



\$530,000,000
Presence Health Network

May 24, 2016

| | | | | | | | | | | | | | |
|-----------------------------------|--|--|-----------------------------|--------------|--------------------|-----------|----------------------|--|-----------------------------|--------------|-----------------------------|--------------|-----------------------------|
| REQUEST | <p>Purpose: Bond proceeds will be used by Presence Health Network (“Presence” or the “Borrower”) to (i) refund all or a portion of the outstanding Series 2013A-F bonds in addition to taxable term loans with both Bank of America, N.A. and PNC Bank, N.A., and (ii) pay costs of issuance.</p> <p>Program: Conduit 501(c)(3) Revenue Bonds.</p> <p>Extraordinary Conditions: None.</p> | | | | | | | | | | | | |
| BOARD ACTIONS | Final Bond Resolution (<i>One-time consideration</i>) | | | | | | | | | | | | |
| MATERIAL CHANGES | None. This is the first time this financing has been presented to the IFA Board of Directors | | | | | | | | | | | | |
| JOB DATA | <table> <tr> <td>20,000</td> <td>Current employees</td> <td>N/A</td> <td>New jobs projected</td> </tr> <tr> <td>N/A</td> <td>Retained jobs</td> <td>N/A</td> <td>Construction jobs projected</td> </tr> </table> <p><i>Note: “current employees” from Chicago Tribune article as of March 17, 2016</i></p> | 20,000 | Current employees | N/A | New jobs projected | N/A | Retained jobs | N/A | Construction jobs projected | | | | |
| 20,000 | Current employees | N/A | New jobs projected | | | | | | | | | | |
| N/A | Retained jobs | N/A | Construction jobs projected | | | | | | | | | | |
| DESCRIPTION | <ul style="list-style-type: none"> • Location – Multiple locations in Chicago and the Northeast Region (see “Service Area”) • On November 1, 2011, Provena Health and Resurrection Health Care consolidated to form Presence Health, the largest Catholic health system in the State of Illinois. Presence Health operates 11 acute care hospitals and 27 senior care facilities. • Presence Health is sponsored by the Franciscan Sisters of the Sacred Heart, the Servants of the Holy Heart of Mary, the Sisters of the Holy Family of Nazareth, the Sisters of Mercy of the Americas and the Sisters of the Resurrection. | | | | | | | | | | | | |
| CREDIT INDICATORS | <ul style="list-style-type: none"> • Ratings of Presence Health are ‘Baa2’, ‘BBB-’, and ‘BBB’ (Moody’s/S&P/Fitch). • The plan of finance contemplates the issuance of one or more tax-exempt and/or taxable series of bonds that will be purchased directly by J.P. Morgan Securities LLC. The 2016 Bonds are expected to have a variable rate of interest tied to SIFMA and/or LIBOR and will be held by J.P. Morgan Securities LLC for an initial period for up to 18 months. Within that 18 month period, Presence intends to convert or refund these Bonds into a longer term financing. | | | | | | | | | | | | |
| SECURITY | <ul style="list-style-type: none"> • The Bonds will be secured by a note issued pursuant to Presence Health Network’s Amended and Restated MTI dated May 1, 2013. | | | | | | | | | | | | |
| MATURITY | <ul style="list-style-type: none"> • Bonds will have a final maturity no later than September 1, 2046 and will have a mandatory tender expected to be on or around December 2017. | | | | | | | | | | | | |
| SOURCES AND USES ESTIMATED | <table> <tr> <td colspan="2">Sources:</td> <td colspan="2">Uses:</td> </tr> <tr> <td>IFA Bonds</td> <td><u>\$530,000,000</u></td> <td>Refunding/Refinancing and Cost of Issuance</td> <td><u>\$530,000,000</u></td> </tr> <tr> <td>Total</td> <td><u>\$530,000,000</u></td> <td>Total</td> <td><u>\$530,000,000</u></td> </tr> </table> | Sources: | | Uses: | | IFA Bonds | <u>\$530,000,000</u> | Refunding/Refinancing and Cost of Issuance | <u>\$530,000,000</u> | Total | <u>\$530,000,000</u> | Total | <u>\$530,000,000</u> |
| Sources: | | Uses: | | | | | | | | | | | |
| IFA Bonds | <u>\$530,000,000</u> | Refunding/Refinancing and Cost of Issuance | <u>\$530,000,000</u> | | | | | | | | | | |
| Total | <u>\$530,000,000</u> | Total | <u>\$530,000,000</u> | | | | | | | | | | |
| RECOMMENDATION | Credit Review Committee recommends approval. | | | | | | | | | | | | |

**ILLINOIS FINANCE AUTHORITY
BOARD SUMMARY
May 24, 2016**

Project: Presence Health Network

STATISTICS

| | | | |
|-----------------|--------------------------|----------------|-------------------------------|
| Project Number: | 12343 | Amount: | \$530,000,000 (not-to-exceed) |
| Type: | 501(c)(3) Revenue Bonds | IFA Staff: | Pam Lenane and Tammy Harter |
| Locations: | See "Service Area" below | County/Region: | United States |

BOARD ACTION

| | |
|--|-----------------------------|
| Final Bond Resolution (One-time consideration) | No IFA funds at risk |
| Conduit 501(c)(3) Revenue Bonds | No extraordinary conditions |
| Credit Review Committee recommends approval | |

VOTING RECORD

This is the first time this Project is being presented to the Board.

PURPOSE

Bond proceeds will be used by **Presence Health Network** ("Presence" or the "Borrower") to (i) refund all or a portion of the outstanding Series 2013A-F bonds in addition to taxable term loans with both Bank of America, N.A. and PNC Bank, N.A., and (ii) pay costs of issuance.

IFA PROGRAM AND CONTRIBUTION

501(c)(3) Bonds are a form of municipal bonds that 501(c)(3) corporations can use to finance capital projects that will be used to further their charitable mission. IFA's issuance will convey federal tax-exempt status on interest paid to bondholders, thereby reducing the Borrower's interest expense. The Borrower is also considering issuing all or a portion as taxable bonds.

VOLUME CAP

501(c)(3) Bonds do not require Volume Cap.

ESTIMATED SOURCES AND USES OF FUNDS

| | | | |
|-----------------|-----------------------------|---|-----------------------------|
| Sources: | | Uses: | |
| IFA Bonds | <u>\$530,000,000</u> | Refunding/Refinancing and Cost of Issuance | <u>\$530,000,000</u> |
| Total | <u>\$530,000,000</u> | Total | <u>\$530,000,000</u> |

JOBS

| | | | |
|---------------------|------------------|---------------------|-----|
| Current employment: | 20,000 employees | Projected new jobs: | N/A |
| Jobs retained: | N/A | Construction jobs: | N/A |

Note: "current employees" from Chicago Tribune article as of March 17, 2016

FINANCING SUMMARY

| | |
|-------------------------|---|
| Security: | The Bonds will be secured by a note issued pursuant to Presence Health Network's Amended and Restated MTI dated May 1, 2013. |
| Structure: | The plan of finance contemplates the issuance of one or more tax-exempt and/or taxable series of Bonds that will be purchased directly by J.P. Morgan Securities LLC. The 2016 Bonds are expected to have a variable rate of interest tied to SIFMA and/or LIBOR and will be held by J.P. Morgan Securities LLC for an initial period for up to 18 months. Within that 18 month period, Presence intends to convert or refund these Bonds into a longer term financing. |
| Interest Rate: | To be determined based on market conditions at closing. |
| Interest Rate Modes: | Variable Rate Direct |
| Underlying Ratings: | 'Baa2' (on review for downgrade) / 'BBB-' (CreditWatch negative) /, and 'BBB' (Rating Watch Negative) (Moody's/S&P/Fitch) |
| Maturity: | Bonds will have a final maturity no later than September 1, 2046 and will have a mandatory tender expected to be on or around December 2017. |
| Estimated Closing Date: | May 25, 2016 |

PROJECT SUMMARY (FOR FINAL BOND RESOLUTION)

See attached.

BUSINESS SUMMARY

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|-----------------------------------|--|
| Background: | <p>Presence Health Network is the largest Catholic healthcare network in the State of Illinois, comprising 11 hospitals, 27 long-term care and senior residential facilities, and more than 150 total locations around the State. The combined health system has hospital operations throughout Chicago, as well as in Des Plaines, Evanston, Aurora, Elgin, Joliet, Kankakee, Urbana and Danville.</p> <p>Presence Health Network is currently the largest provider of Medicaid services and behavioral healthcare services in Illinois.</p> |
| Key Components of Operating Loss: | <p>A new Presence Health leadership team started in 4Q 2015 and began a thorough review of its financials, resulting in several accounting adjustments. This led to a \$185MM operating loss for FY2015, key components of which include: \$96MM in Accounts Receivable & Contractuals, \$44MM in Medical Malpractice, and \$26MM in Other Balance Sheet Adjustments. Reasons for the adjustments include a change in reserve methodology, prior year adjustments, write-offs. Due to the dollar amount of these adjustments, Presence Health has breached or will breach certain financial and reporting covenants in its various lending agreements. It is important to note these are "technical defaults" – Presence has approximately \$900 million in cash and investments and has made all scheduled principal and interest payments.</p> |
| Key Initiatives: | <p>Management has identified performance improvement opportunities in excess of \$180M per year over a two year period with a total of \$50-90M in Revenue Cycle, \$30-40M in Strategic Pricing, \$30-40M in Supply Chain, \$50-70M in Labor and \$10-15M in Other Initiatives. Presence is in the process of implementing these expeditiously with the assistance of several external resources, including Crowe Horwath, Huron Healthcare and Xtend Healthcare.</p> |

ECONOMIC DISCLOSURE STATEMENT

Applicant: Presence Health Network

Site Address: Presence Health Network, 200 South Wacker Drive, Chicago, IL 60606

Contact: Michael Englehart, Chief Executive Officer

Website: www.presencehealth.org

Project name: Presence Health Network, Series 2016

Organization: 501(c)(3) Not-for-Profit Corporation

State: Illinois

Board: The 2016 Board Members of Presence Health are listed below:

| <u>Name</u> | <u>Title</u> |
|---------------------------------|------------------|
| Victor Orlor | Board Chair |
| Haven Cockerham | Board Vice Chair |
| Michael Englehart | Member |
| James Gravell | Member |
| Bruce Hamory, MD, FACP | Member |
| Mark Hanson, Esq. | Member |
| Thomas Huberty, MD | Member |
| Sister Patricia Koschalke, CSFN | Member |
| Marsha Ladenburger | Member |
| Laurie Lafontaine | Member |
| Sister Terry Maltby, RSM | Member |
| Susan McDonough | Member |
| Thomas Settles | Member |
| Sister Mary Shinnick, OSF | Member |
| Guy Wiebking | Member |
| James Winikates | Member |

PROFESSIONAL & FINANCIAL

| | | | |
|---------------------------|--------------------------------|----------------|--------------------|
| Borrower's Counsel: | Nixon Peabody | Chicago, IL | Julie Seymour |
| Financial Advisor: | Kaufman Hall | Chicago, IL | Jim Blake |
| Bond Counsel | Chapman and Cutler LLP | Chicago, IL | David Kates |
| Auditor: | KPMG | Chicago, IL | Charles Klescewski |
| Purchaser/Underwriter(s): | J.P. Morgan Securities LLC | Chicago, IL | Meghan O'Keefe |
| Purchaser/Underwriter: | Orrick, Herrington & Sutcliffe | Sacramento, CA | John Myers |
| IFA Counsel: | Schiff Hardin, LLP | Chicago, IL | Bruce Weisenthal |
| IFA's Financial Advisor: | Acacia Financial Group, Inc. | Chicago, IL | Phoebe S. Selden |

LEGISLATIVE DISTRICTS

Congressional: 2, 4, 5, 6, 7, 9, 10, 11, 13, 15, 16, 17

State Senate: 2, 5, 6, 9, 10, 22, 25, 28, 40, 43, 49, 51, 52

State House: 4, 5, 9, 10, 12, 17, 18, 19, 20, 39, 43, 55, 67, 79, 83, 84, 85, 86, 89, 98, 103, 104

SERVICE AREA

Presence Health Network has hospitals throughout Chicago, as well as in Des Plaines, Evanston, Aurora, Elgin, Joliet, Kankakee, Urbana and Danville.

EXISTING CAPITAL STRUCTURE SUMMARY

| Series | Par (\$000s) | Mode | Credit Support/ Bond Purchaser | Credit Renewal | Interest Formula | Weighted Average Life (yrs) | Final Maturity | Call Date | Call Price |
|--------------------|--------------|------------|-----------------------------------|----------------|------------------|--------------------------------|----------------|-----------|------------|
| 1999A | \$79,575 | Fixed Rate | Assured Guaranty | n/a | 5.09% | 7.0 | 5/15/2029 | 5/15/2018 | 100% |
| 1999B | \$79,575 | Fixed Rate | Assured Guaranty | n/a | 5.01% | 7.0 | 5/15/2029 | 5/15/2018 | 100% |
| 2009 | \$51,915 | Fixed Rate | None | n/a | 6.09% | 6.6 | 5/15/2025 | 5/15/2019 | 100% |
| 2009A | \$200,000 | Fixed Rate | None | n/a | 7.75% | 15.7 | 8/15/2034 | 8/15/2019 | 100% |
| 2010A | \$86,835 | Fixed Rate | None | n/a | 5.98% | 7.2 | 5/1/2028 | 5/1/2020 | 100% |
| 2013A | \$57,795 | Bank DP | Fifth Third | 9/1/2020 | % LIBOR + Spread | 14.4 | 2/15/2035 | Any IPD | 100% |
| 2013B | \$48,835 | Bank DP | Compass | 9/1/2020 | % LIBOR + Spread | 23.0 | 2/15/2044 | Any IPD | 100% |
| 2013C | \$53,550 | Bank DP | BMO Harris | 9/1/2021 | % LIBOR + Spread | 21.6 | 2/15/2045 | Any IPD | 100% |
| 2013D | \$38,050 | Bank DP | BofA | 9/1/2021 | % LIBOR + Spread | 21.2 | 2/1/2045 | Any IPD | 100% |
| 2013E | \$114,510 | Bank DP | JPMorgan | 9/3/2018 | % LIBOR + Spread | 14.0 | 2/15/2035 | Any IPD | 100% |
| 2013F | \$39,940 | Bank DP | JPMorgan | 9/3/2018 | % LIBOR + Spread | 23.0 | 2/15/2044 | Any IPD | 100% |
| Term Loan | \$92,171 | Term Loan | BofA | 12/15/2023 | LIBOR + Spread | 6.9 | 12/15/2023 | Any IPD | 100% |
| Term Loan | \$77,540 | Term Loan | PNC | n/a | 3.186% | 4.3 | 11/15/2023 | Any IPD | Make Whole |
| \$1,020,291 | | | | | | 12.4 | | | |