million of capital expenditures comprised of new money financing proceeds of \$114.4 million par, \$12 million of potential premium plus \$1.4 million issuance costs.

Capital projects include:

- Constructing and equipping a new tower on the main campus.
 - Renovating and upgrading existing facilities on the main campus.
 - Constructing a new pediatric outpatient facility in Everett, WA.
 - Constructing a new research facility in Seattle, WA
 - Acquiring and renovating an outpatient and administrative facility near the main campus.
2. Refunding:
 - \$84.5 million to refund Series 2010A Bonds
 - \$62 million to refund Series 2012C Direct Placement Bonds
 - \$54 million to refund Series 2012D Direct Placement Bonds
 3. Funding eligible costs of issuance.

This will be a fixed rate public sale underwritten by J.P. Morgan Securities LLC as senior managing underwriter and Wells Fargo Securities as co-managing underwriter. The primary security is to be determined.

Children's submitted a certificate of need application on April 14, 2016 requesting 40 additional beds. The anticipated decision date was September 30, 2016; however, they have not yet received the decision. The project described in the certificate of need application proposes to add 40 beds in two phases within existing facilities. If awarded, Children's would have 411 licensed beds. If a decision is not received prior to final approval of this financing or the request is denied, any inpatient beds to be located in the new tower will be considered replacement beds and they will decommission beds within existing facilities to stay within their current licensed hospital bed capacity.

Feasibility will be determined by the Investment Grade rating of Seattle Children's Hospital. A TEFRA hearing is to be scheduled. The interest rate and loan term are to be determined. The Bond rating will be based on the rating of Children's: Aa2 by Moody's & AA by Fitch. The Bond Trustee is The Bank of New York Mellon Trust Company N.A.

In the current market, savings are limited to the issuance of tax-exempt debt. Tax-exempt rate increases have outpaced taxable rate increases pushing taxable rates to be nearly equivalent to tax-exempt rates. However, the 10-year call option available with a tax-exempt issuance does provide value in that Children's can call these bonds immediately after the initial 10-year period and achieve a lower yield than if they were to keep the bonds outstanding to maturity. Because of this market

dynamic as well as uncertainties at a policy level, Children's plans to dual track its preparations to go to market so that they are able to take advantage of the most attractive market at the time of pricing. Children's expects to determine whether it will issue taxable, tax-exempt, or some combination thereof between now and final approval of the financing, which is anticipated in March 2017. Once the financing structure is determined and estimated savings are calculated, Children's proposes that savings realized will be used in a manner that will minimize the costs of construction, reduce financing costs and facilitate the use of modern, well-equipped and reasonably priced health care facilities, all with the objective of lowering costs to the public of the use of such facilities and contributing to improving the quality of pediatric health care.

Ms. Murr re-introduced Mr. Hewitt and Ms. Reinhart from Seattle Children's Hospital. Mr. Hewitt thanked the Authority for considering their application. Children's holds a strong market position as the only pediatric academic medical center in the largest geographic region of any children's hospital in the country. Children's has a multi-year capital plan that includes a new patient tower on the main campus, operative services, clinical laboratory, cancer clinic, infusion space growth, replacement beds and an associated parking structure. In addition to the new tower, Mr. Hewitt said that Seattle Children's will be renovating and upgrading facilities on the main campus and regional sites. Children's will be constructing a new pediatric facility in Everett, constructing new research facility on the main campus in Seattle, renovating a new administrative building and relocating the Odessa Brown clinic in Seattle. The new money portion of the financing will be used to help fund a portion of these projects.

In response to Ms. Gellermann's inquiry regarding whether or not Seattle Children's will re-submit an application for a new Certificate of Need for new beds to replace the decommissioned beds if the initial Certificate of Need request is denied or not received in time. Mr. Hewitt stated that , yes, Seattle Children's would then submit a new Certificate of Need application for additional licensed beds.

In response to Lieutenant Governor Habib's inquiry regarding if the current Certificate of Need for additional beds is not approved and Children's has to decommission beds from an existing facility and move to the new tower, will the patients suffer as a result, Mr. Hewitt responded by stating that 3 years ago Seattle Children's added licensed beds and in that process created a plan for future growth which would not take away a needed bed for patients in existing facilities such as the cancer facility or intensive care unit. Children's developed a plan to make sure no patient care would suffer because of their expansion.

Mr. Turner from Kaufman Hall & Associates addressed the volatility in the market over the last several months. Currently the savings between taxable and tax exempt debt is virtually the same. The plan is to work closely with the Authority and Children's to monitor the market conditions, track both markets and prepare for the issuance of either structure, making the determination as they get closer to mailing the preliminary offer document in March of 2017; they will have established a more definitive point of view when they return to the authority for resolution adoption in March of 2017.

Lieutenant Governor Habib inquired regarding the strategy of taxable versus tax-exempt bonds and asked if a taxable bond is of greater benefit at the time of financing, would it be difficult to

restructure the taxable bond structure to a tax exempt bond? Mr. Turner stated that the two structures are not the same. Tax-exempt bonds are typically sold with a 10-year call feature, and taxable bonds are sold with a make-whole call making it difficult to refund those bonds for savings if not impossible to restructure; any economic benefit would be forfeited back to the investors.

Based on review of the application, bond counsel has determined that the borrower and the projects qualify for financing under the Authority's statute, but such determination is subject to bond counsel's due diligence review. Ms. Murr urged the Authority's acceptance of this application.

There being no further discussion, no member of the public requesting the opportunity to comment, and upon motion by Lieutenant Governor Habib, seconded by Ms. Gellermann, the application for financial assistance submitted by Seattle Children's Hospital was unanimously accepted by roll call vote.

Executive Director's Report.

Due to time constraints, the presentation of the executive director's report was postponed until the next Authority Board Meeting.

Adjournment:

There being no further business, the meeting was adjourned at 9:36 am.

John Wiesman, Secretary