

Oregon Facilities Authority

Minutes of Meeting of September 12, 2016

A duly called meeting of the Oregon Facilities Authority ("OFA" or the "Authority") was held on September 12, 2016, commencing at approximately 12 p.m. at 888 SW Fifth Ave., Suite 1600, Portland, OR.

Authority Members participating during the meeting were: Chair Sean Hubert and Vice-Chair Martha McLennan and Authority Members Karen Weylandt and J. Kevin McAuliffe.

Participating in person to assist the Authority were: Gwendolyn Griffith, Executive Director of the Authority; Jessica Morgan, Associate Executive Director of the Authority; Pat Clancy of Western Financial Group, Financial Adviser; Carol McCoog of Hawkins, Delafield & Wood LLP, SNAP and Special Bond Counsel; Michael Schrader and Greg Blonde of Orrick, Herrington and Sutcliffe, LLP, Lead Bond Counsel; Laura Lockwood-McCall and Lee Anaya of the Office of the State Treasurer ("OST"); and Cynthia Byrnes of the Oregon Department of Justice ("DOJ").

Chair Sean Hubert called the meeting to order and presented the notice of meeting.

Approval of Minutes

The Minutes of the meeting of July 11, 2016 were unanimously approved.

Panel Discussion

The Board had previously requested additional information regarding the advantages and disadvantages of expanding its rules on the sale of non-rated bonds to individuals, specifically accredited investors. Mr. Schrader explained OFA's current rules regarding selling bonds to individual investors and the history of these rules. Currently, non-rated bonds can only be sold to institutional investors, not individuals. Mr. Schrader then offered examples of why the Board has typically refrained from allowing such sales in the past. OST observed that it is possible for such bonds to end up (perhaps through the secondary market) in the hands of people who do not understand how conduit revenue bonds work, and that the State does not guarantee them. In such cases, if there is a payment default, OST could become a target of criticism, even though the bonds are not backed by the State.

Mr. Nick Hagen of Piper Jaffray & Co. and Ms. Mary Munoz of Zeigler Investment Banking attended the meeting to offer insight into the markets for non-rated nonprofit revenue bonds. They agreed that in such offerings, only a portion of the bonds (less than 20%) would be offered to individual investors; the rest would typically be reserved for institutional buyers. Mr. Hagen and Ms. Munoz both described their firms' procedures to make sure that bonds are not sold to those for whom they are not suitable investments. They observed that OFA's limitations are among the most restrictive among the conduit issuers with whom they work. The Board raised

potential issues with regard to selling the bonds on the secondary market and concerns with continued oversight and monitoring.

The presenters discussed in general terms the potential interest rate savings to nonprofit borrowers if OFA's restrictions on sales of unrated bonds to individual investors could be eliminated or mitigated. After discussion, the Board requested further analysis on other states' policies relating to sales to individual investors of non-rated bonds, and follow-up as a separate agenda item for discussion at an upcoming meeting.

Consideration of Conditional Final Approval for the application of an OFA Traditional Bond for Legacy Health System in an amount not to exceed \$373,515,000.

Dr. Everett W. Newcomb, Chief Operating Officer, Ms. Sarah Jensen, Vice President of Finance, appeared on behalf of the Applicant. Ms. Jennifer Dougherty, Managing Director of Ponder & Co., the Financial Advisor to the Applicant, appeared to assist in the presentation. The presentation slides are available upon request.

Mr. Newcomb reviewed the history, background and current activities of the organization. The Applicant is a nonprofit organization based in Portland, Oregon, and serving Oregon, Southwest Washington and the Mid-Willamette Valley. It is the only health system covering areas from Vancouver and Portland and south to Salem, with multiple hospitals and a specialized children's hospital. Mr. Newcomb described the project which is the expansion of the Emanuel OR/ICU and certain refinancings, as described below. Ms. Jensen provided the Board with a summary of the status of the Applicant's finances.

Ms. Dougherty described the capital structure and the proposed plan of finance. The Applicant intends to use the bond proceeds for (1) financing the cost of construction of capital projects described above (approximately \$200 million); (2) refunding of the HFA Clackamas County 2008 bonds (approximately \$50 million); (3) refunding the HFA Clackamas County 2009 bonds (approximately \$70 million); (4) refunding the OFA 2010 bonds (approximately \$52 million); and (5) costs of issuance. The bonds will be publicly offered, with Citigroup and Barclays acting as co-managers. The Applicant requested approval to sell and issue one or more series of the bonds by a private placement transaction. The Applicant indicated that the refunding of the OFA 2010 bonds will be monitored for potential cash flow savings but are not part of the financing proposal.

Bond Counsel's report is included in the materials. Mr. Blonde summarized the proposed financing structure and described the status of the due diligence and documentation process as substantially underway. Despite the complexity and size of the transaction he did not anticipate any unusual issues arising that would require further analysis by the Board. He briefly reviewed the issue relating to fees for non-OFA refunded bonds. He recommended the financing for conditional final approval.

The Financial Advisor's report is included in the materials. Mr. Clancy commented on the Applicant's progress and experience in tax-exempt bond financing and remarked favorably regarding the Applicant's financial advisory team. He commented on the favorable ratings and recommended the transaction for conditional final approval.

Ms. Griffith's report is included in the materials. Ms. Griffith welcomed back the Applicant to OFA and observed that the Applicant is seeking conditional final approval. Ms. Griffith noted for the Board that this is a familiar borrower to OFA, having closed several bond offerings in 2010, 2011 and 2014. The Applicant is an experienced participant in the tax-exempt revenue bond market and has an experienced financing team in place. The financing team has had several calls and is already working diligently on the transaction. She recommended the transaction for conditional final approval.

After discussion, Ms. McLennan moved that the Board adopt Resolution 2016-15, granting conditional final approval to Legacy Health System for an OFA Traditional Bond in an amount not to exceed \$373,515,000 and requesting that the State Treasurer consider issuing the bond when conditions have been satisfied, and further authorizing a fee of five basis points for the portion of the transaction involving the refunding of bonds not originally issued through OFA. Mr. McAuliffe seconded the motion and Resolution 2016-15 was unanimously approved.

Consideration of Preliminary Approval for the Application of an OFA Traditional Bond for Personalized Learning, Inc., dba Redmond Proficiency Academy, in an approximate amount of \$8,500,000.

Mr. Jonathan Bullock, Executive Director, appeared on behalf of the Applicant. Mr. Nick Hagen, Piper Jaffray & Co., the underwriter, appeared to assist in the presentation of the application.

Mr. Bullock summarized the Applicant's history and mission. The Applicant is a 501(c)(3) nonprofit organization operating as a charter school in Redmond, Oregon. It has just renewed its contract with the Redmond School District to continue the charter through June 30, 2019. The current enrollment of students at the school is 869, with projected numbers to be around 900 over the next few years. In December 2015, the Applicant closed an OFA financing in the amount of \$6,180,000 (Series A – nontaxable) and \$505,000 (Series B – taxable)

The bond proceeds are expected to be used to finance (1) the acquisition and renovation of the Glacier Building, which is currently under a lease by the Applicant (approximately \$3.1 million); (2) the acquisition and expansion of the Printing Post Facility, which is currently under lease by the Applicant (approximately \$3.7 million); and (3) certain tenant improvements at the McClay Building, which is currently under lease by the Applicant (approximately \$500,000). These projects are expected to be complete by September 1, 2019.

Mr. Hagen described the Applicant's historical financial performance and showed the forecasted projected performance summarized the financing structure for the proposed bond transaction. As with the last financing, the projects are 100% financed through this offering. The offering is expected to consist of both a taxable (approximately \$305,000) and nontaxable (approximately \$8,195,000) portion. The financing will be an unrated, long-term fixed rate sale offered to institutional investors.

Bond Counsel's report is included in the materials. Mr. Schrader commented on the completion of the prior bond transaction and provided an update on the current due diligence and disclosure process. Bond Counsel and the financing team would have a particular focus on ensuring that the additional debt tests were met. He recommended the transaction for preliminary approval.

OST raised questions regarding the Applicant's capacity to withstand significant reductions in state funding. Given the projections of revenue and budget cuts, OST requested that additional stress testing of the Applicant's projections be conducted prior to final approval. The Applicant agreed to do so and provide these to OST.

The Financial Advisor's report is included in the materials. Mr. Clancy reviewed the structure of the transaction and reiterated Bond Counsel's concerns with additional debt tests, and pointed out that the question of who would conduct these tests would need to be resolved early in the process. He recommended the transaction for preliminary approval.

The Executive Director's report is included in the materials. Ms. Griffith welcomed back the Applicant to OFA. She then outlined for the Board the expected timing for closing and structure of the transaction. As she expects a smooth transaction with no substantial barriers, she recommended the transaction for preliminary approval.

After discussion, Ms. McLennan moved that the Authority adopt Resolution 2016-16, granting preliminary approval to Personalized Learning Inc. dba Redmond Proficiency Academy, for an OFA Traditional Bond in an approximate amount of \$8,500,000. Mr. McAuliffe seconded the motion and Resolution 2016-16 was unanimously approved.

Consideration of Final Approval for the Application of an OFA SNAP Bond for Clark Family Center in an amount not to exceed \$3,073,000.

Mr. Richard Horsford, CFO, appeared on behalf of the Applicant. Ms. Kathy Swift, Pacific Continental Bank (the "Bank"), appeared to assist in the presentation of the application.

Mr. Horsford reviewed the project: to complete construction of the Clark Family Center and refinance debt that remains from the initial construction of the Center. The Center provides integrated programs, resources and services to families designed to help them build assets and emerge from crisis. The one change since preliminary approval was the change in requested bond proceeds from \$3,040,000 at preliminary approval to \$3,073,000. Ms. Swift updated the Board on the financing plan. The Bank will be providing the Applicant with a 25-year, fully amortizing loan with an initial interest rate at 3.228% fixed for 10 years, with re-pricings and mutual calls on the 10 and 20 year anniversaries. Mr. Horsford confirmed that the Applicant is ready to move forward.

Bond Counsel's report is included in the materials. Ms. McCoog confirmed that due diligence is complete. The project now carves out the chapel and day care center and Ms. McCoog is satisfied from a tax and state law perspective that the bond proceeds are being used for allowable purposes. She recommended the transaction for final approval.

The Executive Director's report is included in the materials. Ms. Griffith thanked the Applicant for postponing their approval date from last month. She then recommended the transaction for final approval.

Ms. McLennan moved that the Authority adopt Resolution 2016-17, granting final approval to Clark Family Center for an OFA SNAP Bond in an amount not to exceed \$3,073,000 and requesting that the State Treasurer consider issuing the bond. Mr. McAuliffe seconded the motion and Resolution 2016-17 was unanimously approved.

Consideration of Final Approval for the Application of an OFA Traditional Bond for Childpeace Montessori School in an amount not to exceed \$8,150,000.

Ms. Sue Pritzker, Head of School, Ms. Rose Rodgers, Business Manager and Mr. Ewan Rose, Board Member appeared on behalf of the Applicant. Mr. Kyle Hanson of US Bank, N.A. (the "Bank") and Mr. Kevin Quinn of Wye River Group (via telephone) appeared to assist in the presentation of the application.

Ms. Pritzker described the project and its current status. She stated that there have been no changes in the project since preliminary approval and that the Applicant is ready to move forward.

Mr. Hanson described the financing plan. This is a private placement with the Bank and the bond is structured as a variable rate loan with a 7-year term and an interest rate swap component. The structure is the same as had been approved by the Board at preliminary approval and the documents are in final form.

Bond Counsel's report is included in the materials. Mr. Schrader summarized the project for the Board and reported that no issues had arisen in the due diligence process. The financing team is currently working on finalizing Bank of the West's letter of credit logistics. The bond documents are in substantially final form. He recommended the transaction for final approval.

The Financial Advisor's report is included in the materials. Mr. Clancy explained that Wye River had been engaged to advise the Applicant as its financial advisor and it has been advising the Applicant throughout the process. Mr. Clancy recommended the transaction for final approval.

The Executive Director's report is included in the materials. She recommended the transaction for final approval.

There being no further discussion, Ms. McLennan moved that the Authority adopt Resolution 2016-18, granting final approval to Childpeace Montessori School for an OFA Traditional Bond in an amount not to exceed \$8,150,000 and requesting that the State Treasurer consider issuing the bond. Mr. McAuliffe seconded the motion and Resolution 2016-18 was unanimously approved.

Consideration of Final Approval for the Application of an OFA Traditional Bond for Portland Habilitation Center in an amount not to exceed \$20,550,000.

Mr. Jim Nowodworski, CFO, appeared on behalf of the Applicant. Mr. Marc Stasiowski and Mr. John Wooten, Wells Fargo Bank, N.A. (the "Bank") attended the meeting via phone to assist in the presentation of the application.

Mr. Nowodworski updated the Board regarding the project. He stated that there had been no changes to the project or to the structure from those described at the preliminary approval meeting and that the transaction documents are in final form. He confirmed that the Applicant is ready to proceed to closing. Mr. Stasiowski confirmed that the Bank has approved the transaction and the borrower and is also ready to proceed.

Bond Counsel's report is included in the materials. Mr. Schrader summarized the extensive due diligence process and described the issues that arose regarding counsel's 501(c)(3) opinion. Mr. Schrader further commented on the project being owned by separate entities and the affordability issues imposed in tax requirements and regulatory agreements. He noted that although it is atypical for OFA to see affordability projects such as these, he sees no impediments to the transaction. He recommended the transaction for final approval.

The Financial Advisor's report is included in the materials. Mr. Clancy agreed with Bond Counsel's comments. He remarked on the lack of financial advisor assisting Applicant in the transaction but believes the Applicant to be sophisticated enough to understand the process and structure and ongoing compliance. Mr. Clancy recommended the transaction for final approval.

The Executive Director's report is included in the materials. Ms. Griffith commended the Applicant and the financing team on moving this transaction forward despite its complexity. She indicated that there are no outstanding issues and recommended the transaction for final approval.

There being no further discussion, Ms. McLennan moved that the Authority adopt Resolution 2016-19, granting final approval to Portland Habilitation Center for an OFA Traditional Bond in an amount not to exceed \$20,550,000 and requesting that the State Treasurer consider issuing the bond. Mr. McAuliffe seconded the motion and Resolution 2016-19 was unanimously approved.

Other Items and Public Comment:

Mr. Hubert asked for any other matters for the Authority, and for public comment.

Ms. Griffith provided the Board with an update on current bonding authority for the biennium ending June 2017 and summarized the current bond amounts outstanding and reserved. She raised a concern of not being able to attend to the needs of potential borrowers who may need financing prior to June 30, 2107. Ms. Lockwood-McCall explained to the Board how to increase bonding authority for the Board. The options presented were (1) to wait for a substantial borrower to make an application and work with the Treasurer to increase bonding authority in the bond bill, or (2) to create a stand-alone bill to move through the legislative

process. The Board and attendees discussed the matter and recommended that a member of the Board take this on as a project. Further discussion tabled until the next meeting.

Ms. Griffith requested that the Board take into consideration the necessity of issuing more conditional final approvals due to the increased number of borrowers coming before the Board and the timing for approvals.

Ms. Griffith reported on a proposed transaction Samaritan Health System, which requested an accelerated timeline for obtaining a bond. She recommended that the Board hold a special meeting to see the application for preliminary approval and obtain final approval at the October meeting. The Board agreed with the recommendation, with the date and time of the meeting to be determined.

Ms. Morgan reviewed the current state of the OFA website and the necessary changes to be made. OST has engaged a contractor to develop the new website under the direction of Mr. Sinks from OST and Ms. Morgan on behalf of the Board. They have begun working with the contractor to prepare a mock website (modeled after Washington's website) for the Board to review and provide feedback.

Mr. Hubert asked for any public comment. There was none.

There being no further business to come before the meeting, the meeting was adjourned at approximately 3:40 p.m.



Sean Hubert, Chair



Gwendolyn Griffith, Executive Director

034439/00001/7567238v6