



**\$1,210,000,000
Presence Health Network**

July 14, 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 Presence outstanding bonds, (ii) new money proceeds, (iii) taxable bonds, if needed and (iv) pay costs of issuance.</p> <p>Program: Conduit 501(c)(3) Revenue Bonds.</p> <p>Extraordinary Conditions: None.</p>												
BOARD ACTIONS	<p>Final Bond Resolution Voting Record (June 9, 2016) – Preliminary Bond Resolution – 8 Yeas; 0 Nays; 1 Abstention (Goetz); 5 Absent (Fuentes, Horne, O’Brien, Tessler, Yonover); 1 Vacancy.</p>												
MATERIAL CHANGES	None.												
JOB DATA	<table> <tr> <td>15,387</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>	15,387	Current employees	N/A	New jobs projected	N/A	Retained jobs	N/A	Construction jobs projected				
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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 ‘Baa3’ (Negative Outlook) / ‘BBB-’ (Negative Outlook) /, and ‘BBB’ (Rating Watch Negative) (Moody’s/S&P/Fitch); New ratings expected to be issued just prior to the July Board Meeting. • The Bonds will be public fixed and potentially variable rate debt. 												
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 Master Trust Indenture (“MTI”) dated May 1, 2013, or a new MTI. 												
MATURITY	<ul style="list-style-type: none"> • Bonds will have a final maturity no later than February 15, 2047. 												
SOURCES AND USES ESTIMATED	<table> <tr> <td colspan="2">Sources:</td> <td colspan="2">Uses:</td> </tr> <tr> <td>IFA Bonds</td> <td><u>\$1,210,000,000</u></td> <td>Refunding, New Money/Reimbursement and Cost of Issuance</td> <td><u>\$1,210,000,000</u></td> </tr> <tr> <td>Total</td> <td><u>\$1,210,000,000</u></td> <td>Total</td> <td><u>\$1,210,000,000</u></td> </tr> </table>	Sources:		Uses:		IFA Bonds	<u>\$1,210,000,000</u>	Refunding, New Money/Reimbursement and Cost of Issuance	<u>\$1,210,000,000</u>	Total	<u>\$1,210,000,000</u>	Total	<u>\$1,210,000,000</u>
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Total	<u>\$1,210,000,000</u>	Total	<u>\$1,210,000,000</u>										
RECOMMENDATION	Credit Review Committee recommends approval.												

**ILLINOIS FINANCE AUTHORITY
BOARD SUMMARY
July 14, 2016**

Project: Presence Health Network

STATISTICS

Project Number: 12349	Amount: \$1,210,000,000 (not-to-exceed)
Type: 501(c)(3) Revenue Bonds	IFA Staff: Pam Lenane
Locations: See "Service Area" below	County/Region: Illinois

BOARD ACTION

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

VOTING RECORD

Voting Record (June 9, 2016) - Preliminary Bond Resolution: 8 Yeas; 0 Nays; 1 Abstention (Goetz); 5 Absent (Fuentes, Horne, O'Brien, Tessler, Yonover); 1 Vacancy

PURPOSE

Bond proceeds will be used by **Presence Health Network** ("**Presence**" or the "**Borrower**") to (i) refund all or a portion of the Presence outstanding bonds, (ii) new money proceeds, (iii) taxable bonds, if needed and (iv) 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.

VOLUME CAP

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

ESTIMATED SOURCES AND USES OF FUNDS

Sources:		Uses:	
IFA Bonds	\$1,210,000,000	Refunding, New Money/Reimbursement and Cost of Issuance	\$1,210,000,000
Total	<u>\$1,210,000,000</u>	Total	<u>\$1,210,000,000</u>

JOBS

Current employment: 15,387 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, or a new MTI.
Structure:	Fixed rate and potentially variable rate public debt
Interest Rate:	To be determined based on market conditions at closing.
Interest Rate Modes:	Fixed Rate and potentially Variable Rate
Underlying Ratings:	'Baa3' (Negative Outlook) / 'BBB-' (Negative Outlook) /, and 'BBB' (Rating Watch Negative) (Moody's/S&P/Fitch); New ratings expected to be issued just prior to the July Board meeting.
Maturity:	Bonds will have a final maturity no later than February 15, 2047
Estimated Closing Date:	August 16, 2016

PROJECT SUMMARY (FOR FINAL BOND RESOLUTION)

Bond proceeds will be used by **Presence Health Network** ("Presence" or the "Borrower") to (i) refund all or a portion of the Presence outstanding bonds, (ii) new money proceeds, and (iii) pay costs of issuance.

BUSINESS SUMMARY

Background: Presence Health Network is the largest Catholic healthcare network in the State of Illinois, comprising 12 hospitals, 27 long-term care and senior residential facilities, and over 100 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.

Presence Health Network is currently the largest provider of Medicaid services and behavioral healthcare services in Illinois.

Key Components of Operating Loss:

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, there was a possibility of violations related to certain financial and reporting covenants in its various lending agreements. In May of 2016, bank debt was restructured, and the MTI covenant was amended to eliminate the requirements for the fiscal year ended December 31, 2015. It is important to note these are "technical defaults" – Presence has approximately \$882 million in cash and investments and has made all scheduled principal and interest payments.

Key Initiatives:

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.

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 2016C
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 Orler	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 LLP	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:	J.P. Morgan Securities LLC	Chicago, IL	Meghan O'Keefe
Purchaser's/Underwriter's Counsel:	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

