

AGENDA
Joint Meeting of El Camino Hospital’s
Finance Committee and Investment Committee
 Monday, January 30, 2017 **5:30 p.m.**
 Medical Staff Conference Room (in Administration)
 El Camino Hospital | 2500 Grant Road Mountain View, CA 94040

MISSION: The purpose of the Finance Committee (“Committee”) is to provide oversight, information sharing and financial reviews related to budgeting, capital budgeting, long-range financial planning and forecasting, and monthly financial reporting for El Camino Hospital Board of Directors (“Board”). In carrying out its review, advisory and oversight responsibilities, the Committee shall remain flexible in order to best define financial strategies that react to changing conditions.

MISSION: The purpose of the Investment Committee is to develop and recommend to the El Camino Hospital Board of Directors the organization's investment policies, maintain current knowledge of the management and investment of the invested funds of the hospital and its pension plan(s), provide guidance to management in its investment management role, and provide oversight of the allocation of the investment assets.

AGENDA ITEM	PRESENTED BY		
1. CALL TO ORDER/ROLL CALL	John Zoglin, Chair Investment Committee		5:30 p.m.
2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES	John Zoglin, Chair Investment Committee		5:31 – 5:32
3. PUBLIC COMMUNICATION	John Zoglin, Chair Investment Committee		information 5:32 – 5:35
4. INVESTMENT OVERVIEW <u>ATTACHMENT 4</u>	Chad Kenan, Citigroup; Jennifer Brown, Ponder & Co.		discussion 5:35 – 6:29
5. ADJOURNMENT	John Zoglin, Chair Investment Committee		6:30 p.m.

January 30, 2017

DRAFT

Finance and Investment Committee Meeting



Executive Summary

- El Camino Hospital originally priced the Series 2016 bonds on October 26, 2016 but the transaction did not close as planned on November 15th
- When Donald Trump won the election on November 9th, the market became extremely volatile and interest rates increased dramatically for several days
- While rates have increased from their all time lows, the current interest rate is still very attractive on a historical basis
- ECH is interested in returning to the market with a 2017 plan and lock in historically low rates, capitalizing on all the work that originally went into the 2016 plan
- ECH, Citi, and Ponder have reassessed the plan of finance and next steps which are addressed in the following slides

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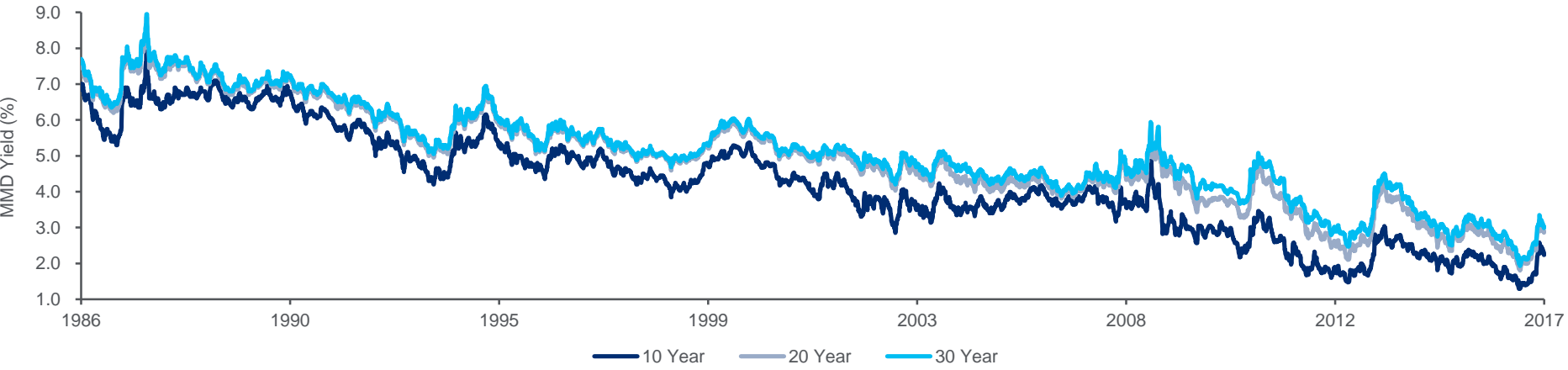
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1. Market Update

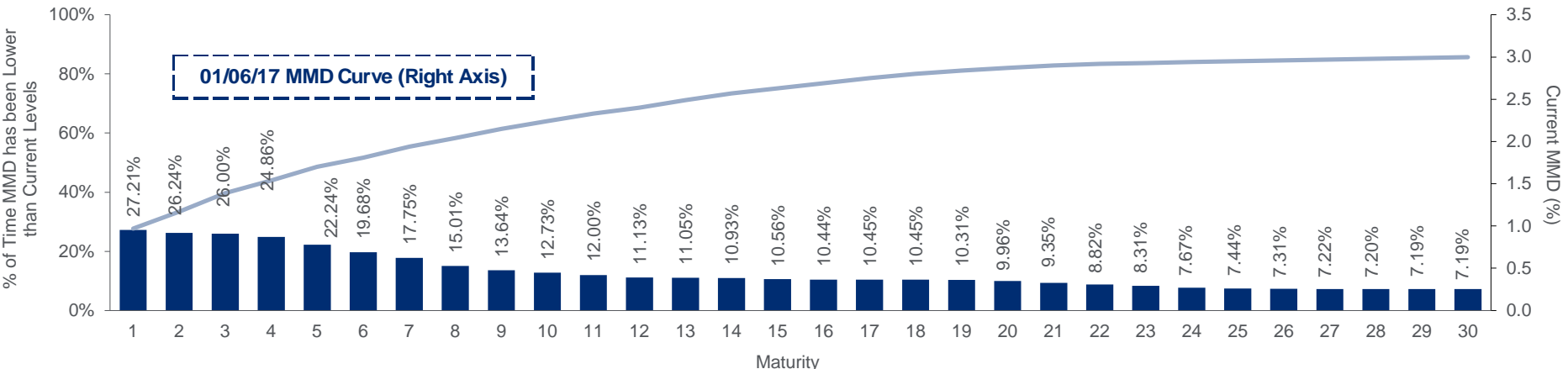
MMD in Historical Context

Although MMD has ticked up recently from all time lows, from a historical perspective the current rate environment continues to be attractive to issuers.

AAA G.O. MMD Yields (June 1, 1986 – January 6, 2017)



% of Time MMD has been Lower Since 1986

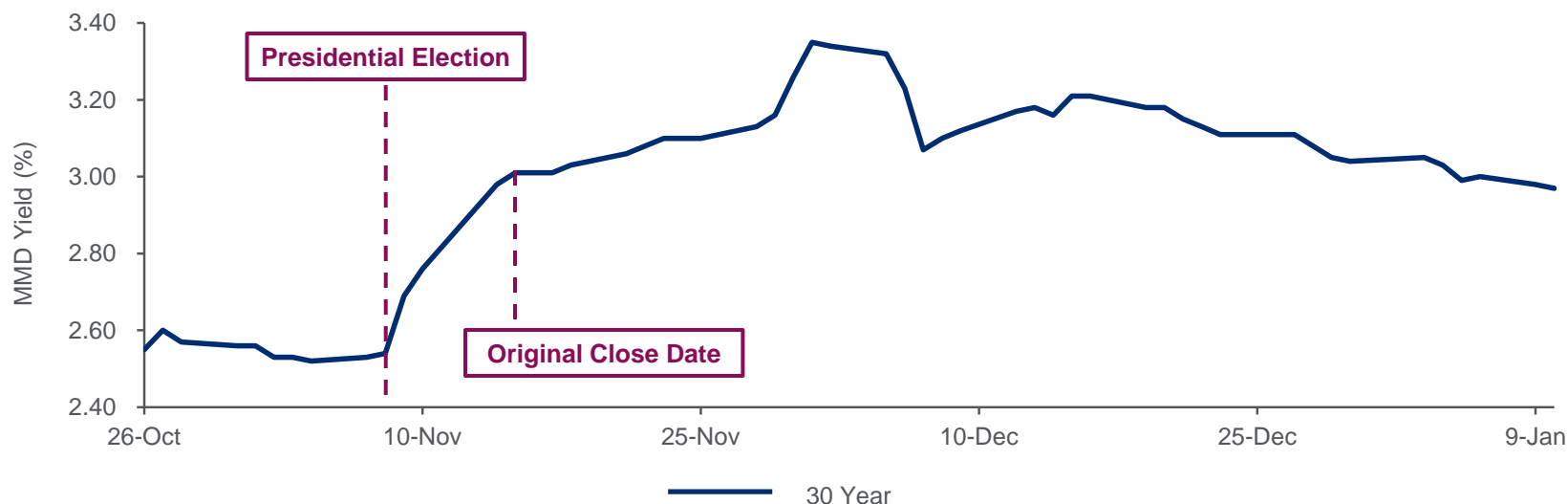


Source: Thomson Reuters, data as of January 6, 2017.

Changes in MMD Since ECH Series 2016 Revenue Bond Pricing

As a result of record municipal issuance in the fall and reaction to the Presidential Election results, rates have picked up across the curve with significant volatility over the past month.

30 Year MMD Volatility - Since ECH Series 2016 Revenue Bond Pricing

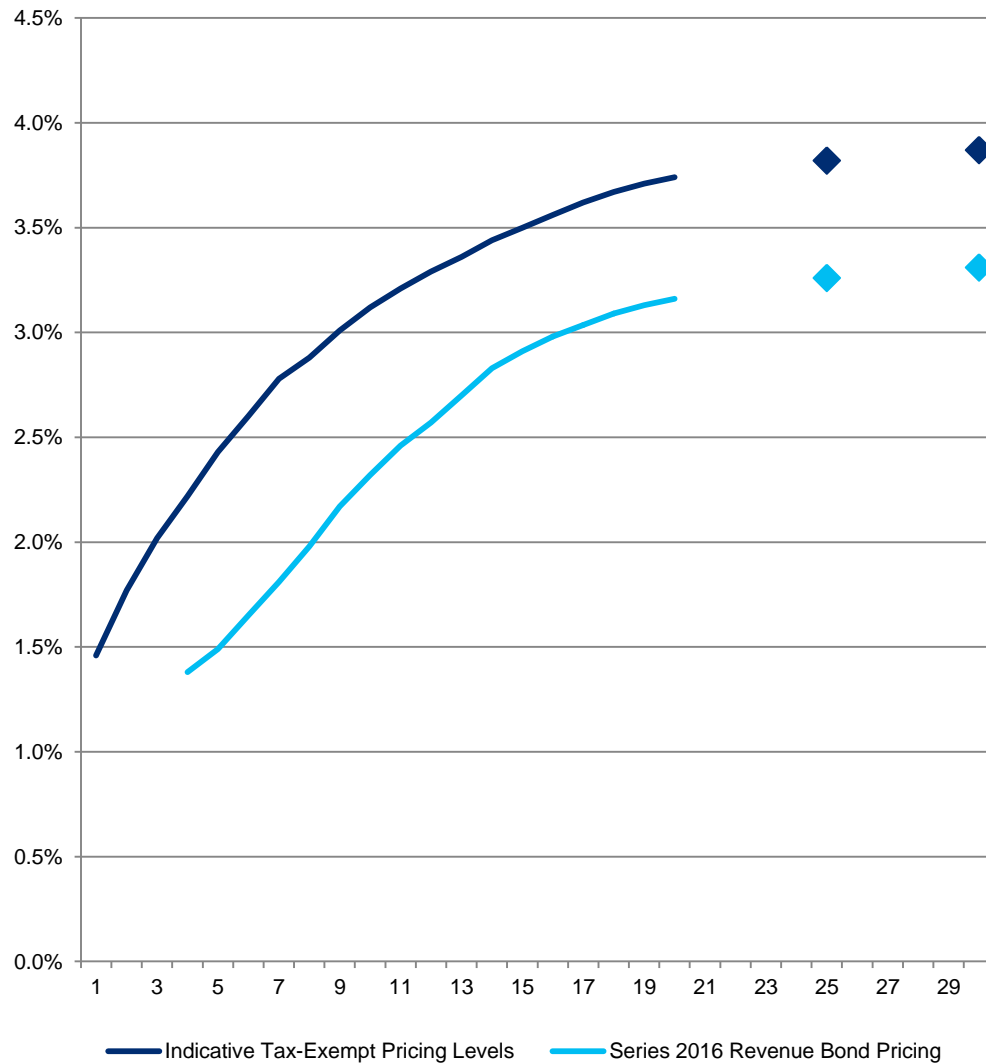


Municipal Yield Changes

	October 26, 2016	January 10, 2017	Δ Since Series 2016 Revenue Bond Pricing
5-Year	1.12%	1.67%	+55 bps
10-Year	1.72%	2.22%	+50 bps
30-Year	2.55%	2.97%	+42 bps

Source: Thomson Reuters, data as of January 10, 2017.

ECH Indicative Tax-Exempt Fixed Rate Pricing Levels



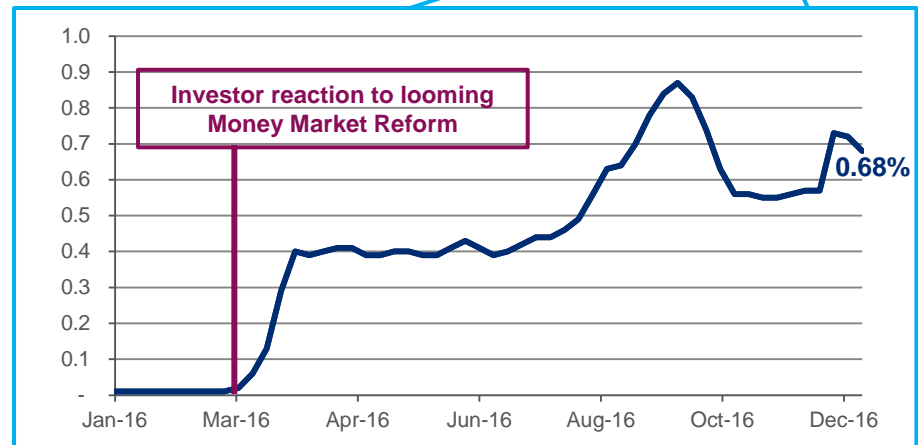
Traditional Fixed Rate Scale

Term	Coupon	MMD (1/10/17)	YTC Spread to MMD	Yield-to-Call	YTM Spread to MMD	Yield-to-Maturity
1	5.00%	0.96%	0.50%	-	0.50%	1.46%
2	5.00%	1.17%	0.60%	-	0.60%	1.77%
3	5.00%	1.37%	0.65%	-	0.65%	2.02%
4	5.00%	1.52%	0.70%	-	0.70%	2.22%
5	5.00%	1.68%	0.75%	-	0.75%	2.43%
6	5.00%	1.80%	0.80%	-	0.80%	2.60%
7	5.00%	1.93%	0.85%	-	0.85%	2.78%
8	5.00%	2.03%	0.85%	-	0.85%	2.88%
9	5.00%	2.14%	0.87%	-	0.87%	3.01%
10	5.00%	2.23%	0.89%	-	0.89%	3.12%
11	5.00%	2.31%	0.90%	3.21%	0.96%	3.27%
12	5.00%	2.39%	0.90%	3.29%	1.07%	3.46%
13	5.00%	2.46%	0.90%	3.36%	1.15%	3.61%
14	5.00%	2.54%	0.90%	3.44%	1.20%	3.74%
15	5.00%	2.60%	0.90%	3.50%	1.25%	3.85%
20	5.00%	2.84%	0.90%	3.74%	1.36%	4.20%
25	4.00%	2.92%	1.30%	4.22%	1.30%	4.22%
25	5.00%	2.92%	0.90%	3.82%	1.42%	4.34%
30	5.00%	2.97%	0.90%	3.87%	1.45%	4.42%

Tax-Exempt Variable Rate Index (SIFMA)



Average	SIFMA (as of 1/10/2017)
Current	0.68%
1-Year Average	0.42%
5-Year Average	0.15%
10-Year Average	0.75%
20-Year Average	1.71%



Source: Citi variable rate desk, ICI, Research.

2. Plan of Finance Considerations

Eligible Project Spending

- New money bonds can be used to finance new tax-exempt eligible projects or to reimburse issuers for previous projects that were funded with cash
- ECH has the ability to be reimbursed for prior expenditures under the **Reimbursement Rule** 60 days prior to the adoption of the Reimbursement Resolution and until 18 months after the project is completed

Projects	Total Cost	Start of Construction	Expected Completion
Behavioral Health Building	\$91.5 million	Early 2016	2018
North Drive Parking Garage	\$24.5 million	Late 2015	Spring of 2017
Medical Office Building	\$275 million ¹	July 2016	2018
Women's Hospital	\$91 million	Early Planning Phase	To Be Determined

Given timing, funding for the Women's Hospital project can be deferred until a later date. However, ECH can maintain flexibility by initially including the project in the 2017 plan in case interest rate environment is favorable as the pricing date approaches.

Source: Latest Appendix A "Capital Facilities Expenditures" on page A-12

1) Only a portion of the MOB is eligible for tax-exempt financing

Decisions Supporting the Series 2016 Plan of Finance

- ECH, Ponder and Citi evaluated the tradeoff between risk and reward to determine the appropriate use of financial products supporting the 2016 plan
- Due to the historically low interest rates ECH decided to issue the Series 2016 bonds as 100% traditional fixed rate debt
- ECH has the opportunity with the 2017 plan to reevaluate its decision and to confirm or change the original decision on the plan of finance

Term (Year)	Par Amount ² (\$mm)	ECH Series 2016 Kick-Off Meeting (05-20-16)		ECH Series 2016 Revenue Bond Pricing (10-26-16)		ECH Finance Committee Today (1-10-17)	
		Indicative YTC	Indicative YTM	Final YTC	Final YTM	Indicative YTC	Indicative YTM
5	\$10.320	1.37%	-	1.49%	-	2.43%	-
10	\$30.670	2.16%	-	2.32%	-	3.12%	-
30	\$241.045	2.98%	4.03%	3.31%	4.14%	3.87%	4.42%

- With traditional fixed rates now having increased 56 bps¹ since the time of the 2016 Plan, ECH can elect to reissue as fixed rate bonds, or evaluate an alternative modes
- The Board and Management's rationale supporting the 2016 fixed rate plan of finance still hold true today

1) Based on 30-year MMD

2) Term 5 represents par amounts in years 1 – 5, Term 10 represents par amount in years 6 – 10, and Term 30 represents par amount in years 11 – 30

Overview of 2017 Plan of Finance (Revenue Bonds only)

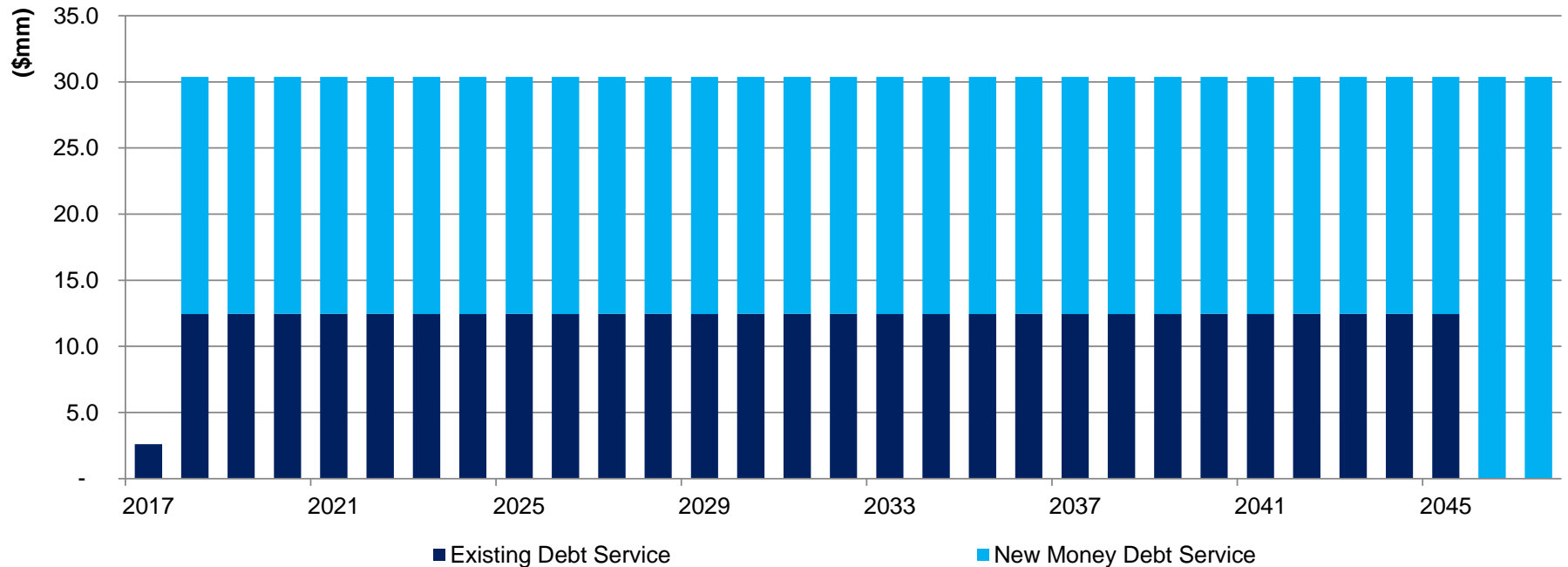
Sources

Par Amount	\$ 290,930,000
Premium	23,896,530
Total Sources	314,826,530

Uses

Project Fund	\$ 290,000,000
Capitalized Interest Fund	20,459,159
Cost of Issuance	4,363,950
Additional Proceeds	3,421
Total Uses	314,826,530

	Series 2017 Statistics	A+ Medians
Par Amount (\$ millions)	\$290.9	N/A
All-in TIC	4.23%	N/A
MADS (\$ millions)	\$30.4	N/A
EBITDA (\$ millions)	\$96.3	N/A
Debt to Capitalization	21.7%	29.0%
Operating Margin	4.8%	5.2%
Cash to Debt	135.9%	197.3%
MADS Coverage	3.2x	5.9x



Source: Company filings. Assumes rates as of 1/10/2017. Assumes COI of 1.5% of par. For illustration purposes only. Preliminary – Subject to Change Adjusted per rating agency methodology. Note: Only includes revenue bond indebtedness; excludes General Obligation bond indebtedness and tax revenues. Incremental debt assumes \$290 million fixed rate financing, wrapped around existing debt service, at tax-exempt borrowing rates as of 1/10/2017.

Current Refunding of Series 2006 GO Bonds

El Camino's Series 2006 Current Interest Bonds ("CIBs") currently generates a significant amount of savings of \$8.0 million or 7.85% of refunded par.

- ECH Series 2006 CIBs are callable on February 1, 2017 therefore the Bonds can be currently refunded
- **Benefits of a Current Refunding :**
 - Negative arbitrage is eliminated
 - Escrow account is not needed
 - Preserve advance refunding eligibility for the future

Summary Statistics - Current Market

Delivery Date	3/15/2017
All-In TIC	3.70%
Average Coupon of Refunding Bonds	4.53%
Average Coupon of Refunded Bonds	4.42%
Par Amount of Refunding Bonds	\$93,190,000
Par Amount of Refunded Bonds	101,460,000
Average Life of Refunding Bonds (years)	14.19
Average Life of Refunded Bonds (years)	13.87
Net PV Savings	7,960,474
Percentage Savings of Refunded Bonds	7.85%
Negative Arbitrage	-

Sensitivity Analysis

If rates increase by 25bps, Series 2006 bonds generate 5.95% of PV Savings

If rates decrease by 25bps, Series 2006 generate 9.74% of PV Savings

ECHD and Management can set a minimum savings threshold (e.g. 5%) to ensure the refunding meets Board expectations

Spectrum of Select Financing Alternatives

ECH has a wide variety of financing vehicles available to fund its capital needs. ECH must evaluate the risk and cost of each vehicle to support the organization’s capital structure goals.



	Traditional Fixed Rate	Intermediate Term Put Bond	SIFMA or LIBOR Index Bonds	Variable Direct Bank Purchase	Synthetic Variable Rate	Total Return Swap	Weekly VRDBs (Bank-Supported)
Interest Rate:	Low	Low	High	High	Medium	Low	High
Liquidity:	N/A	N/A	N/A	Low	N/A	N/A	High
Credit	Low	Low	Low	Low	Low	Low	Low
Put / Event:	Low	Low	Low	Low	N/A	N/A	Low
Product:	Low	Low	High	Medium	High	High	Low
Execution:	Low	Low	Medium	Low	Medium	Medium	Medium
Considerations	<ul style="list-style-type: none"> Generally not callable for up to 10-years Due to higher cost, increases annual debt service 	<ul style="list-style-type: none"> Pricing generally supports 1 to 5 year terms with take-out financing required 	<ul style="list-style-type: none"> Pricing generally supports 1 to 5 year terms with take-out financing required Depth of investor base 	<ul style="list-style-type: none"> Soliciting bids for tenor and terms Negotiating legal, disclosure and rating requirements 	<ul style="list-style-type: none"> Monitoring of counterparty Monitoring of interest rate environment 	<ul style="list-style-type: none"> Monitoring of counterparty Monitoring of interest rate environment 	<ul style="list-style-type: none"> Requires procurement and ongoing renewal of liquidity facility Monitoring of remarketing performance required



3. Next Steps

Approval Requirements

- Once a decision is made to move forward, ECH can come to market in 30-45 days given all the work that was originally done on the 2016 plan
- If the plan of finance remains the same, a CHFFA meeting is not needed

Date	Event
January 30 th	Finance and Investment Committee Meeting
February 8 th	ECH Board Meeting
February 12 th	Q1 FY 2017 numbers go stale
February 23 rd	CHFFA Meeting
March 8 th	ECH Board Meeting
March 14 th	ECHD Board Meeting
March 23 rd	CHFFA Meeting
March 27 th	ECH Finance Committee
May 12 th	Q2 FY 2017 numbers go stale

Next Steps

1

- Decide on the Plan of Finance

2

- Develop Updated Timeline

3

- Reconvene Working Group

4

- Update Appendix A and Bond Documents

5

- Obtain Necessary Approval

6

- Market and Issue Series 2017 Bonds

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efficiency, renewable energy and mitigation