



HHC CAPITAL CORPORATION

160 Water Street, Room 1014 - New York, New York, 10038
212 - 788 - 3494 Fax: 212 - 788 - 9708

HHC Capital Corporation Semi-annual Meeting

May 30, 2013, 3:00 p.m.
125 Worth Street – 5th Floor Board Room
New York, New York 10013

AGENDA

- | | | |
|-------|---|------------------------|
| I. | Call to order
Adoption of minutes for the HHC Capital Corporation Meeting held on 11/29/12 | Michael A. Stocker, MD |
| II. | Issuance of 2013 Series A Health System Bonds | Linda DeHart |
| III. | Bond Issuance History | Linda DeHart |
| IV. | HHC Debt Structure | Marlene Zurack |
| V. | Credit Ratings | Marlene Zurack |
| VI. | Post-Issuance Compliance | Marlene Zurack |
| VII. | Construction Fund Balance: 2010 Bonds | Paulene Lok |
| VIII. | HHC Health System Bonds - Arbitrage Rebate | Paulene Lok |
| IX. | Old business, new business and adjournment | Michael A. Stocker, MD |

MINUTES

HHC Capital Corporation Semi-annual Public Meeting

Meeting Date: November 29, 2012, 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
Emily A. Youssouf

Corporation Officers and other HHC Board Members:

Salvatore J. Russo, Esq., Senior Vice President & General Counsel, Legal Affairs and Secretary to the Board

Health and Hospitals Corporation Staff:

Linda DeHart – Assistant Vice President, Debt Finance & Corporate Reimbursement Services
Alfonso Pistone – Assistant Vice President, Facilities Development
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
Cyril Toussaint – Director, Facilities Development

Other Attendees:

Melissa Dubowski - NYC Office of Management & Budget
Justine DeGeorge – NYS Comptroller's Office
Megan Meagher – NYC Office of Management & Budget

HHC Capital Corporation – Semi-annual Public Meeting Thursday, November 29, 2012

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 3:06 p.m. by Dr. Stocker.

Minutes:

The minutes of the HHC Capital Corporation meeting held on May 24, 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.

HHC Bonds Issuance History:

Ms. Dehart informed the Board that the current amount of outstanding HHC bonds is slightly over \$1 billion.

2010 HHC Health System Bond Construction Fund:

Paulene Lok reported that \$97.2 million has been drawn down from the 2010 Bond Construction Fund of nearly \$200 million as of November 15, 2012. When asked by Ms. Youssouf if there was a project list at the time of bond issuance in 2010, Ms. DeHart and Mr. Alfonso Pistone said that a preliminary list was provided and that there was a presumption of accelerated capital spending based on Facility requests at the time. Mr. Pistone added that of the \$102.6 million remaining in the construction fund, \$44 million is set aside for IT projects.

Ms. Youssouf asked if Finance has considered using alternative financing mechanisms since many of the larger City Authorities have such programs adding that HHC should also have an “open resolution” structure in place to allow for continuous and more frequent bond

issuances. Ms. DeHart replied that Ms. Zurack is considering issuing bonds along the lines of an "as-needed" basis similar to New York City's cash flow borrowing. Debt Finance had participated in discussions exploring the use of a revolving Commercial Paper program for future capital funding needs.

When asked if HHC is encountering any negative arbitrage for taking so long to spend down the bond proceeds, Ms. Lok answered yes, but that according to the IRS rules and periodic arbitrage rebate filings, HHC has 5 years in which to fully spend down the proceeds.

Dr. Stocker asked if HHC borrowed more than it could spend. Mr. Pistone responded that OFD (Office of Facilities Development) has encumbered \$136 million and that the challenge is the lag in the construction process and the delay in IT's spend-down of their allocation. Ms. Youssouf asked for the amount of interest paid on the 2010 bonds and more details on the encumbrances. Ms. DeHart and Mr. Pistone indicated that they would provide the information.

Letter of Credit Extension for HHC's 2008 Series D&E Bonds:

Ms. Lok provided a brief background of the Letters of Credit ("LOC") which support HHC's 2008 Series B through E variable rate bonds. The LOC supporting the 2008 Series D and E bonds provided by JP Morgan Chase Bank ("JPM") was set to expire in September 2013. HHC asked for an extension through to July 1, 2017 in order to bypass the 2015 implementation of Basel III regulations which will impact bank capital reserves and liquidity coverage ratio requirements. These regulations are expected to reduce bank LOC capacity starting in 2015.

Addressing Ms. Youssouf's question as to why HHC is not converting the variable rate bonds to fixed rate bonds in order to lock in the historic low interest rates, Ms. Lok responded that the average rate of interest on HHC's variable rate bonds is 20 basis points. The cost of the LOC is between 60 to 70 basis points which means that HHC is paying under 1% on the variable rate bonds. Ms. Dehart added that HHC's underwriters and financial advisor are certain that the long term rates will remain low within the next 12 months and that there is enough time to convert the variable rate debt to a fixed rate mode before interest rates start to rise.

Ms. Youssouf agrees that there will likely be less LOC bank capacity and that with so much uncertainty surrounding the fiscal cliff, HHC should re-consider "fixing out" the variable rate bonds.

Financial Advisor Selection:


Ms. Nini Mar stated that a RFP for Financial Advisory Services was released on July 26, 2012. Twelve firms specializing in healthcare in the Northeast area according to the Bond Buyer "Red Book" were contacted directly by e-mail in addition to publication of the RFP in The City Record and a posting on HHC's Contracting website. Two firms, A.C. Advisory and Public Financial Management ("PFM"), submitted proposals on August 24, 2012. Based on interviews held on September 14, along with the quality and content of the proposals, the RFP Evaluation Committee selected PFM. PFM has been serving as the HHC's Financial Advisor since 2002.

Upcoming Bond Refunding:

Ms. DeHart informed the Board of Finance's intent to refund nearly \$112 million of outstanding HHC Series 2003 bonds that have an average coupon of 5.08%. The anticipated net present value savings was \$24 million based on market conditions on October 9th. The savings are even greater now given that interest rates have continued to decline. Currently, Finance also plans to refund and restructure some of the 2008 fixed rate bonds to secure additional cash flow savings in years 2014 and 2015. The target pricing date for these transactions is February 2013.

Adjournment:

There being no further business before the Board, the meeting was adjourned at 3:26 p.m.



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

HHC Capital Corporation Semi-Annual Meeting

Date: May 30, 2013

Time: 3:00 p.m.

Location: 125 Worth Street,
5th Floor Board Room
New York, NY 10013

Issuance of 2013 Series A Health System Bonds

- On March 28, 2013, HHC issued \$112,045,000 of tax-exempt fixed rate bonds with an all-in interest rate of 2.44% and achieved a net present value savings of 15.4% or \$21.9 million.
- The 2013 Series A bonds refunded all of the 2003 Series A bonds and certain 2008 Series A bonds.
- With strong support from the NYC Office of Management and Budget and the NYC Comptroller's Office HHC was able to:
 - Maintain credit ratings at Aa3/A+/A+ with Moody's/S&P's/Fitch, respectively
 - Generate healthy investor interest during investor presentation
 - Receive \$140 million worth of orders from retail investors
 - Sell all bonds in one day rather than two days as planned
- The lead underwriter of the 2013 Series bonds was Citigroup, with Morgan Stanley and JPMorgan Securities as the co-senior underwriters along with a team of 13 co-managers.

HHC Bonds Issuance History (as of 4/30/13)

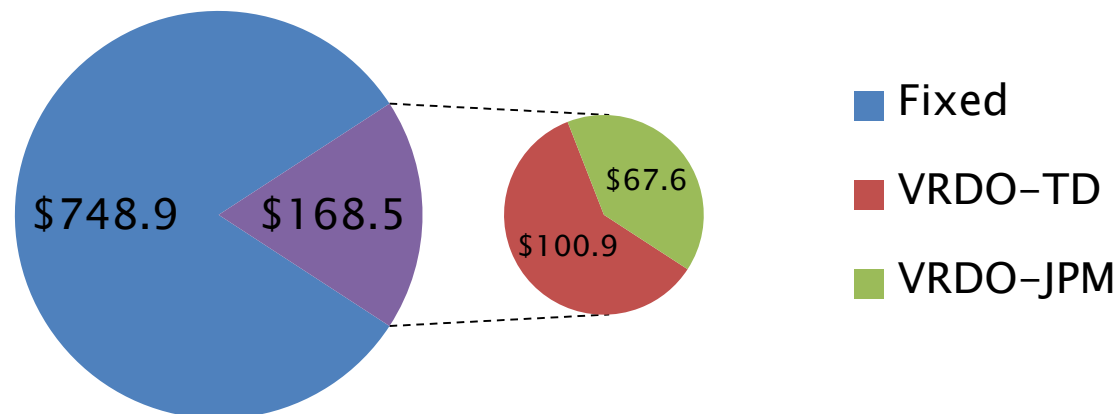
Issuance Date	Bond Series	Initial Par Amount (in \$ millions)	Outstanding Par Amount (in \$ millions)	Final Maturity	Fixed or Variable Rate
5/15/93	1993 A	550.000	-	-	Fixed
4/10/97	1997 A-D	320.000	-	-	Variable
3/1/99	1999 A ⁽¹⁾	235.700	-	-	Fixed
7/1/02	2002 A	192.700	-	-	Fixed
7/1/02	2002 B-H ⁽²⁾	397.750	-	-	Auction
1/15/03	2003 A ⁽³⁾	245.180	-	-	Fixed
8/21/08	2008 A ⁽⁴⁾	268.915	130.975	2/15/2026	Fixed
9/4/08	2008 B-E ⁽⁵⁾	189.000	168.555	2/15/2031	Variable
10/26/10	2010 A ⁽⁶⁾	510.460	505.835	2/15/2030	Fixed
3/28/13	2013 A ⁽⁷⁾	112.045	112.045	2/15/2023	Fixed
	Total	-	917.410		

- Note: (1) Advance refunding of certain 1993 Series bonds
 (2) Refunding of the entire 1997 Series bonds and issue new money
 (3) Refunding of the remaining 1993 Series bonds
 (4) Refunding of the 2002 B,C,H Series bonds and issue new money
 (5) Refunding of the 2002 D,E,F,G series bonds
 (6) Refunding of the entire 1999 Series and substantially all of the 2002 Series A bonds, and issue new money
 (7) Refunding of the entire 2003 A and a portion of the 2008 A Series bonds

HHC Debt Structure

- After the 2013 Series A bonds issuance, variable rate exposure is \$168.5 MM or 18.4% and fixed rate exposure is \$748.9 MM or 81.6%.
 - Variable rate bonds are supported by letters of credit provided by TD Bank (59.9%) and JPMorgan Chase Bank (40.1%). The LOCs are due 9/3/15 and 7/1/17, respectively.
- With the refunding of the 2003 Series A (Ambac insured) and the maturity of the last 2002 Series A bonds (FSA insured), HHC has no outstanding insured bonds.

Outstanding Debt – \$917.4 MM



Credit Ratings

Entity	Role or Service Provided	Moody's	S&P	Fitch
NYC	-	Aa2	AA	AA
HHC	Issuer	Aa3	A+	A+
TD Bank	Letter of Credit Provider (2008 Series B and C)	Aa3/P-1	AA-/A-1+	AA-/F1+
JPMorgan Chase Bank	Letter of Credit Provider (2008 Series D and E)	Aa3/P-1	A+/A-1	A+/F1

Health System Bonds – Post-Issuance Compliance

- In May 2013, HHC adopted written procedures for post-issuance compliance for tax-exempt bonds, as suggested by the IRS.
- The written procedures contain the following key characteristics:
 - Due diligence review at regular intervals
 - Identifying the official or employee responsible for review
 - Training of the responsible official/employee
 - Retention of adequate records to substantiate compliance
 - Procedures reasonably expected to timely identify noncompliance
 - Procedures ensuring that the issuer will take steps to timely correct noncompliance
- The goal of the procedure is to identify and resolve noncompliance, on a timely basis in order to preserve the tax-exempt status of the bonds.

2010 Health System Bonds

Construction Fund – Cash Flow

(Unaudited, in \$millions)

Drawdown Period ¹	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 <i>(as of 5/15/2013)</i>		(76.448)	55.888
	Interest Earnings <i>(as of 4/30/2013)</i>	0.802		56.690
	Total	200.560	(143.870)	

As of	Total Drawdown	Unspent Encumbrances	Total Encumbrances	Unencumbered Balance
4/30/13	143.870	38.780	182.650	17.910

¹ 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 2002 Series and 2003 Series A bonds.
 - Following the last 2002 Series A bonds maturity on 2/15/2013, a final form 8038-T was filed on 4/10/13 with the IRS, indicating HHC incurred no arbitrage rebate liability on its 2002 Series bonds.
 - With the close of the 10th bond year on 2/11/2013 for the 2003 Series A bonds, a form 8038-T was filed on 4/10/13 with the IRS, indicating HHC incurred no arbitrage rebate liability on its 2003 Series A bonds.