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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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Donna A. Murr

**Washington Health Care Facilities Authority
Special Board Meeting
Senate Rules Room – Office of Lieutenant Governor Cyrus Habib
220 Legislative Building, 416 Sid Snyder Ave. SW
Olympia, WA 98504
Thursday, February 23, 2017 Meeting Minutes**

A special meeting of the Washington Health Care Facilities was held in the Senate Rules Room at the Office of Lieutenant Governor Cyrus Habib. 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
AnnaLisa Gellermann, Insurance Commissioner's Designee/Member/Chair
Steven Jacobs, Public Member

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:

Raul Ardelean, Authority Financial Advisor, Melio & Company, by conference speakerphone
Matt Swafford, Authority Financial Advisor, Melio & Company, by conference speakerphone
Rusty Fallis, Authority Assistant Attorney General
Dan Gottlieb, Authority Bond Counsel, Hillis Clark Martin & Peterson
Libby Hollingshead, Director of Operations and Legislative Liaison, Office of the Lieutenant Governor
Robert Turner, Senior Vice President, Kaufman Hall & Associates LLC, by conference speakerphone
Herb Bone, Corporate Treasurer, Fred Hutchinson Cancer Research Center
Michael Romine, Chief Financial Officer, Columbia Valley Community Health
Marek Kowalewski, Vice President, Kaufman Hall & Associates LLC, by conference speakerphone

Ms. Gellermann called the meeting to order at 2:00 p.m. after noting a quorum was present consisting of herself, Lieutenant Governor Habib, and Mr. Steve Jacobs.

Review, discussion and possible action regarding the Minutes of January 25, 2017.

After discussion and upon motion by Ms. Gellermann and seconded by Lieutenant Governor Habib, the minutes of the January 25, 2017 Authority meeting were accepted by a majority roll call vote; Mr. Jacobs did not vote on the approval of the minutes because did not attend the January 25, 2017 board meeting.

Review, discussion and possible action regarding the adoption of Resolution No. 2017-02 approving the amended application for financial assistance and authorizing the issuance and sale of bonds for Fred Hutchinson Cancer Research Center (Fred Hutch).

Mr. Govia summarized Resolution No. 2017-02, which if adopted would approve the application for financial assistance as amended and authorize the issuance and sale of bonds for Fred Hutchinson Cancer Research Center in the amount not-to-exceed \$228,889,000. Proceeds of the 2017 Fixed Rate Bonds – Series 2017A is currently anticipated to be used for the new money portion of the financing plan which includes the acquiring, constructing, remodeling, renovating, equipping and improving research and support facilities of Fred Hutch’s comprehensive cancer center. More specifically, the proceeds will be used for (1) 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; (2) renovation of existing lab space in the Hutchinson, Weintraub, Thomas, Arnold & Eastlake buildings to accommodate new faculty recruits and their specific lab programs; (3) the modernization of existing elevators in the Weintraub and Hutchinson buildings; (4) conversion of a computer server room and corridor space in the Thomas building to faculty office and support space; and (5) the acquisition of grant management software.

The 2017 Variable Rate Bonds – (One or More Series to be issued) are currently anticipated to be used to refund the following outstanding WHCFA Bonds: Series 2010, Series 2012A, Series 2012B, Series 2014 and Series 2015B. The aggregate estimated savings from refunding the outstanding WHCFA bonds is estimated at \$5,850,274.

It is anticipated that Fred Hutch will save approximately \$34,300,000 in interest costs over the life of the proposed bond issue by financing at tax-exempt rates compared to taxable rates. The final number of variable rate series to be issued and final proceed allocation will be determined based on market conditions at pricing. This transaction will be a public sale. The underwriter is J.P. Morgan Securities LLC. The primary security is master note obligations. A Certificate of Need is not required per Department of Health. The feasibility is based on the investment grade rating of Fred Hutch which is currently A3 by Moody’s and A by S&P. The bond trustee is U.S. Bank National Association. A TEFRA Hearing was held on February 22, 2017, at which no individuals testified for or against the project.

Based on the determinations that are required by Authority WACs, the due diligence investigation conducted by Hillis Clark Martin & Peterson P.S. serving as Authority’s bond counsel as well as information in the application, Mr. Govia urged the adoption of Resolution No. 2017-02 for the benefit of Fred Hutchinson Cancer Research Center. Mr. Gottlieb summarized the documents presented for approval and indicated that they are all in good order.

In response to Lieutenant Governor Habib's inquiry regarding the maturity date of 2053 and whether or not that long of a maturity is standard for these type of bond issues, Mr. Gottlieb responded by stating that the final maturity is consistent with the requirements set forth by the federal tax code and the bonds can't have an average maturity of more than 120% of the useful life of the assets that are being financed.

Mr. Govia introduced Mr. Herb Bone, Corporate Treasurer of Fred Hutch. Mr. Bone thanked the Authority for allowing Fred Hutch to refinance its bonds and to help pursue their strategic plan and initiatives to cure cancer. The current financing will allow Fred Hutch to refinance all of their outstanding WHCFA variable rate debt that had been borrowed via direct bank purchases and allow the debt to be offered in the public market. It will also allow Fred Hutch the ability to invest in their campus and new faculty. Although, all Fred Hutch's variable rate debt issued through the Authority is being refinanced with this transaction, Fred Hutch will still have outstanding WHCFA fixed rate debt.

In response to Mr. Jacobs inquiry regarding Juno Therapeutics, its value and if it will have any impact on Fred Hutch's debt going forward. Mr. Bone responded by stating Juno Therapeutics is a company that spun out of intellectual property that Fred Hutch helped develop in conjunction with Memorial Sloan Kettering and Seattle Children's. This company went public in December, 2014 and when it did go public the initial price was \$24 per share and closed at \$35 per share. Shares increased to \$53 per share by the end of FY15. Fred Hutch sold about 2 million shares during that time period and monetized it on their balance sheet. The price per share has declined as of June 2016 to \$38 per share and is currently at \$23 per share. Fred Hutch has been able to monetize and improve their balance sheet through previous sales of Juno stock. Mr. Bone stated that the remaining stock will be liquidated as needed at future price points.

There being no further discussion, no member of the public requesting the opportunity to comment, and upon motion by Mr. Jacobs, seconded by Lieutenant Governor Habib, Resolution No. 2017-02 was unanimously adopted.

Review, discussion and possible action regarding the acceptance of an application for financial assistance submitted by Columbia Valley Community Health (CVCH).

Mr. Govia summarized the application for financial assistance submitted by Columbia Valley Community Health located in Wenatchee, Washington. Columbia Valley Community Health is a federally qualified health center. Services provided to the community include adult and pediatric primary care, urgent care, mid-wifery, dental, integrated behavioral medicine, behavioral health, pharmacy, lab, diagnostic imaging, WIC nutritional program and nutrition counseling services. CVCH is applying for a loan in the amount of \$9,911,965. Proceeds of the loan will be used to finance the construction of a new outpatient clinic in Chelan, Washington and refinance the WHCFA Series 2010 Bond. The new clinic will be 17,000 square feet and provide medical, dental, WIC nutritional program, integrated behavioral health medicine, behavioral health and outreach. There will be 12 medical exam rooms and 7 dental operatories. Space will also be allocated to clinic administration and adult education. The new construction portion of this loan will be approximately \$5,000,000 and the refinance portion of the loan will total approximately \$4,911,965.

This will be a Quick Loan private placement. The lender will be Wells Fargo Bank, N.A. The primary security will be a deed of trust. There are no Certificate of Need issues per the Department of Health. Feasibility has been determined by the lender. A TEFRA hearing is to be scheduled. The interest rate is a fixed and estimated at 2.67% with a 10 year initial term and 15 year amortization. The Depository Bank is Wells Fargo Bank, N.A.

It is anticipated by CVCH that it will save approximately \$1,000,000 in interest costs over traditional taxable interest rate financing. As a not-for-profit health care service entity, all excess earnings and cost savings are used to support the provision of charitable care and for expansion of services.

Based on review of the application, bond counsel has determined that the borrower and the project are eligible for financing under the Authority's statute, but such determination is subject to bond counsels due diligence review. Mr. Govia urged the Authority's acceptance of this application.

Mr. Govia introduced Mr. Michael Romine, Chief Financial Officer from Columbia Valley Community Health. Mr. Romine provided an overview of CVCH. Mr. Romine thanked the Authority for the opportunity to seek financing for CVCH. Mr. Romine stated that CVCH is a federally qualified Health Center. Their focus is providing needed health services to an underserved population. Half of their patients are at or below the federal poverty level. A high percentage of their patients are on Medicaid through Medicaid expansion. All patients at CVCH are served regardless of their ability to pay. CVCH provides the whole person range of services in terms of medical, dental and behavioral health. The Chelan clinic will be able to continue to serve that population at their new site.

Lieutenant Governor Habib asked how much of the financial outlook for Columbia Valley Community Health is dependent upon Medicaid expansion and reimbursement; whether CVCH is concerned with the current uncertainty of federal policy and programs; and whether this was a source of financial concern for Wells Fargo as the purchaser? Mr. Romine responded that Wells Fargo has not expressed any significant concerns. In terms of revenue, approximately 80% is from the Medicaid expansion. Mr. Romine stated it is a significant piece of their overall financial health.

In response to Mr. Jacob's inquiry regarding an existing lease for a building in Chelan. Mr. Romine stated that they were currently operating at the school district in a vacated building and the school district has asked them to leave. Mr. Romine also stated that a new building will expand the footprint in Chelan and increase the number of patients they are able to serve. Based on a survey, it is believed that an estimated 1,400 people in Chelan are not having their medical needs met. This new facility will provide the ability to access an additional doctor and dentist to provide necessary medical services

There being no further discussion, no member of the public requesting the opportunity to comment, and upon motion by Mr. Jacobs, seconded by Lieutenant Governor Habib, the application for financial assistance submitted by Columbia Valley Community Health was unanimously accepted.

Executive Director's 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 2:35 pm.

John Wiesman, Secretary