

# HALIFAX HEALTH AUDIT & FINANCE COMMITTEE

4:00 p.m., Wednesday, June 28, 2017

## REVISED AGENDA

### I. CALL TO ORDER

### II. MINUTES

Investment Committee Minutes

portal page 4, **action requested**

- March 27, 2017

Audit & Finance Committee Minutes

portal page 5, **action requested**

- April 26, 2017

### III. AUDIT COMMITTEE

**Corporate Compliance**, *Shelly Shiflet*

- Monthly Compliance Dashboard Reports

portal page 8, **information only**

**Internal Audit**, *Bill Rushton*

- Audit Services Discussion and Analysis
  - Summary of Audit Follow
  - Summary of Internal Audit Report(s)
  - Audit Plan Changes

portal page 12, **action requested**

### IV. FINANCE COMMITTEE

**Financial Report**, *Eric Peburn*

- May 2017
- April 2017

portal page 22, **action requested**

portal page 47, **action requested**

**Acquisitions, Leases and Disposals**, *Kent Bailey*

- Capital Investment Strategy
- Capital Expenditures \$50,000 and over
  - C-Arm for Operating Room
  - Retro-fit for X-ray Equipment - Port Orange Diagnostic Radiology
  - Pump Speed Control Units
  - Acute Care Rehabilitation Therapy Office Renovation
  - Soiled Utility Room Renovation for Respiratory Therapy
- Operating Leases \$250,000 and over

portal page 72, **information only**

portal page 80, **action requested**

\$144,930

\$99,820

\$87,000

\$82,400

\$72,832

portal page 91, **action requested**

- Facility and Office Space Leases – Deltona

- Primary Care

\$10,604 monthly payment

- Pediatrics

\$7,168 monthly payment

- Rotating Specialists

\$3,022 monthly payment

- Meeting Space

\$5,313 monthly payment

- ~~ASC~~

~~\$26,417 monthly payment~~

- Disposals

portal page 92, **action requested**

- Comparison of Projected and Actual Financial Results for Significant Projects

portal page 94, **information only**

**Old Business**

- Meeting Request Tracker/Checklist

portal page 97, none

**New Business**

- FY 2018 Preliminary Budget Review / Not to Exceed Millage Rate
- Deltona Schedule, Budget Status & Financing Update

presentation, **information only**

discussion, **information only**

## HALIFAX HEALTH AUDIT & FINANCE COMMITTEE

### Information Only

- |  |   |
|--|---|
| • Discharged Based -Average Length of Stay and Case Mix Index      | portal page 115, <a href="#">information only</a> |
| • Investment Performance Reports, May & April 2017                 | portal page 117, <a href="#">information only</a> |
| • Capital Expenditures \$25,000 - \$50,000                         | portal page 127, <a href="#">information only</a> |
| • <i>Time Clock Replacement</i>                                    | \$49,975  |
| • <i>Fetal Monitors for OB Diagnostics/Maternal Fetal Medicine</i> | \$37,528  |
| • <i>Signage for Halifax Health Port Orange</i>                    | \$35,000  |
| • <i>Sterilizer Conversion</i>                                     | \$33,060  |
| • <i>Eye Surgery Stretchers</i>                                    | \$25,014  |

### V. OPEN DISCUSSION

- VI. NEXT MEETING
- Monday, August 7, 2017, 5:00 p.m. - France Tower Conference Room A**  
**FY 2017 BUDGET WORKSHOP, Combined with the Board of Commissioners**  
WEDNESDAY, August 30, 2017, 4:00 p.m. – Regular scheduled meeting  
TUESDAY, September 5, 2017, 5:05 p.m. – Tentative First Public Hearing, Board of Commissioners

### VII. EXECUTIVE SESSION

### VIII. ADJOURN

## CAPITAL EXPENDITURES & OPERATING LEASES

Audit & Finance Committee

June 28, 2017

### **Capital Expenditures \$50,000 and over**

DESCRIPTION	DEPARTMENT	SOURCE OF FUNDS	TOTAL
C-Arm for Operating Room	Radiology Department	Working Capital	\$144,930
Retro-fit for X-ray Equipment - Port Orange Diagnostic Radiology	Radiology Department	Working Capital	\$99,820
Pump Speed Control Units	Surgical Services	Working Capital	\$87,000
Acute Care Rehabilitation Therapy Office Renovation	Rehabilitation Services	Working Capital	\$82,400
Soiled Utility Room Renovation for Respiratory Therapy	Respiratory Therapy	Working Capital	\$72,832

### **Operating Leases \$250,000 and over**

DESCRIPTION	DEPARTMENT	REPLACEMENT Y/N	LEASE TERMS	INTEREST RATE	MONTHLY PAYMENT
Facility and Office Space Leases - Deltona	Primary Care	N	10 years	2.88% Discount Rate*	\$10,604
	Pediatrics	N	10 years		\$7,168
	Rotating Specialists	N	10 years		\$3,022
	Meeting Space	N	10 years		\$5,313

\*A-rated 10 year municipal bond rate



# HALIFAX HEALTH

TO: Jeff Feasel, President and Chief Executive Officer  
FROM: Bill Griffin, Director, Research and Planning  
CC: Eric Peburn, Executive Vice President and Chief Financial Officer  
DATE: June 20, 2017  
RE: Facility and Office Space Leases - Deltona

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An important component of Halifax Health's strategic initiative of expanding access to care for the residents of Deltona and surrounding communities is the medical office building (Deltona MOB) under development by a third-party (Landmark) on land leased from HH Holdings, Inc. The Deltona MOB will serve as a central connection for Halifax Health at the Deltona campus to patients, physicians and the community. Halifax Health is positioned to lease certain space in the MOB as outlined below. It is recommended that we seek approval for these leases from their respective affiliate boards.

The proposed space to be leased includes:

- Clinical office space to enhance access to primary care, pediatrics, and rotating specialists,
- Meeting space to accommodate general meetings, educational programs and community events, and

These leases are integral to enhancing access and support of the existing and planned facilities at the Deltona campus. Below is a summary of the lease terms.

	Primary Care	Pediatrics	Rotating Specialists	Meeting Space
Square footage	5,000	3,380	1,425	3,000
Initial year total rate/sq. ft.	\$25.45	\$25.45	\$25.45	\$21.25
Annual rent escalator %	2.50%	2.50%	2.50%	2.50%
Tenant build out allowance/sq. ft.	\$100	\$100	\$100	\$60
Term (years)	10	10	10	10
Discount Rate	2.88%*	2.88%*	2.88%*	2.88%*
Monthly Payment	\$10,604	\$7,168	\$3,022	\$5,313
NPV lease payments	\$1,216,521	\$822,368	\$346,708	\$609,455
Tenant	HCI, Inc.	HCI, Inc.	HCI, Inc.	HH Holdings, Inc.

\*A-rated 10 year municipal bond rate

Halifax Health physician practice operations are conducted by Halifax Clinical Integration, Inc. (HCI, Inc.). HCI, Inc. is owned by Halifax Healthcare Systems, Inc., which is a controlled affiliate of Halifax Hospital Medical Center (District).

# **Deltona Facilities Financing Update**

Presentation to the Finance Committee  
June 28, 2017

# Agenda

- Project Overview
- Financing Objectives and Alternatives
- Potential Financing Structures
- HMS Overview
- Financial Impact to System
- Potential Banking Partners
- JP Morgan Alternative Structure
- Next Steps

# Project Overview

- Free-Standing Emergency Room – opened April 25, 2017
- Medical Office Building – target opening date Fall 2018
- Inpatient hospital facility – target opening date late calendar year 2019
- Prepared facility cost estimates and volume and financial projections
- Prepared long-range forecast with Deltona facility
- Identified financing alternatives
- Shared project details and financing scenarios with target banking institutions
- Identified real estate parcels for potential sale and obtaining appraisals
- Complete final ranking of financing options with Kaufman Hall
- Approval of Plan of Finance –
  - August 30<sup>th</sup> Finance Committee meeting
  - September 5<sup>th</sup> Board of Commissioners meeting

# Financing Objectives

- A. Access to lowest cost of capital
- B. Optimize mix of borrowed funds and cash, including proceeds from sale of non-core assets
- C. Limit impact to liquidity and DSCR
- D. Maintain debt capacity of Obligated Group

# Financing Alternatives

- A. Public sale of bonds
- B. Bank loans
- C. Other financing alternatives



# Potential Financing Structures

Scenario	Description	Financing Objectives			
		A	B	C	D
		Cost of Capital	Optimal Cash/Debt	Liquidity/ DSCR	OG Debt Capacity
1	\$105m Obligated Group debt				
2	\$75m Obligated Group debt, \$20m land sales and \$10m lease				
3	\$105m Deltona stand-alone debt (outside of Obligated Group)				
4	\$105m HMS debt with lease to Halifax operating entity				
5	\$75m HMS debt with lease to Halifax operating entity, \$20m land sales and \$10m lease				

	Favorable
	Neutral
	Unfavorable

# Halifax Management System, Inc. (HMS) Overview

- Not-for-profit affiliate of the District, organized in 1984
- Not a member of the Obligated Group
- Owns HHPO and two medical office facilities
- As of May 31, 2017, \$2.2 million of debt outstanding (final maturity in FY 2018)
- Scenario 4 assumes HMS debt of \$105m with lease to Halifax operating entity
- Scenario 5 assumes HMS debt of \$75m with lease to Halifax operating entity, \$20m land sales and \$10m lease

# Financial Impact to System

- Deltona I/P facility is anticipated to incur operating losses in FY 2020 and FY 2021 and achieve positive operating results thereafter
- System for FY 2020, targeting 3% operating margin excluding Deltona
- Lower FY 2020 System operating margin and DSCR

# Deltona Average Daily Census, Revenue and Adjusted Cash Flow

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
Average daily patient census	18	31	47	48
Net patient service revenue	\$22.9m	\$39.5m	\$61.6m	\$63.10
Adjusted Deltona facility cash flow, before debt service/internal lease costs	\$618k	\$10.1m	\$22.2m	\$22.2m
Estimated interest cost %	2% to 6%			
Estimated net interest cost \$	\$1.5m to \$6.3m			
Average principal payment	\$2.5m to \$3.5m			
Estimate equipment lease cost	\$1.0m to \$2.0m			

# Potential Banking Partners

- J.P. Morgan – current treasury bank, letter-of-credit provider, line-of-credit provider
- Fifth-Third – no accounts or services
- PNC – no accounts or services

# Next Steps

- Obtain S&P feedback
- Bond/Tax counsel and RSM feedback
- Complete due diligence with potential banking partners and evaluate financing options proposed
- Complete final ranking of financing options with Kaufman Hall
- Present final recommendation to Finance Committee and Board of Commissioners
- Begin implementation of plan of finance, with objective of having borrowed funds available between November 2017 and April 2018



## HALIFAX MANAGEMENT SYSTEMS

### **Deltona Project Financing: Securities Lending Structure Overview**

**June 2017**

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# Structured Variable Product Overview: Securities Lending Agreement

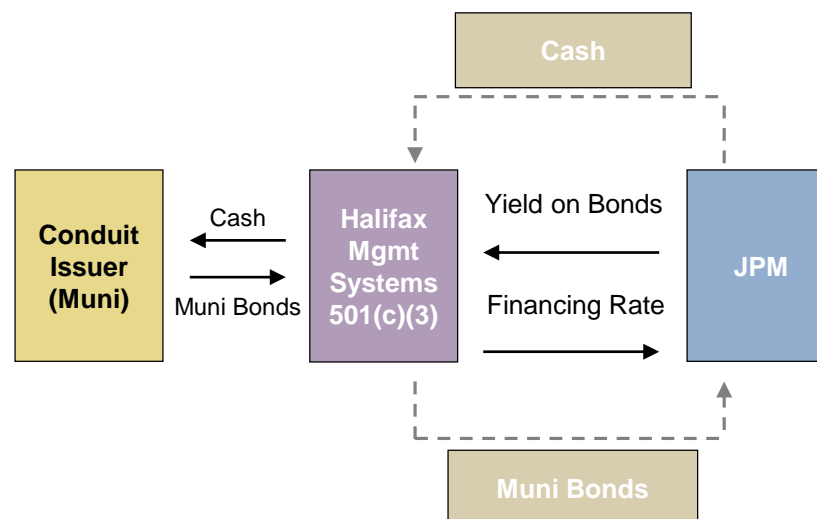
## Structure Overview

- HMS purchases its bonds from conduit issuer
- HMS executes a SLA with JPMorgan
  - HMS lends its bonds to JPMorgan
    - HMS receives yield on bonds held in the SLA
  - JPMorgan provides cash (100% or par) against bonds
    - HMS pays financing rate of index plus a spread
  - HMS owes the difference between par and value of bonds prior to or at maturity
- While HMS receives the yield on the bonds, JPMorgan is the tax owner of the bonds via the SLA
- SLA is governed by a Master Securities Lending Agreement (“MSLA”)

## Bond Terms / Documents

- **The fixed rate bonds lent to JPMorgan Chase Bank NA will have the following:**
  - Limited Offering Memorandum
  - Bond Opinion, including unqualified tax opinion
  - Public Ratings
  - Cusip(s)
  - Initial price of Par or 100
  - Optional Redemption 1 year following closing
  - Multi-modal documents; initial fixed rate mode
  - Purchase in Lieu of Redemption

## Product Flows



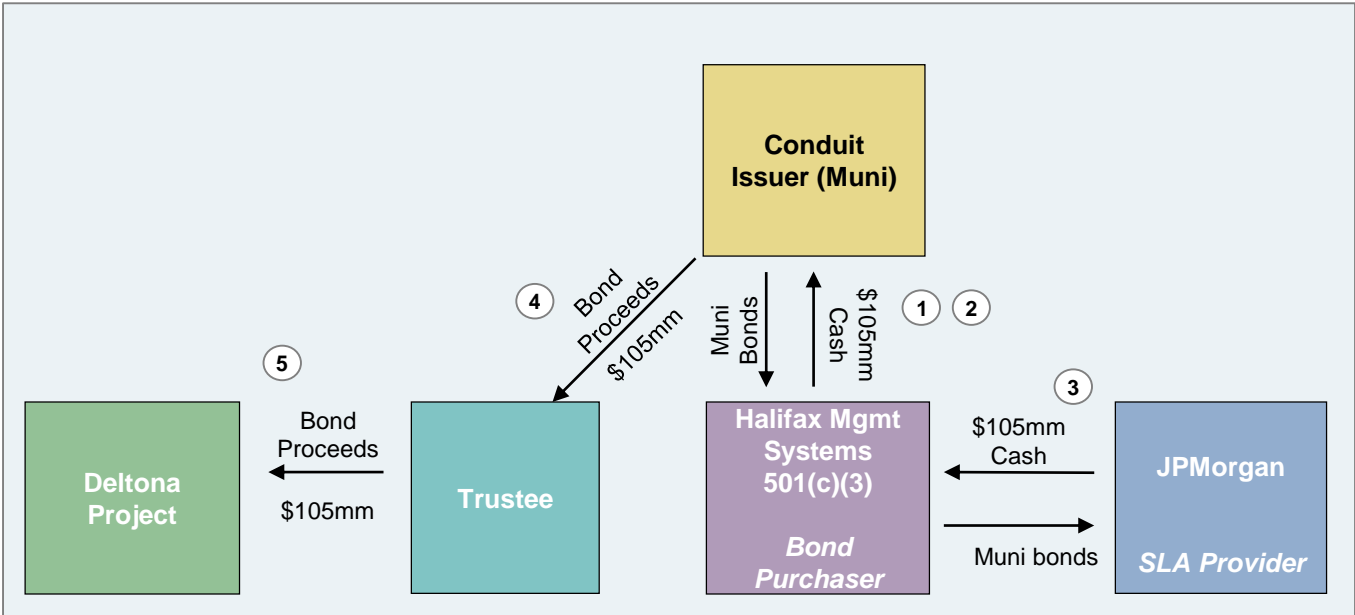
## SLA Terms / Documents

- **Securities Lending Agreement will be provided by JPMorgan Chase Bank NA and have the following:**
  - Master Securities Lending Agreement
  - Enforceability Opinion
  - Security Package TBD
  - SLA cash will match bond par amount
  - SLA will have [7]-year maturity
  - Optional Termination after 1-year

# Full product cash flows: At bond issuance and under SLA

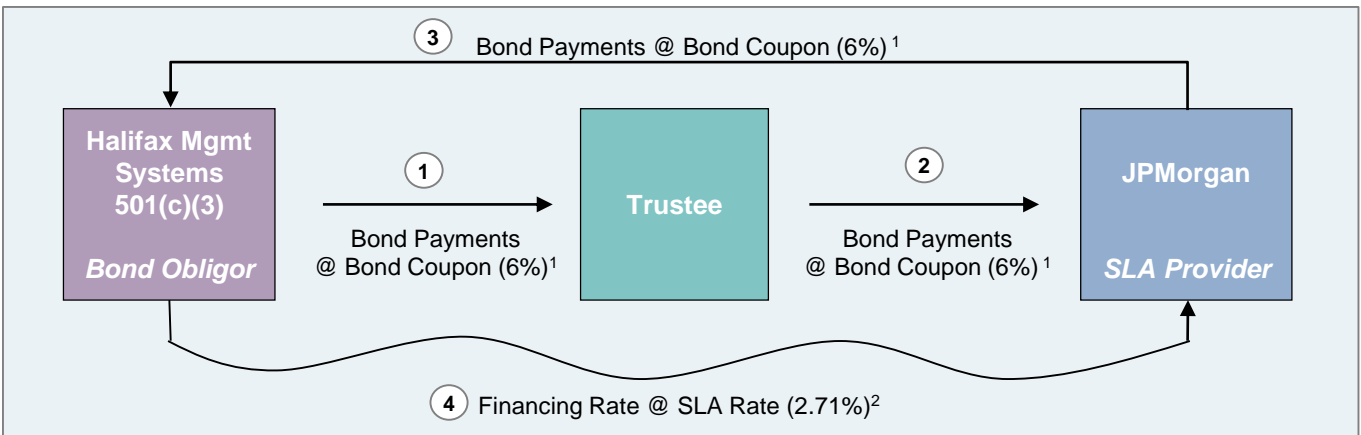
## SLA Flows – At Closing

- 1) Conduit Issuer issues the Bonds
- 2) HMS purchases its bonds from conduit issuer
- 3) HMS executes a Master Securities Lending Agreement (SLA) with JPMorgan:
  - HMS lends its bonds to JPMorgan
  - JPMorgan provides cash (100% or par) against bonds
- 4) Bond proceeds are deposited to Project Fund held by trustee
- 5) Bond proceeds are drawn to pay Deltona Project costs



## SLA Flows – Over Time

- 1) HMS pays the yield on the Bonds
- 2) As the tax owner of the Bonds, JPMorgan receives the yield on the Bonds
- 3) Under the SLA, JPMorgan pays the Bond yield to HMS
- 4) Under the SLA, HMS pays a Financing Rate to JPMorgan equal to an index + spread



1. Bond coupon rate is assumed to be 6% for illustrative purposes only; final bond coupon subject to market conditions and verification.

2. SLA rate assumed to be 20Y average of 70% 1-Month LIBOR (1.66%) plus a credit spread of 1.05%. SLA pricing preliminary and subject to change, based upon an assumed HMS rating of BBB+; security package to be determined, and final due diligence.

# HMS has three alternatives at the maturity of the Securities Lending Agreement

## Alternative 1: Amend and restate the SLA

- JPM and HMS mutually agree to amend and restate the Securities Lending Agreement (can occur before SLA maturity date)
- Amendments would include, but are not limited to:
  - Extension of the maturity date
  - Re-pricing the SLA credit spread
- JPM would anticipate maintaining ownership of the bonds

## Alternative 2: Settle the SLA & refund bonds

- HMS decides to refund the bonds in the then prevailing market
- HMS exercises its par call on the bonds and cash settles the Securities Lending Agreement
  - Given the price of the bonds will be par at the call date, there will be 0 price depreciation in the value of the bonds to be paid to JPMorgan (i.e. cash settlement equals 0)

## Alternative 3: Settle SLA & leave bonds outstanding<sup>1</sup>

- At SLA maturity HMS will owe to JPM the value of any price depreciation in the bonds
  - If rates are higher, the bond will likely be trading at a discount to par
    - The difference between the fair-market price for the bonds and par is the settlement value of the SLA
  - If rates are lower, the bond will likely be priced to the call, or par
    - There is no settlement on the SLA
- JPM may retain ownership of the bonds or alternatively may sell the bonds in the marketplace

<sup>1</sup>"Rates" refers to HMS' cost of financing (i.e. benchmark rates + HMS' credit)

## Sensitivity analysis of SLA settlement<sup>2</sup>

Change in Rates	Indicative Bond Price	Indicative Settlement Value
+500 bps	55.3009	(\$46.93mm)
+250 bps	72.7972	(\$28.56mm)
+100 bps	87.6128	(\$13.01mm)
+50 bps	93.5193	(\$6.80mm)
+25 bps	96.6840	(\$3.48mm)
+0 bps	100.0000	\$0.00mm
-25 bps	100.0000	\$0.00mm
-50 bps	100.0000	\$0.00mm
-100 bps	100.0000	\$0.00mm

<sup>2</sup>Analysis based on \$105mm notional and a bond with 23 years remaining until maturity  
 Note: Assumes that if rates are higher the bond trades to maturity and if rates are lower the bond trades at par. "Rates" refers to HMS' cost of financing (i.e. benchmark rates + HMS' credit)

# HMS Deltona financing – indicative financing statistics

## Scenario 1: \$75 million Deltona construction fund deposit

### Indicative Sources & Uses

#### Sources:

Bond Proceeds: \$75,570,000

**Total Sources: \$75,570,000**

#### Uses:

Construction Fund Deposit \$75,000,000

Estimated Issuance Costs (0.75%) 566,775

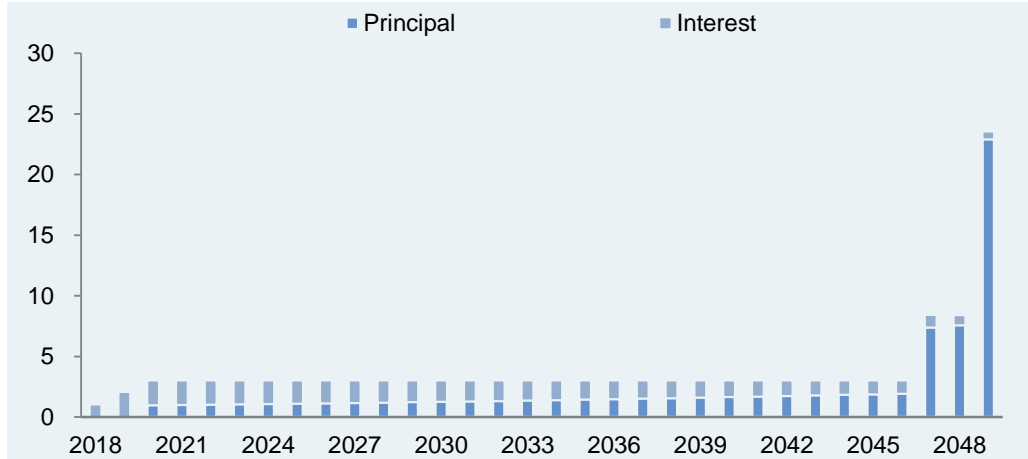
Additional Proceeds 3,225

**Total Uses: \$75,570,000**

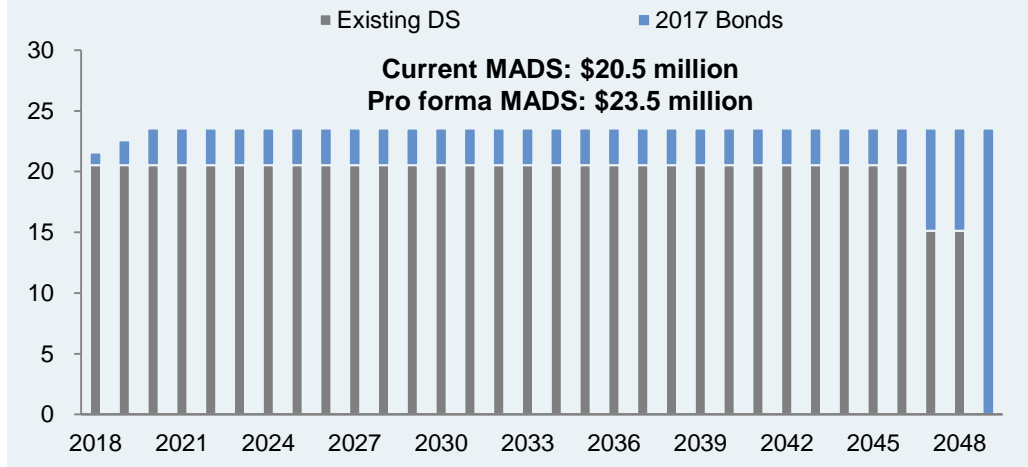
#### Assumptions include:

- \$75 million construction fund deposit
- Estimated COI of 0.75% of par amount
- Interest calculated at 20Y historical average of 70% 1-Month LIBOR (1.66% as of June 26, 2017) plus a credit spread of 1.05% based upon an assumed HMS rating of BBB+; security package to be determined, and final due diligence
- Assumes closing on December 1, 2017 with first principal payment on June 1, 2020
- Bonds structured to achieve aggregate level debt service across the entire Halifax portfolio
- Assumes that structured product is renewed at the above terms at each renewal date over the life of the bonds

### HMS Deltona Financing - Indicative Debt Service (\$mm, FY 9/30)



### Pro-Forma Aggregate Halifax Debt Service (\$mm, FY 9/30)



Debt service for variable rate Series 2008 bonds is calculated based on a principal amount of \$70 million and an assumed synthetic swap fixed payor rate of 3.837%. Interest rates used herein are hypothetical and take into consideration conditions in today's market and other factual information such as the issuer's credit rating, geographic location and market sector. Interest rates applied herein are hypothetical, based on current market facts and should not be viewed as rates that J.P. Morgan might expect to achieve for you at the time of any relevant transaction should we be selected to act as your underwriter. Information about interest rates and terms for SLGs is based on current publicly available information and treasury or agency rates for open-market escrows are based on current market interest rates and should not be seen as costs or rates that J.P. Morgan might expect to achieve for you at the time of any relevant transaction should we be selected to act as your underwriter.

# HMS Deltona financing – indicative financing statistics

## Scenario 2: \$105 million Deltona construction fund deposit

### Indicative Sources & Uses

#### Sources:

Bond Proceeds: \$105,795,000

**Total Sources: \$105,795,000**

#### Uses:

Construction Fund Deposit \$105,000,000

Estimated Issuance Costs (0.75%) 793,463

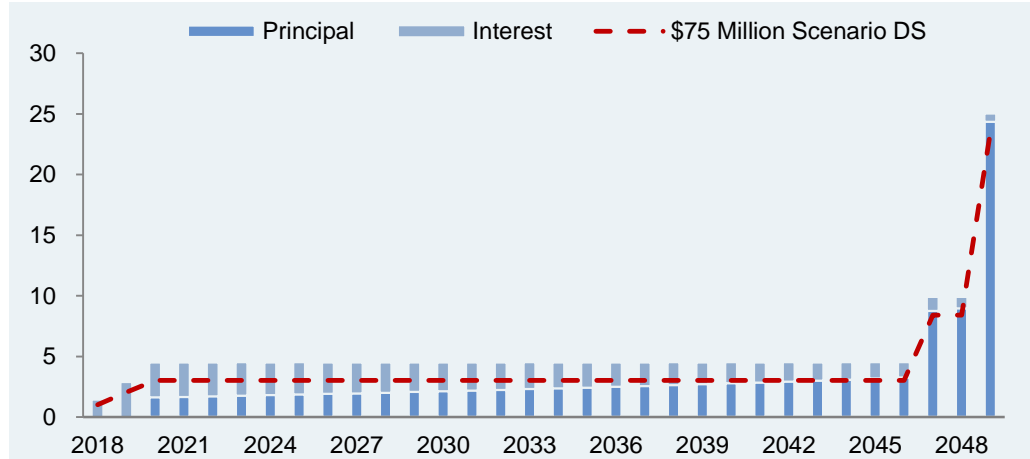
Additional Proceeds 1,538

**Total Uses: \$105,795,000**

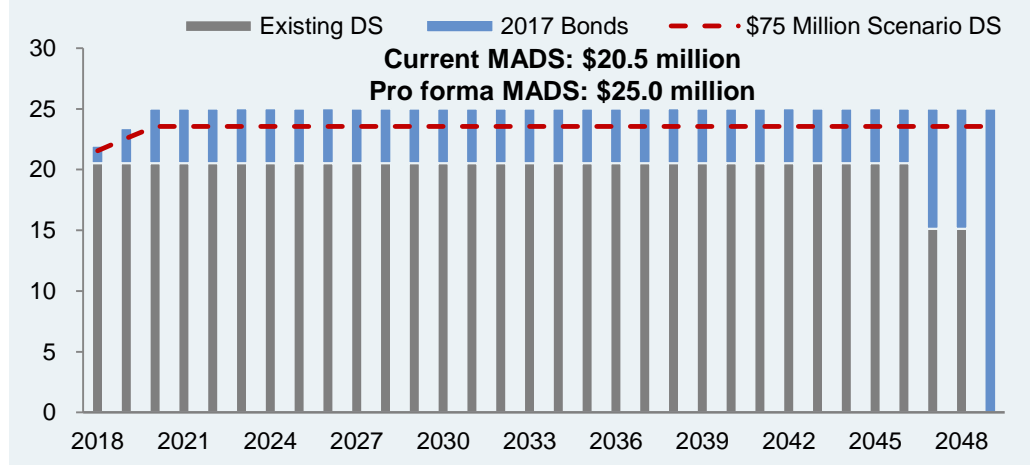
#### Assumptions include:

- \$105 million construction fund deposit
- Estimated COI of 0.75% of par amount
- Interest calculated at 20Y historical average of 70% 1-Month LIBOR (1.66% as of June 26, 2017) plus a credit spread of 1.05% based upon an assumed HMS rating of BBB+; security package to be determined, and final due diligence
- Assumes closing on December 1, 2017 with first principal payment on June 1, 2020
- Bonds structured to achieve aggregate level debt service across the entire Halifax portfolio
- Assumes that structured product is renewed at the above terms at each renewal date over the life of the bonds

### HMS Deltona Financing - Indicative Debt Service (\$mm, FY 9/30)



### Pro-Forma Aggregate Halifax Debt Service (\$mm, FY 9/30)



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## Comparison of available floating rate products

	<b>VRDBs with Bank LOC</b>	<b>Floating Rate Notes</b> <i>Public Market</i>	<b>Floating Rate Notes</b> <i>Bank Direct Purchase</i>	<b>Structured Variable Rate Product</b> <i>Securities Lending Agmt</i>	<b>Synthetic Variable</b> <i>Intermediate Fixed Rate Bond + FXR swap</i>
<b>Size / Capacity</b>	■ Size may require <u>multiple</u> banks	■ Dependent on market conditions at pricing	■ Size may require <u>multiple</u> banks	■ JPM can single source	■ Dependent on market conditions at pricing
<b>Term</b>	■ Likely limited to 3Y	■ Up to 7Y	■ Available up to 10Y	■ Up to 7Y	■ Up to 30Y
<b>Security / Covenants</b>	■ Parity with Series 2010 bonds; mortgage lien on HMS facilities/assets, including Port Orange and ambulatory facilities; HMC MTI cross-defaults to lease; ■ [HMC lease term extends to term of the 2017 bonds]				
	■ Banks may require additional security/ covenants	■ None	■ Banks may require additional security/ covenants	■ None	■ None
<b>Other non-Credit Business</b>	■ Banks may require other non-credit business	■ None	■ Banks may require other non-credit business	■ None	■ None
<b>Rating Agency Requirements</b>	■ Rating based on LOC bank	■ Rating based on HMS credit	■ No rating required (some banks req. private rating)	■ Rating based on HMS credit	■ Rating based on HMS credit
<b>Disclosure</b>	■ Appendix A disclosure (HMC + HMS)	■ Appendix A disclosure (HMC + HMS)	■ No disclosure	■ Limited disclosure (No Appendix A)	■ Appendix A disclosure (HMC + HMS)
<b>Put/Funding Risk</b>	■ Optional Tender by investors ■ Risk of failed remarketings ■ Term-out of Bank Bonds	■ No optional tender by investors; ■ Renewal risk at mandatory put	■ Renewal risk at mandatory put	■ No optional tender by JPM; ■ If not renewed, payment of SLA settlement cost (if any)	■ No optional tender by investors; ■ Renewal risk at mandatory put
<b>Market Rate Risk</b>	■ Yes	■ Yes	■ Yes	■ Yes	■ Yes
<b>Market Access Risk</b>	■ Yes, if not renewed	■ Yes	■ Yes, if not renewed	■ Limited to SLA payment, if not renewed	■ Yes
<b>Tax Risk</b>	■ Tax adjustment provision	■ None	■ Tax adjustment provision	■ None	■ None
<b>Bank Credit Exposure</b>	■ Credit of LOC bank drives rate resets	■ None	■ None	■ None	■ None
<b>Counterparty Risk</b>	■ None	■ None	■ None	■ Yes	■ Yes
<b>Settlement Risk</b>	■ None	■ None	■ None	■ Yes (first year only)	■ Yes
<b>Benchmark</b>	■ Actual Resets [~SIFMA]	■ SIFMA or %LIBOR	■ %LIBOR	■ SIFMA or %LIBOR	■ SIFMA or %LIBOR

## Considerations for using a Structured Variable Rate Product

<b>Size</b>	<ul style="list-style-type: none"> <li>■ Entire \$105MM financing can be executed with JPMorgan             <ul style="list-style-type: none"> <li>■ Total size could be pieced together across products and banks, but a consistent credit package will be challenging</li> </ul> </li> </ul>
<b>Variable Funding Alternatives</b>	<ul style="list-style-type: none"> <li>■ SLA compares favorably to other 7y variable funding alternatives             <ul style="list-style-type: none"> <li>■ VRDB's with bank LOC</li> <li>■ Public market FRNs</li> <li>■ Bank Direct Purchase FRNS</li> <li>■ Public Market Fixed Rate Bonds swapped to floating</li> </ul> </li> </ul>
<b>Flexibility</b>	<ul style="list-style-type: none"> <li>■ Structure is fully or partially prepayable at par after 1 year; allows flexibility to de-leverage based on future land sale proceeds</li> <li>■ Ease of renewal</li> <li>■ Limited Disclosure</li> <li>■ Ability to leave Fixed Rate bond outstanding following the SLA maturity / termination</li> </ul>
<b>Security, Covenants and Other Requirements</b>	<ul style="list-style-type: none"> <li>■ [Parity obligation and comparable legal structure with outstanding HMS Series 2010 Bonds]</li> <li>■ No tax adjustment provision</li> <li>■ No other non-credit business</li> </ul>
<b>Settlement Risk</b>	<ul style="list-style-type: none"> <li>■ If SLA is not renewed and the fixed rate bonds are not called at par, HMS may owe a settlement payment on the SLA             <ul style="list-style-type: none"> <li>■ Settlement payment occurs if fixed rate bonds are priced at a discount due to higher long term tax-exempt fixed rates</li> </ul> </li> </ul>



# Next steps

Requirement		Action Items
1)	<b>Tax Opinion</b>	Schedule follow-up call with Bond/Tax Counsel
2)	<b>Accounting</b>	HMS to check accounting treatment with internal / external accountants
3)	<b>Determine Conduit Issuing Authority</b>	Deltona or other
4)	<b>Due Diligence</b>	Schedule Due Diligence call with JPM team
5)	<b>Finalize Security</b>	Subject to final structure and DD call
6)	<b>Ratings</b>	Finalize standalone rating(s) for HMS