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## **HHC CAPITAL CORPORATION**

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### **HHC Capital Corporation Semi-annual Meeting**

November 21, 2013, 3:30 p.m.  
125 Worth Street – 5<sup>th</sup> Floor Board Room  
New York, New York 10013

### **AGENDA**

- |      |                                                                                              |                        |
|------|----------------------------------------------------------------------------------------------|------------------------|
| I.   | Call to order<br>Adoption of minutes for the HHC Capital Corporation Meeting held on 5/30/13 | Michael A. Stocker, MD |
| II.  | Equipment Financing Program                                                                  | Linda DeHart           |
| III. | Construction Fund Balance: 2010 Bonds Disbursement Trend on HHC-Issued Debt                  | Linda DeHart           |
| IV.  | Arbitrage Rebate Update                                                                      | Paulene Lok            |
| V.   | Bond Counsel Selection Process                                                               | Nini Mar               |
| VI.  | Old business, new business and adjournment                                                   | Michael A. Stocker, MD |

## MINUTES

### **HHC Capital Corporation Semi-annual Public Meeting**

**Meeting Date:** May 30, 2013, 3:00 p.m.

**Location:** 125 Worth Street  
Fifth Floor Board Room

## ATTENDEES

### **Members of the HHC Capital Corporation Board of Directors:**

Michael A. Stocker, M.D., Chairman  
Alan Aviles

### **Corporation Officers and other HHC Board Members:**

Bernard Rosen  
Salvatore J. Russo, Esq., General Counsel and Senior Vice President, Legal Affairs and  
Secretary to the Board  
Marlene Zurack, CFO and Senior Vice President, Finance & Managed Care

### **Health and Hospitals Corporation Staff:**

Linda DeHart – Assistant Vice President, Debt Finance & Corporate Reimbursement Services  
Deborah Cates – Chief of Staff, Board Affairs  
Patricia Lockhart - Secretary to the Corporation, Chairman's Office  
Paulene Lok – Director, Debt Finance and Corporate Reimbursement Services  
Nini Mar – Director, Debt Finance and Corporate Reimbursement Services

### **Other Attendees:**

Kristyn Raffaele - NYC Office of Management & Budget

## **HHC Capital Corporation – Semi-annual Public Meeting Thursday, May 30, 2013**

Dr. Michael Stocker 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 3:02 p.m. by Dr. Stocker.

### **Minutes:**

The minutes of the HHC Capital Corporation meeting held on November 29, 2012 were presented to the Board. On motion made by Dr. Stocker and duly seconded, the Board unanimously adopted the minutes.

### **Introduction:**

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

### **Issuance of HHC 2013 Series A Health System Bonds:**

Ms. Dehart briefed the Board on the March 28, 2013 issuance of \$112,045,000 tax-exempt fixed rate bonds which refunded all of the outstanding 2003 Series A bonds and certain 2008 Series A bonds. The refunded bonds with an "all-in" interest rate of 2.44% allowed HHC to achieve a net present value savings of \$21.9 million. Due to investor demand, the underwriters were able to sell all the bonds in one day instead of two as previously planned. In response to Dr. Stocker's question about NY Presbyterian and Wyckoff, Ms Zurack answered that although she did not know the ratings for those two entities, hospital systems would need at least a BBB credit rating to have affordable access to the capital markets.

### **HHC's Bond Issuance History:**

Ms. Dehart indicated that the outstanding par amount of HHC bonds subsequent to the refunding is \$917.4 million of which the majority is structured as fixed rate bonds.

Mr. Rosen asked if the chart shows all of HHC's bonds. Ms. Zurack response was that there was a small bond issuance in 1985 but that the 1993 series is the first issuance under the lockbox structure.

### **HHC Debt Structure:**

Ms. Zurack reported that HHC's variable rate bonds constitute 18.4% of its portfolio of outstanding bonds. The variable rate bonds are supported by letters of credit provided by TD Bank and JP Morgan Chase Bank.

None of HHC's current outstanding bonds are insured. The last of the 2002 Series A bonds which were insured by FSA have matured. The refunded 2003 Series A bonds were previously insured by Ambac. In the past, it was beneficial to sell insured bonds but the municipal market no longer views the added cost as advantageous.

**Credit Ratings:**

Ms. Zurack described the chart showing credit ratings for HHC, the City of New York and HHC's two letter of credit providers. Ms. Paulene Lok added that JP Morgan's credit rating was downgraded once between 2008 and now, but that the current ratings (Aa3/P-1, A+/A-1 and A+/F1) are still favored by money market funds that purchase HHC's variable rate bonds.

**Post-Issuance Compliance:**

As suggested by the IRS, Ms. Zurack explained that HHC adopted written procedures for post-issuance compliance for its tax-exempt bonds in May 2013. The procedures drafted by HHC's bond counsel, Hawkins, Delafield & Wood, includes the following: regularly scheduled due diligence reviews, identification and training of the official/employee who performs the review, retention of adequate records to substantiate compliance, procedures to ensure timely compliance submissions and steps to timely correct non-compliance.

**Construction Fund Balance on the 2010 Bonds:**

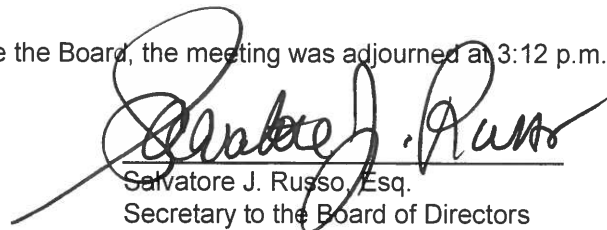
Ms. Lok reported that of the approximate \$200 million construction fund for the 2010 series bonds, \$56.7 million remains unspent as of May 1, 2013. Total encumbrances equal \$182.6 million which leaves an encumbered balance of \$17.9 million. Ms. Zurack added that \$30.3 million of the encumbrances was allocated to the electronic health record system.

**HHC Health System Bonds - Arbitrage Rebate:**

Ms. Lok explained that issuers often incur arbitrage when interest earnings on bond proceeds exceeds bond yield. The arbitrage rebate liability must be rebated to the IRS. In April 2013, HHC's rebate consultant (Hawkins Delafield & Wood) prepared Arbitrage Rebate Reports for the 2002 Series and 2003 Series A bonds after determining that no rebate was due on those two issuances.

**Adjournment:**

There being no further business before the Board, the meeting was adjourned at 3:12 p.m.

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

# HHC Capital Corporation Semi-Annual Meeting

Date: November 21, 2013

Time: 3:30 p.m.

Location: 125 Worth Street,  
5<sup>th</sup> Floor Board Room  
New York, NY 10013

# Equipment Financing Program

- On July 25, 2013, the HHC Board of Directors approved an initial equipment financing authorization for up to \$40 million.
- HHC worked with its Financial Advisor (PFM) to identify a pool of potential lenders who are active in providing equipment financing in the Northeast region. They are:
  - Bank of America (A3/A/A; 2<sup>nd</sup> Largest US Bank)
  - BB&T Equipment Finance (A2/A-/A+; Regional Bank based in Southeast)
  - Chase Equipment/JP Morgan (Aa3/A+/A+; Largest US Bank)
  - PNC (A2/A/A+; Mid Atlantic Regional Bank)
  - RBS Citizens (A3/A/A-; Large British Bank)
  - TD Bank (Aa3/AA-/AA-; Canadian/Northeast Regional Bank)
  - U.S. Bank, N.A. (A1/A+/AA-; Mid-Sized Bank)
  - Wells Fargo (A2/A+/AA-; 4<sup>th</sup> Largest US Bank)
- The entire process is expected to take 6 weeks; from distributing the RFP with HHC's standard agreement and equipment list, to selecting a lender and negotiating key terms, and closing the transaction.

# 2010 Health System Bonds

## Construction Fund – Cash Flow

(Unaudited, in \$millions)

Drawdown Period <sup>1</sup>	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 <i>(as of 10/15/2013)</i>		(14.182)	34.318
	Interest Earnings <i>(as of 9/30/2013)</i>	0.856		35.173
	Total	200.614	(165.441)	

As of	Total Drawdown	Unspent Encumbrances	Total Encumbrances	Unencumbered Balance
10/31/13	165.441	17.209	187.438	17.964

<sup>1</sup> Drawdown period represents actual drawdown date and is not reflective of capital spending activity.

# HHC Health System Bonds – Arbitrage Rebate

- Typically, when interest earnings on bond proceeds exceed the bond yield, issuers will incur arbitrage rebate liability which must be rebated to the IRS.
  - Section 148 of the Internal Revenue Code – **Arbitrage Restrictions on Tax-exempt Bond Issues**, requires issuers to file form 8038-T (Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate) with the IRS every fifth bond year and final maturity to identify and repay arbitrage rebate liability .
- HHC’s rebate consultant, Hawkins, Delafield & Wood LLP, prepared Arbitrage Rebate Reports for both the 2008 Series A and 2008 Series B – E bonds.
  - With the close of the 5<sup>th</sup> bond year on 8/21/2013 for the 2008 Series A bonds, a form 8038-T was filed on 10/18/13 with the IRS, indicating HHC incurred no arbitrage rebate liability on its 2008 Series A bonds.
  - With the close of the 5<sup>th</sup> bond year on 9/4/2013 for the 2008 Series B – E bonds, a form 8038-T was filed on 11/1/13 with the IRS, indicating HHC incurred no arbitrage rebate liability on its 2008 Series B – E bonds.



# Bond Counsel Selection Process

- On July 22, 2013, HHC Finance issued an RFP seeking the services of a Bond Counsel Firm.
- On August 15, proposals from the following four firms were received – Harris Beach PLLC, Hawkins Delafield & Wood LLP, Nixon Peabody LLP and Winston Strawn LLP.
- The evaluation committee consisting of representatives from the NYC Comptroller’s Office, the NYC Office of Management & Budget, Bellevue Hospital ‘s Budget Office, HHC’s Office of Legal Affairs and Corporate Finance selected Hawkins Delafield & Wood (“HDW”) based on criteria that focuses on the firm’s overall bond counsel experience, relevant client base, taxation expertise and staff qualifications.
- HDW has served as HHC’s Bond Counsel since 1996.