



HHC CAPITAL CORPORATION

160 Water Street, Room 1014 - New York, New York, 10038
212 - 788 - 3494 Fax: 212 - 788 - 9708

HHC Capital Corporation Semi-annual Meeting

May 28, 2015, 3:30 p.m.
125 Worth Street – 5th Floor Board Room
New York, New York 10013

AGENDA

- | | | |
|------|---|--------------------|
| I. | Call to order
Adoption of minutes for the HHC Capital Corporation Meeting held on 11/20/14 | Gordon J. Campbell |
| II. | Equipment Financing Program | Linda Dehart |
| III. | RFP for Underwriting Services | Nini Mar |
| IV. | History of HHC's Bond Issuances | Linda Dehart |
| V. | Construction Fund Balance: 2010 Bonds | Linda Dehart |
| VI. | Old business, new business and adjournment | Gordon J. Campbell |

MINUTES

HHC Capital Corporation Semi-annual Public Meeting

Meeting Date: November 20, 2014, 3:30 p.m.

Location: 125 Worth Street
Fifth Floor Board Room

ATTENDEES

Members of the HHC Capital Corporation Board of Directors:

Jo Ivey Boufford, M.D., Chairperson

Mark Page

Ramanathan Raju, M.D.

Emily A. Youssouf

Corporation Officers and other HHC Board Members:

Salvatore J. Russo, Esq., General Counsel and Senior Vice President, Legal Affairs and
Secretary to the Board

Antonio D. Martin, Executive Vice President and Chief Operating Officer

Marlene Zurack, CFO and Senior Vice President, Finance & Managed Care

Health and Hospitals Corporation Staff:

Deborah Cates – Chief of Staff, Board Affairs

Linda Dehart – Assistant Vice President, Debt Finance & Corporate Reimbursement Services

Patricia Lockhart - Secretary to the Corporation, Chairman's Office

Paulene Lok – Director, Debt Finance & Corporate Reimbursement Services

Randall L. Mark – Chief of Staff, President's Office

HHC Capital Corporation – Semi-annual Public Meeting Thursday, November 20, 2014

Dr. Jo Ivey Boufford chaired the meeting of the HHC Capital Corporation Board of Directors (the "Board") while Mr. Salvatore Russo, Secretary of the HHC Capital Corporation, kept the minutes thereof.

Call to Order:

The HHC Capital Corporation meeting was called to order at 3:34 p.m. by Dr. Boufford.

Minutes:

The minutes of the HHC Capital Corporation meeting held on May 22, 2014 were presented to the Board. On motion made by Dr. Boufford and duly seconded, the Board unanimously adopted the minutes.

Introduction:

Dr. Boufford introduced Ms. Linda Dehart, Assistant Vice President of the Debt Finance and Corporate Reimbursement Department at HHC.

HHC Debt Structure:

Ms. Dehart provided an update on HHC's outstanding debt. \$164 million or 18.6% of the total portfolio is variable rate while \$716 million or 81.4% is fixed rate. The variable rate demand bonds ("vrdb") continue to be supported by letters of credit ("loc") issued by TD Bank and JP Morgan Chase bank. TD Bank's loc expires on September 3, 2019 and JP Morgan Chase's loc expires July 1, 2017. Both banks receive high ratings from the three major rating agencies.

According to Ms. Dehart, HHC Debt Finance researched the Community Reinvestment Activity ("CRA") of both loc providers. The ratings are based on three components or areas: lending, investing and services/branch activities. The latest report which is dated December 2010, rated JP Morgan Chase as "satisfactory" overall based on the following ratings – lending: high satisfactory; investing: outstanding; services: high satisfactory. TD Bank's overall rating is "outstanding" based on the following: lending: outstanding; investing: outstanding; services: high satisfactory.

Dr. Boufford asked if HHC can benefit from the Community Reinvestment Act ("CRA"). Ms. Youssouf stated that banks can get CRA credits but how it works is a bit of a "black box". If banks back an un-rated bond deal, or fund an equipment lease, HHC can make the argument that it should be counted as a CRA credit. Ms. Youssouf added that CRA is traditionally used for housing projects whereby banks buy low income housing credits as opposed to making loans in those neighborhoods and get CRA credits for the activity. Ms. Youssouf agreed that it could not hurt to raise the CRA topic with the banks.

Dr. Boufford recalled that the CRA issue came up at a recent San Francisco Federal Reserve meeting. The Fed was encouraging community reinvestment on the part of banks and discussed ways to expand the program into areas other than housing.

Ms. Zurack replied that under the “new business” part of this meeting, she will comment on a topic that will relate to the CRA.

TD Bank Letter of Credit Extension:

According to Ms. Dehart, HHC negotiated an extension of the TD Bank loc that was set to expire on September 3, 2015. As part of the loc extension to the new expiration date of September 3, 2019, the bank reduced its fees by 10 basis points to reflect current market pricing which saves approximately \$100,000 a year in fees. Finance conferred with its financial advisory firm PFM who confirmed that the rate is competitive.

Responding to Ms. Youssouf who was asking if there is a finite term on the variable rate bonds, Paulene Lok stated that there are two series that expire in 2026 and two series that expire in 2031.

Construction Fund Balance on the 2010 Bonds:

According to Ms. Lok, HHC borrowed \$200 million in 2010. As of September 30, 2014, \$15.7 million is still available for draw downs reflecting capital expenditures through to August 31, 2014.

Ms. Youssouf asked if the money was used to fund specific projects. Ms. Zurack said that the \$200 million was intended to fund routine capital spending over an 18-month period, major modernizations were excluded from the project list. The spend-down of those funds is exceeding 4 years.

Ms. Youssouf then asked if the remaining \$15.7 million is targeted for specific purposes. Ms. Lok's answer was that all the funds are allocated and that some construction projects take longer to complete and spend down.

Mr. Page asked about the earnings rate on the balance. Ms. Zurack replied that the earnings rate is 50 basis points while the average interest paid to bondholders is 4.50%. In the past, if HHC earned money on the construction fund balance, any excess was rebated to the IRS. In the current market, there are no investment vehicles available which would provide such favorable returns.

Ms. Youssouf asked if the \$15.7 million is for a long list of projects or one project. Ms. Zurack responded that the balance will be used to fund the close-out of several projects.

New Business:

Ms. Zurack reported that Finance had gotten authorization from the HHC Board of Directors to borrow up to \$40 million from banks for equipment purchases. Only two banks submitted proposals in response to the RFP – Santander and JP Morgan Chase Bank. Both institutions requested the lockbox guaranty that bondholders are entitled to. The lockbox is a complex arrangement whereby all of HHC's Medicaid and Medicare revenues must first flow through the HHC Capital Corporation Account to pay bondholders before paying for operational expenses. When the banks were told that it was impossible to give them the lockbox guaranty, the interested parties wanted a guaranty from the City of New York. The City explained that it could not provide this type of guaranty. Both banks withdrew their proposals.

Finance is reviewing an alternative solution which is to offer a "subordinate lockbox" or "subordinate lien/pledge of HHC's healthcare revenues" after the funds flow through the lockbox to pay bondholders. This additional security might persuade potential lenders to respond more favorably to the next RFP. In addition, HHC can try to convince the banks to treat the loan as a CRA credit as the HHC Cap Corp board members have suggested.

Ms. Youssouf asked how the subordinate lockbox would work in the case of the \$40 million loan - is it applied to the principal only, or both principal and interest; will the payments be made monthly or semi-annually? Ms. Zurack said that the lockbox would cover both principal and interest.

Ms. Youssouf then commented that \$40 million does not seem to be a large sum of money for HHC. Ms. Zurack replied that the loan amount will probably increase.

Ms. Zurack said that Finance is pursuing a "private placement/direct loan with a subordinate pledge" as opposed to issuing bonds which is expensive, time consuming and requires a lot of effort.

Mr. Page asked if HHC "can embody a bond obligation in our relationship with a bank that can step up as we have draw downs". Ms. Zurack answered that if HHC can establish the subordinate obligation structure, we would be able to do as Mr. Page suggests. Mr. Page then asked why the pledge has to be subordinate. Ms. Dehart's reply was that after consultations with our bond counsel firm, Hawkins Delafield & Wood ("HDW"), granting the lenders direct access to the lockbox requires a change in the bond resolution because it changes the obligation relationship for existing bondholders.

Mr. Page asked three questions: if HHC has a cap on the amount of bonds outstanding, if HHC has reached its ceiling, if HHC can issue more bonds. Ms. Zurack stated that HHC can issue more debt but then it would have the same problem of paying interest on a construction fund that takes time to spend down.

Mr. Page said that he did not "understand why HHC cannot categorize its obligation to a bank as a bond". Ms. Zurack replied that conceivably HHC could do so by giving the lenders direct access to the lockbox but that is not allowed under the bond resolution. Ms. Zurack recommends convening a call with Finance, PFM, HDW, Mr. Russo and interested members of the Board to discuss this further. Ms. Zurack added that the ultimate goal is for the Corporation to find a flexible means of financing its capital needs.

Dr. Boufford mentioned that there is a social investing precedent in New York City. Goldman Sachs provided funds to the NYC Department of Corrections ("DOC") to reduce recidivism. Ms. Youssouf stated that if the DOC programs are not successful, the City has to repay the money to Goldman Sachs. Ms. Youssouf also explained that the Goldman DOC example is not relevant to HHC's situation.

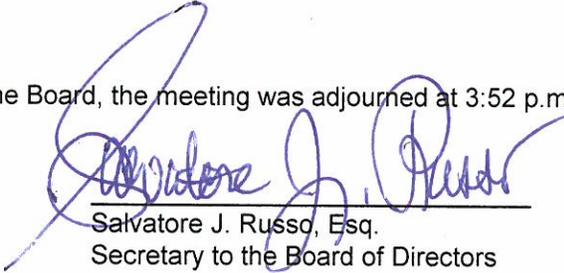
As a follow-up to Mr. Page's earlier question, Ms. Dehart said that another consideration with characterizing the loan as a bond obligation is that HHC has to fund and increase its capital reserve which is an added expense. Ms. Youssouf noted that the increase in the capital reserve fund should not be very high on a \$40 million loan.

Mr. Page wanted to know if HHC could "get a bank to give a LOC on variable rate debt so that the Corporation is not carrying so much negative arbitrage". Ms. Zurack said it was possible, but then HHC would have to go to market to issue new bonds. Ms. Zurack added that before the idea of private placements and "lockbox light" were conceived, HHC had considered issuing bonds every 4-6 months for smaller amounts but it required a lot of expense and effort. Mr. Page said that HHC can "do successive closings on variable rate debt with a lot less elaboration than closings on fixed rate bonds". Ms. Youssouf agreed that the process is easier if a revolving facility is in place.

Dr. Boufford announced that the next step is that Ms. Zurack's office will set up a call to further discuss the subordinate lien and other related matters with Mr. Russo and interested members of the Board.

Adjournment:

There being no further business before the Board, the meeting was adjourned at 3:52 p.m.



Salvatore J. Russo, Esq.
Secretary to the Board of Directors

HHC Capital Corporation Semi-Annual Meeting

Date: May 28, 2015

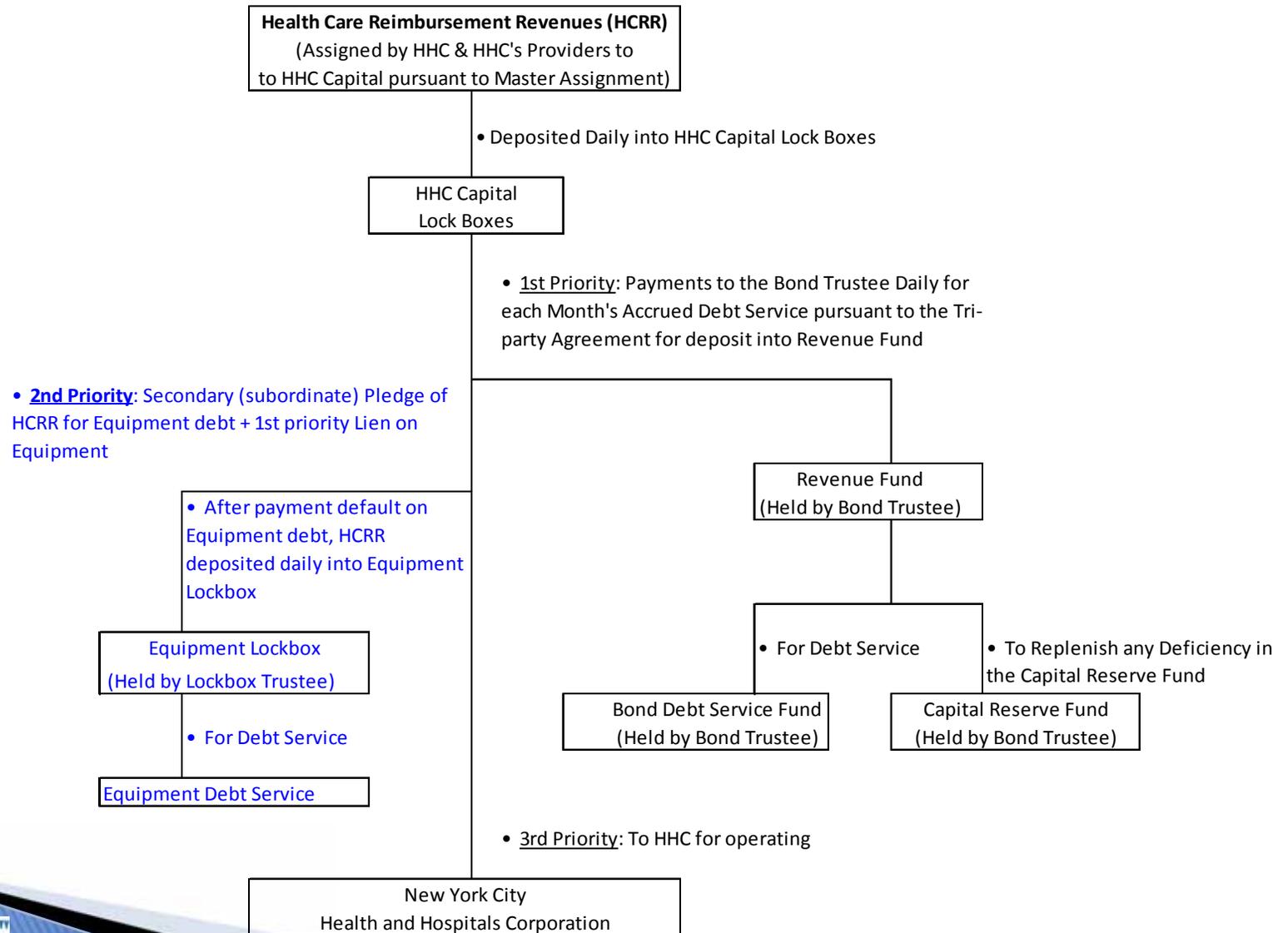
Time: 3:30 p.m.

Location: 125 Worth Street,
5th Floor Board Room
New York, NY 10013

Equipment Financing Program

- On April 30, 2015, the HHC Board of Directors approved the amendment for increasing the equipment financing authorization for up to \$60 million. This allows the Corporation to establish an equipment financing program whereby HHC can access capital funds from one or more banks over multiple years.
- After unsuccessfully attempting to secure traditional equipment financing, a secondary Health Care Reimbursement Revenue lien security was developed which generated interest from potential lenders.
- A term sheet was signed with JP Morgan. Documents are being reviewed and finalized by counsel representing the bank and HHC. The financing is expected to close by late May or early June 2015.

Equipment Financing Security Structure



JP Morgan Transaction

HHC Debt Finance worked with its Bond Counsel and Financial Advisor to structure the equipment financing with JP Morgan.

- Size: Up to \$60 million
- Uses: Upgrade, purchase and install of medical equipment and information technology systems; cover costs of issuance
- Security: (A) a first lien security interest in equipment; (B) a secondary pledge of Health Care Reimbursement Revenues. In the event of a payment default, a requirement for revenues to be deposited into a daily lockbox will be triggered.
- Term: 12 month drawdown period at a variable rate, converting to a six year fixed rate loan
 - Provides maximum drawdown flexibility
 - Minimizes negative arbitrage on borrowed, but unspent proceeds
- Example* Interest Rates:
 - Drawdown Period: 0.9249%
 - Fixed Loan: 1.7062%
 - Rates set by formula. (*Example rates based on index rates as of 3/30/15.)

RFP for Bond Underwriting Services

- ▶ HHC Debt Finance issues a RFP for bond underwriting services every five years.
- ▶ The RFP was publicized on March 16, 2015.
- ▶ The proposal due date was April 13, 2015.
 - HHC received proposals from 9 firms seeking the Lead Senior Underwriter role and 11 proposals from firms interested in the Co-Managing Underwriter role.
 - The Evaluation Committee will interview the top 5 senior underwriter candidates on June 4th. The firms will be scored on criteria such as the firm's experience, marketing strategies, structuring recommendations, staff qualification, marketing & distribution capabilities, profile of major clients, history/performance selling HHC's bonds, etc.
 - The top 3 senior underwriter firms based on the Evaluation Committee scoring sheets will serve in that role. The remaining 6 senior underwriter firms are ranked alongside the 11 co-managing underwriter firms. At least 12 firms will be selected as co-managers.
- ▶ HHC's current underwriter team consists of 3 senior managing underwriters and 13 co-managing underwriters.

HHC Bonds: Issuance History (as of 4/30/15)

Issuance Date	Bond Series	Initial Par Amount (in \$ millions)	Outstanding Par Amount (in \$ millions)	Final Maturity	Fixed or Variable Rate
5/15/93	1993 A	550.000	-	-	Fixed
4/10/97	1997 A-D	320.000	-	-	Variable
3/1/99	1999 A ⁽¹⁾	235.700	-	-	Fixed
7/1/02	2002 A	192.700	-	-	Fixed
7/1/02	2002 B-H ⁽²⁾	397.750	-	-	Auction
1/15/03	2003 A ⁽³⁾	245.180	-	-	Fixed
8/21/08	2008 A ⁽⁴⁾	268.915	107.805	2/15/2026	Fixed
9/4/08	2008 B-E ⁽⁵⁾	189.000	159.405	2/15/2031	Variable
10/26/10	2010 A ⁽⁶⁾	510.460	454.155	2/15/2030	Fixed
3/28/13	2013 A ⁽⁷⁾	112.045	112.045	2/15/2023	Fixed
	Total	-	833.410		

- Note: (1) Advance refunding of certain 1993 Series bonds
 (2) Refunding of the entire 1997 Series bonds and issue new money
 (3) Refunding of the remaining 1993 Series bonds
 (4) Refunding of the 2002 B,C,H Series bonds and issue new money
 (5) Refunding of the 2002 D,E,F,G series bonds
 (6) Refunding of the entire 1999 Series and substantially all of the 2002 Series A bonds, and issue new money
 (7) Refunding of the entire 2003 A and a portion of the 2008 A Series bonds

2010 Health System Bonds

Construction Fund – Cash Flow

(Unaudited, in \$millions)

Drawdown Period ¹	Activity/Action	Deposits	(Withdrawals)	Remaining Balance
10/26/2010	Issuance Date	199.758		199.758
FY 2011	Disbursements		(9.483)	190.275
FY 2012	Disbursements		(57.938)	132.337
FY 2013	Disbursements		(83.838)	48.499
FY 2014	Disbursements		(31.438)	17.061
FY 2015	Disbursements <i>(as of 2/28/2015)</i>		(9.231)	7.830
	Interest Earnings <i>(as of 4/30/2015)</i>	0.970		
	Total	200.728	(191.928)	8.800

As of	Total Drawdown	Unspent Encumbrances	Total Encumbrances	Unencumbered Balance
5/13/15	191.928	7.835	199.763	0.965

Drawdown period represents actual drawdown date and is not reflective of capital spending activity.