

Oregon Facilities Authority

Minutes of Meeting of

April 10, 2017

A duly called meeting of the Oregon Facilities Authority ("OFA" or the "Authority") was held on April 10, 2017, commencing at approximately 12:00 p.m. at 888 SW Fifth Avenue, Suite 1600, Portland, Oregon.

Authority Members participating in the meeting were: Chair Sean Hubert (via telephone) and Vice-Chair Martha McLennan; and Authority Members Beth deHamel, Karen Weylandt (via telephone), J. Kevin McAuliffe and Eric Johansen.

Participating in the meeting 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; Gulgun Mersereau of Hawkins Delafield & Wood LLP, SNAP and Special Bond Counsel; Michael Schrader and Kevin White of Orrick, Herrington and Sutcliffe LLP, Lead Bond Counsel; Lee Anaya and Laura Lockwood-McCall of the Office of the State Treasurer ("OST"); David Elott, Attorney General's office; and Ms. Nikki Pham, Executive Assistant to the Authority.

Vice-Chair Martha McLennan called the meeting to order and presented the notice of meeting.

Executive Director Reports

Ms. Pham reminded the Board Members of their obligations to complete the Statement of Economic Interest online forms by April 15th. Board members should contact Ms. Pham if they need assistance.

Ms. Griffith directed the Board's attention to the Bonding Report and the General Report. Bond Counsel updated the Board on the status of pending transactions, and Ms. Griffith described her conversations with several potential borrowers.

Ms. Griffith informed the Board that the annual Planning Session would be held at Linfield College in McMinnville, and confirmed that May 8 was the date for this meeting. As usual, a business meeting to consider bond applications will accompany the Planning Session.

Informational Items

The OFA service contract for its financial adviser will terminate June 30, 2017. Ms. Griffith recommends extending this contract, and for the Board to consider, in consultation with OST, issuing an RFP for financial advisory services, given that Western Financial is now wholly owned by PFM. She will include this as part of the agenda at the Planning Session.

Mr. Clancy described the financial advisory services he currently provides to OFA: (1) OFA SNAP Bond consultations; (2) OFA Traditional Bond advice; (3) other advisory services, upon request by OFA on an as-needed basis. Mr. Clancy further described, in general terms, the fees

incurred for each category in comparison to market standards. The Board discussed potential conflicts with financial advisors and how those conflicts may be resolved, with approval from OST.

Discussion of SNAP Bond Nomenclature

Mr. Elott updated the Board on the language of the OFA statutes and rules regarding the use of the term "bond" in the SNAP program, and advised the Board that the statutory language could be used to designate a transaction as a bond or a loan, interchangeably. Mr. Schrader and Ms. McCoog provided their views on the change in nomenclature. Any change to the language would likely require a revision to the OFA administrative rules and revisions to the financing agreement and other documents relating to the SNAP process. OST inquired as to whether a change in the administrative rules (perhaps a temporary rule) would be required prior to adopting this change in order to ensure that SNAP documents are legally sufficient. OFA staff and advisors will assess the proposed change in the nomenclature in the rules and other related documentation, and seek final approval from the Board along with any required changes in the administrative rules.

Concordia Update

Mr. Schrader provided the Board with further details on the Concordia reported material event of default. Concordia breached a financial covenant in its 2010 Traditional Bond documents, which resulted in its decision to defease these bonds, effective April 14, 2017. The actual default related to an operating deficit resulting from a significant decline in enrollment for the borrower's online program, which in turn resulted from a change in the service provider for outreach and an increase in competition in the online course arena. The Board discussed the process for notifying OFA in the event of borrower bond defaults.

Approval of Minutes

The Minutes of the meeting of March 13, 2017, were unanimously approved, subject to verification of the completion date under Morrison Child and Family Services.

The Board took a brief recess to change rooms and reconvened at approximately 1:10 p.m. Mr. Hubert joined the meeting remotely via telephone.

Consideration of Final Approval for the Application by St. Mary's of Medford, Inc. for an OFA Traditional Bond in an amount not to exceed \$14,000,000.

Mr. Brad Olsen, Director of Finance, and Mr. Frank Phillips, Head of School, appeared on behalf of Applicant. Ms. Kris Cebull, of Leora Consulting Group LLC, the financial advisor for Applicant, Mr. Joseph Momich (via telephone) with Hedge Point Financial, hedge advisor for Applicant, and Mr. Chris DuBose and Ms. Andrea de la Fuente (via telephone) of US Bank (the "Bank") appeared to assist in the presentation. The Applicant presented a slide deck, a copy of which is available upon request.

Mr. Phillips reported that the Applicant has made good progress on the building plans, construction contract and design, and is ready to start construction. He also commented favorably on the momentum of the Applicant's capital campaign. Mr. Olsen provided the Board with an update on the Applicant's finances. He reported that Bank terms are final and the documents are in satisfactory form. The transaction structure is a 2-series financing: Series A will be a refinancing of the existing mortgage in amount of approximately \$2.9 million, with a floating rate; and Series B will be structured as a construction financing for costs in the amount of approximately \$4.6 million, with a floating rate that will be hedged using an interest rate cap. Mr. Phillips reported that the Board of the Applicant analyzed this structure and determined that it would provide the best option to achieve the dual goals of consolidating debt and conserving resources during construction. The Applicant considered a fixed rate option, but decided against it because it would have required the Applicant to reserve approximately \$10 million and to pay a higher rate of interest. The proposed structure saves the Applicant about \$155,000. The interest rate cap model allows the Applicant to pay a low variable interest rate through construction and early operations, capped at 2.5%. The Applicant's advisors recommended this structure. Ms. Cebull, financial advisor to the Applicant, reported on other schools' financings, which have similar structures, and those schools' ability to make payments and to handle the complexities associated with a hedged rate.

The Bank stated that credit approval is final, all documents are in final form and "all systems are go," pending final approval from OFA and OST.

Bond Counsel's report is included in the materials. Mr. Schrader described the bond structure, and reported that the documents were in substantially final form, all issues had been resolved and due diligence was completed. He described two issues that were revealed during the diligence process. First, there is a chapel on the campus, but bond proceeds will not be used to finance that portion of the facility. Second, the Applicant discovered during diligence that it did not have a *published* nondiscrimination policy, which is a federal requirement. The Applicant has corrected the non-publication problem. Bond Counsel recommended the transaction for final approval.

The Financial Adviser's report is included in the materials. Mr. Clancy commented favorably on the work of the Applicant with its advisors toward understanding this complex transaction, and he reported that the structure appears to be well-considered and appropriate. All documents seem to be in order. Mr. Clancy recommended the transaction for final approval.

The Executive Director's report is included in the materials. Ms. Griffith reported on the TEFRA hearing, at which there were no public comments. She recommended this transaction for final approval, with closing expected at the end of April.

OST had no additional questions but thanked the Applicant for its additional work on the hedge diligence and analyzing the transaction structure.

After discussion, Mr. McAuliffe moved that the Authority adopt Resolution 2017-4, granting final approval to St. Mary's of Medford, Inc. for an OFA Traditional Bond in an amount not to exceed \$14,000,000, and requesting that the Office of the State Treasurer consider issuing the bond. Mr. Johansen seconded the motion and Resolution 2017-4 was unanimously approved.

Consideration of Final Approval for the Application by OCHIN, Inc. for an OFA Traditional Bond in an amount not to exceed \$11,200,000.

Mr. Sean Whitley-Ross, Chief Financial Officer, and Mr. James Maldonado, Corporate Counsel, appeared on behalf of the Applicant. Mr. Kyle Hanson of US Bank (the "Bank"), Ms. Sallie Lin (via telephone), Borrower's counsel, and Mr. Joseph Momich (via telephone) with Hedge Point Financial, swap advisor for Applicant, appeared to assist the Applicant in the presentation. The Applicant presented a slide deck, a copy of which is available upon request.

Mr. Maldonado reported on the status of the project. The Applicant has purchased the property, using a bridge loan provided by US Bank. All issues relating to the OFA transaction have been resolved to the Applicant's satisfaction, and the Applicant appreciates having the flexibility to modify the structure at the end of five years. Mr. Whitley-Ross and Mr. Maldonado presented their analysis of the various fixed rate structures as compared to the variable rate/hedged structures offered by the Bank. Various factors were considered: the advice of their advisors; current economic conditions; structure flexibility; interest rate; certainty; and cost. They reported that their advisors concur in their belief that the selected structure is appropriate.

The Bank updated the Board on the recent closing of the bridge financing, which occurred on February 17th. This bridge loan will be refinanced by the OFA bond. Closing is scheduled to take place on April 27th. The Bank reported that credit approval for the OFA refinancing is final, the documents are final, and the transaction is in the "all systems go" mode, pending final approval from OFA and OST.

Bond Counsel's report is included in the materials. Mr. Schrader commented that the refinancing structure, where the Bank has provided the bridge loan to purchase the property, makes documentation of the transaction less complex. Due diligence is complete, and no unusual issues were revealed in the process. The bond documents are in substantially final form. Bond Counsel recommended the transaction for final approval.

The Financial Adviser's report is included in the materials. Mr. Clancy reported a smooth transaction process even though there were many conversations regarding the swap. He thanked the Applicant and its advisors for their thoughtful analysis on the swap structure. He recommended the transaction for final approval.

The Executive Director's report is included in the materials. Ms. Griffith reported that she held a TEFRA hearing, and there was no public comment. She thanked the financing team for their efforts, and recommended the transaction for final approval.

After discussion, Mr. McAuliffe moved that the Authority adopt Resolution 2017-5, granting final approval to OCHIN, Inc. for an OFA Traditional Bond in an amount not to exceed \$11,200,000, and requesting that the Office of the State Treasurer consider issuing the bond. Ms. deHamel seconded the motion and Resolution 2017-5 was unanimously approved.

Ms. McLennan asked for any public comment. There was none.

There being no further business to come before the meeting, the meeting was adjourned at approximately 1:42 p.m.



Martha McLennan, Vice-Chair



Gwendolyn Griffith, Executive Director

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