

PONDER&co
MEMORANDUM

To: Ken Hopkins
Chief Financial Officer
Norman Regional Health System

From: Grant Ostlund

Date: September 5, 2019

RE: Summary of Proposed Debt Issuance

Currently Norman Regional Health System ("NRHS") has \$147.9 million of tax-exempt debt outstanding. The individual debt issues comprising the debt portfolio are outlined in the following table along with certain features of each debt issue.

<u>Debt Issue</u>	<u>Principal Outstanding</u>	<u>Average Coupon</u>	<u>Type</u>	<u>Redemption Features</u>	<u>Final Maturity</u>
Series 2016	\$124,080,000	4.66%	Fixed	9/1/2026 @ Par	9/1/2037
Series 2017	<u>23,795,000</u>	5.00%	Fixed	9/1/2027 @ Par	9/1/2037
	<u>\$147,875,000</u>				

In November of 2017, Standard and Poor's upgraded NRHS's credit rating to "A-" from "BBB+". In March of 2019, Standard and Poor's affirmed the "A-". In September of 2016 and in conjunction with the issuance of the Series 2016 Bonds, Moody's Investors Service upgraded NRHS's credit rating to "Baa1" and affirmed this rating in March of 2019.

The Project and the Financing

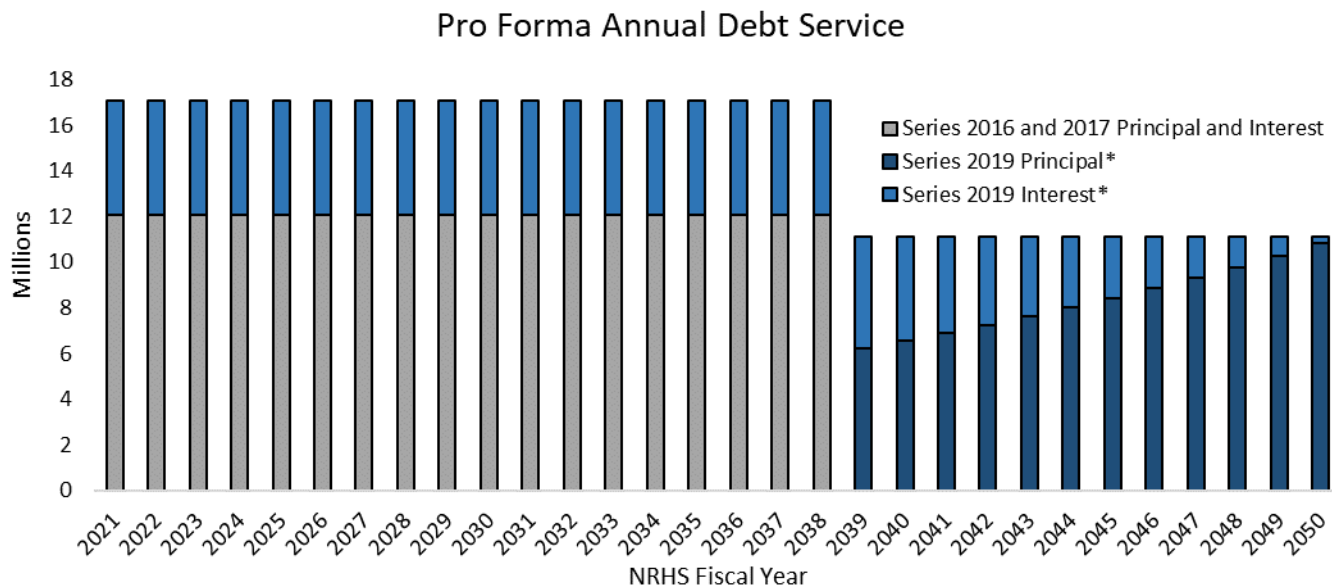
NRHS has developed a strategic facility plan to be implemented over the next decade. The first phase of the strategic facility plan includes a consolidation of inpatient services at NRHS's HealthPlex campus, development of an ambulatory pavilion and cancer center at the HealthPlex campus, and the development of a free-standing emergency department located on the Eastside of the City of Norman (the "Project"). The total cost of the first phase of the Project is estimated to be \$285 million.

It is NRHS's desire to fund a portion of Project cost with tax-exempt debt (the "Series 2019 Bonds"). While a final issue size has yet to be determined, NRHS is seeking to issue tax-exempt debt with a par amount necessary to generate between \$100 and \$120 million of proceeds to assist in funding the Project. The difference between the funds raised for the Project through the financing and the total cost of the Project will be funded through NRHS capital reserves, fund raising, earnings on funds held by the Series 2019 trustee, and possible investments from third parties. In addition to funding a portion of the Project, proceeds of the issue will also be used to fund all costs associated with the issuance of the Series 2019 Bonds.

The Series 2019 Bonds will be issued as fixed rate debt and, while subject to change, is anticipated to be structured with a final maturity of September 1, 2049 (a final maturity of approximately 30 years). Principal amortization of the Series 2019 Bonds will begin on September 1, 2038 (one year after the final maturity of the Series 2016 and 2017 Bonds). Amortization will be structured to generate level annual debt service to the final maturity of the Series 2019 Bonds once principal payments begin. Structuring principal payments in this manner minimizes the maximum annual debt service paid by NRHS in any one year while generating a weighted average maturity of the Series 2019 Bonds that is consistent with the average economic life of the assets financed.

Under current market conditions and based upon NRHS's current credit rating, the estimated all-in total interest cost (incorporating issuance costs) of the Series 2019 Bonds is 3.68% (subject to change).

Pro forma annual debt service for NRHS is illustrated below assuming a bond issuance sufficient is size to generate \$120 million for the Project.



NRHS plans to issue a preliminary offering statement to the market during the week of October 7th and price (establish the interest rates, yields, redemption features, principal amortization, and dollar prices) the Series 2019 Bonds on October 22nd. Closing will occur approximately one week after the pricing date.

The debt will be publicly priced and issued through a negotiated sale with J.P. Morgan Securities, LLC acting as the senior managing underwriter. J.P. Morgan was selected by NRHS through a proposal request process involving seven investment banking firms. J.P. Morgan was selected based upon experience, expertise, personnel assigned to the transaction and price. Other members of the NRHS financing team include:

- Bond Counsel: Floyd Law Firm, P.C.
- Corporate Counsel: Crowe & Dunlevy
- Financial Advisor: Ponder & Co. (a Municipal Advisor as required under the Municipal Advisory Rule)
- Underwriter's Counsel: Chapman and Cutler LLP

The following is an estimate of the Sources and Uses of the transaction based upon current market conditions and the maximum, not to exceed par amount of :

Sources of Funds:

Series 2019 Par Amount	\$100,110,000
Original Issue Premium	21,396,248.65
	<u>\$121,506,248.65</u>

Uses of Funds:

Project Fund	\$120,000,000
Issuance Costs & Additional Proceeds	1,506,248.65
	<u>\$121,506,248.65</u>

issuance costs will reflect the fees and expenses charged by the financing team members noted previously and other fees required for issuance including rating agency fees (the transaction will be rated by both Moody's and Standard and Poor's), trustee fees, offering statement printing and distribution fees, and auditing fees.