PONDER & CO
MEMORANDUM

To: Ken Hopkins
Chief Financial Officer
Norman Regional Health System

From: Grant Ostlund

Date: September 7, 2016

RE: Summary of Proposed Debt Issuance and Refunding

Currently Norman Regional Health System ("NRHS") has $190.5 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.

Debt Issue	Principal Outstanding	Average Coupon	Type	Redemption Features	Final Maturity
Series 1996B	$10,400,000	1.78%*	Variable/Auction	Anytime @ Par	9/1/2022
Series 2005	67,700,000	5.38%	Fixed	Anytime @ Par	9/1/2036
Series 2007	78,000,000	5.11%	Fixed	9/1/2017 @ Par	9/1/2037
Series 2013	21,605,000	3.77%	Fixed	Anytime @ 102% of Par	9/1/2023
Series 2015	13,495,000	3.25%	Fixed	9/1/2019 @ 103% of Par	9/1/2029
	$190,500,000				

* - Interest rate varies over time. The average coupon noted is indicative of the current interest rate on the debt.

In November of 2015, after several years of continued financial improvement and with the completion of the Moore replacement facility on the near-term horizon, Moody's Investors Service upgraded NRHS to "Baa2" (stable). In June of 2016, Standard and Poor's upgraded NRHS to "BBB" (stable). The credit rating upgrades in combination with historically low tax-exempt interest rates for healthcare providers has provided NRHS with an opportunity to restructure its debt portfolio to:

- Eliminate variable rate exposure and exposure to the inefficient auction rate market
- Generate cash flow savings
- Modernize the legal documentation controlling the issuance of debt

The Series 1996B Bonds

The Series 1996B Bonds were issued as auction rate bonds. As auction rate bonds, the Series 1996B Bonds were periodically repriced through a "Dutch Auction" process in which every 35 days investors submitted interest rate bids for the amount of debt they wished to purchase or continue to hold. Upon receiving all of the bids, the lowest interest rate submitted by investors necessary to have investors hold or buy the securities was determined. The interest rate determined through the process became effective for the next 35 day period. Beginning in February of 2008, the auction rate bond market collapsed – supply of auction rate bonds greatly exceeded investor demand resulting in auctions which did not receive enough bids to establish an interest rate. As a result of the collapse, the interest rate on many auction bond programs jumped to extremely high "failed auction" interest rates (most over 10%). Unlike many other auction rate bond programs, NRHS's program reverted to a formula for determining the interest rate under a failed auction scenario. The formula has several components to it but essentially the interest rate is determined based upon a short-term interest rate index, the underlying credit rating of the bond issue, and a multiplier. The multiplier is significant since small movements in short-term interest rates can and will have a pronounced effect on the interest paid by NRHS on the debt.

Since 2008, NRHS (along with its financial advisor and bond counsel) has continually monitored the Series 1996B Bonds. Due to the low short-term interest rate environment over the past eight years, NRHS determined that it was in its best interest to keep the Series 1996B Bonds outstanding. However, because the Federal Reserve increased their target short-term interest rate in December of 2015 and has made recent pronouncements indicating its intent to enact other increases over the coming months, NRHS has determined that a refunding of the Series 1996B Bonds with debt maintaining a fixed interest rate would be advantageous to avoid any significant or material increase in the formula rates while also locking-in a fixed and known cost of capital to the final maturity of the debt on September 1, 2022.

Under current market conditions, it is anticipated that a refunding of the Series 1996B Bonds would generate an all-in total interest cost[1] of approximately 2.03% (versus the current indicative cost of 1.78%) but would eliminate any volatility in cost going forward. It is the desire of NRHS to refund the Series 1996B Bonds with tax-exempt fixed interest rate bonds to eliminate exposure to variable interest rates and to establish a low fixed interest rate on the debt to September 1, 2022.

The Series 2005 Bonds

There are $67.7 million of Series 2005 Bonds outstanding and the bonds maintain an average coupon of 5.38%. The final maturity of the Series 2005 Bonds is September 1, 2036. The bonds may be redeemed by NRHS at par value (100% of the outstanding amount) at any time. The Series 2005 Bonds are secured bya debt service reserve fund of $6.55 million. Under current market conditions, a current refunding of the Series 2005 Bonds would generate an all-in total interest cost of 3.50% resulting in $15.7 million dollars of present value savings (23% of the par amount of the Series 2005 to be redeemed), $1.5 million of average annual cash flow savings, and $30.5 million of total cash flow savings to the 2036 original final maturity of the Series 2005 Bonds. Additionally, because the new refunding debt will not require a debt service reserve fund and the new refunding debt is anticipated to be sold with original issue premiums, the actual amount of debt to be issued to current refund the Series 2005 Bonds is estimated at $55.6 million which is roughly $11.4 million less than the current outstanding balance of the Series 2005 Bonds (which will improve certain of NRHS' debt ratios). It is the desire of NRHS to refund the Series 2005 Bonds with tax-exempt fixed interest rate bonds in order to significantly reduce the cash flows and interest cost associated with the Series 2005 Bonds.

The Series 2007 Bonds

There is $78.0 million of Series 2007 Bonds outstanding and the bonds maintain an average coupon of 5.11%. The final maturity of the Series 2007 Bonds is September 1, 2037. The bonds may be redeemed by NRHS at par value (100% of the outstanding amount) beginning on September 1, 2017. The Series 2007 Bonds are secured by a debt service reserve fund of $7.9 million. It is the desire of NRHS to advance refund a portion of the outstanding Series 2007 Bonds and to current refund the remaining portion of the bonds for present value and cash flow savings.

Approximately 58% of Series 2007 Bonds ($45.245 million) are eligible under IRS regulations for an advance refunding. Through an advance refunding, NRHS will issue debt and deposit a portion of the proceeds (along with a portion of the Series 2007 debt service reserve fund and certain funds contributed by NRHS) into an escrow account. The escrow account will be invested in non-callable U.S. Treasuries. The cash flows generated by the escrow will be sufficient to pay interest due on the Series 2007 Bonds from the issuance date of the new refunding bond issue to and including September 1, 2017 (the optional redemption date). Additionally, the escrow cash flows will be sufficient to redeem $45.245 million of the Series 2007 Bonds on the redemption date. Upon the establishment of the escrow account, the $45.245 million of Series 2007 Bonds will be deemed legally defeased and NRHS will not have any legal liability for the payment of interest or principal on the debt. Under current market conditions, an advance refunding of the Series 2007 Bonds would generate an all-in total interest cost of 3.44% resulting in $7.8 million dollars of present value savings (over 17% of the par amount of the Series 2007 to be advance refunded), $959,000 of average annual cash flows savings, and $21.1 of total cash flow savings to the

[1] - All-in total interest cost includes both the interest expense and the cost of issuance in the calculation and is reflective of the total cost of a financing.

2037 original final maturity of the Series 2007 Bonds. Additionally, because the new refunding debt will not require a debt service reserve fund and the new refunding debt is anticipated to be sold with original issue premiums, the actual amount of debt to be issued to advance refund the Series 2007 Bonds is estimated at $38.0 million which is roughly $7.2 million less than the current outstanding balance of the Series 2007 Bonds to be advance refunded (which will improve certain of NRHS' debt ratios). It is the desire of NRHS to advance refund such portion of the Series 2007 Bonds with tax-exempt fixed interest rate bonds in order to significantly reduce the cash flows and interest cost associated with a portion of the Series 2007 Bonds.

The remaining 47% of Series 2007 Bonds ($32.755 million) are not eligible under IRS regulations for an advance refunding. However, this portion of the Series 2007 Bond issue may be current refunded beginning on June 4, 2017 (90 days prior to the optional redemption date of September 1, 2017). Under current market conditions, NRHS can price tax-exempt fixed interest rate debt in October of 2016 but delay delivery of the debt until June of 2017 – thus qualifying this portion of the bond issue as a current refunding. With the delivery of the refunding bonds in June of 2017, the remaining outstanding portion of the Series 2007 Bonds will be legally defeased upon the deposit of bond proceeds into an escrow to redeem the debt on September 1, 2017. Under current market conditions, a forward delivery current refunding of the Series 2007 Bonds would generate an all-in total interest cost of 3.61% resulting in $3.3 million dollars of present value savings (more than 10% of the par amount of the Series 2007 to be current refunded), $232,000 of average annual cash flow savings, and $5.1 million of total cash flows savings to the 2037 original final maturity of the Series 2007 Bonds. Additionally, because the new refunding debt will not require a debt service reserve fund and the new refunding debt is anticipated to be sold with original issue premiums, the actual amount of debt to be issued to current refund the $32.755 million of Series 2007 Bonds is estimated at $29.9 million which is roughly $2.9 million less than the current outstanding balance of the Series 2007 Bonds to be redeemed (which will improve certain of NRHS' debt ratios). It is the desire of NRHS to refund such portion of the Series 2007 Bonds with a forward delivery of tax-exempt fixed interest rate bonds in order to significantly reduce the cash flows and interest cost associated with this portion of the Series 2007 Bonds.

The Series 2013 Bond

There is $21.6 million of Series 2013 Bond outstanding and the bond maintains an average coupon of 3.77%. The bond may be redeemed by NRHS at 102% of par value (102% of the outstanding amount) at any time. While the Series 2013 Bond has a final maturity of 2023, the Series 2013 Bond was issued to refund a portion of the Series 2002 Bond issue which had an original final maturity of 2029 (the Series 2013 Bond has a balloon payment due in 2023). It is the desire of NRHS to current refund the outstanding Series 2013 Bond for cash flow savings and present value savings and to extend the final maturity to 2029 (thus eliminating the balloon payment). Under current market conditions, a current refunding of the Series 2013 Bond would generate an all-in total interest cost of 2.99% resulting in $375,000 of present value savings (roughly 1.7% of the par amount of the Series 2013 to be redeemed). While present value savings are not significant, the refunding eliminates the balloon payment in 2023 and establishes a low fixed interest rate until 2029 (the "original" final maturity of the underlying debt and the anticipated final maturity of any debt to be issued in the future to refinance the balloon payment). It should be noted that if NRHS were to issue debt with a similar maturity structure to the Series 2013 Bond (2023 final maturity and a balloon payment due in 2023), the all-in total interest cost would be 2.23% under current market conditions generating present value savings of $1.3 million, average annual cash flow savings of $172,000 and total cash flow savings of $1.4 million to the 2023 original final maturity of the Series 2013 Bond.

The Series 2015 Bond

There is $13.495 million of Series 2015 Bond outstanding and the bond maintains an average coupon of 3.25%. The bonds may be redeemed by NRHS at 103% of par value (103% of the outstanding amount) beginning on September 1, 2019. The Series 2013 Bond is eligible under IRS regulations for an advance refunding; however NRHS has negotiated with the holder of the Series 2015 Bond to directly redeem a large portion of the Series 2015 Bond ($12.645 million) for a price of 105% of par value. It is the desire of NRHS to issue tax-exempt fixed rate debt to current refund $12.645 million of the Series 2015 Bond redeemed directly from the holder and to advance refund the $850,000 which will not be directly redeemed. Under current market conditions, the refunding of the Series 2015 Bond does not generate present value savings or annual cash flow savings (the refunding generates a small present value loss of approximately $161,000 and average annual cash flow loss of $14,000). However, a refunding of the Series 2015 Bond would eliminate certain financial provisions and covenants established by the issue. These provisions and covenants, which were market requirements at the time of issuance, are associated with liquidity maintenance (a days cash requirement) and events of default and would not be required in the current market, providing financial and operating flexibility to NRHS in the future. NRHS recognizes the small cost to refunding the Series 2015 Bond but believes the small cost is worth the flexibility provided by the refunding.

Other Advantages

NRHS' Master Bond Indenture was originally developed in 1996. Since then the healthcare provider industry and the financial markets have changed significantly. Refunding all of the debt provides NRHS the opportunity to replace the 1996 Master Bond Indenture. The new Master Bond Indenture will reflect provisions and covenants of the current healthcare provider and financial environment.[2] Given the current strong demand for tax-exempt debt, the provisions and covenants which are acceptable to investors are favorable to NRHS (when compared to provisions and covenants required historically). The following highlights several provisions of a new Master Bond Indenture as compared to the existing 1996 version:

- No liquidity requirement
- Additional indebtedness provision will not be restricted by a maximum debt to capitalization level and the minimum debt service requirements (historical and pro forma) will be lower
- Merging, selling, consolidation or conveyance thresholds are easier to understand, slightly lower, and more flexible
- Covenants and provisions relating to financial products reflect the products available in the marketplace today and will provide flexibility to NRHS in the future.

Currently, NRHS' maximum annual debt service is estimated at approximately $17.9 million. The refunding provides NRHS the additional opportunity to adjust principal amortization of its debt portfolio to significantly lower its maximum annual debt service (the lower all-in total interest cost of the refunding debt additionally helps in generating the lower maximum annual debt service). Under current market conditions, maximum annual debt service will be lowered to approximately $12.0 million (a reduction of approximately 33%). The lowering of maximum annual debt service will be achieved without extending the final maturity of the debt portfolio.

Transaction Structure Overview

It is the desire of NRHS to issue a preliminary offering statement to the market during the week of October 2nd and price (establish the interest rates, yields, redemption features, principal amortization, and dollar prices) the debt on October 18th. Closing will occur approximately two weeks after the pricing date. Funding of the escrows and redemption of outstanding bond issues will occur at closing except for the funding of the current refunding of the Series 2007 Bond issue which cannot be advance refunded. Funding of the Series 2007 Bonds current refunding will occur in June of 2017. NRHS is not seeking any new funds for additional projects – all proceeds from the transaction will be used to either redeem or refund existing debt or pay issuance costs. Issuance costs are currently estimated to be $1.570 million (or roughly 1.0% of the total size of the debt issued – which is deemed reasonable and typical for a transaction of this size, complexity. structure, and credit rating). It is anticipated that the new debt will have optional redemption provisions allowing NRHS to redeem the bonds at par beginning on September 1, 2026.

The debt will be publicly priced and issued through a negotiated sale with Wells Fargo Bank, National Association acting as the senior managing underwriter. Wells Fargo was selected by NRHS through a proposal request process involving eight investment banking firms. Wells Fargo 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 requiredunder the Municipal Advisory Rule)
- Underwriter's Counsel: Chapman & Cutler LLP

[2] - The proposed new trust indenture will not become completely effective until the issuance of the current refunding bonds in June of 2017 which will legally defease the remaining portion of Series 2007 Bonds.

The debt will be issued in two series: the Series 2016 Bonds and the Series 2017 Bonds. The Series 2016 Bonds will reflect the debt funded in 2016 to redeem/refund all bonds issues except the portion of the Series 2007 Bonds not eligible for an advance refunding. The Series 2017 Bonds will reflect the debt funded in 2017 to defease the $32.755 million of Series 2007 Bonds not refunded in 2016.

The following is an estimate of the Sources and Uses of the transaction based upon current market conditions:

Sources of Funds:	
Series 2016 Par Amount	$128,710,000
Series 2017 Par Amount	28,260,000
Original Issue Premium	23,311,546
Bond Proceeds	$180,281,546
Release of Reserve Funds	14,437,103
Release of Other Trustee Held Funds	1,670,045
	$196,388,694

Uses of Funds:	
Redemption of Series 1996B Bonds	$10,414,398
Redemption of Series 2005 Bonds	67,000,000
Escrow to Advance Refund a Portion of Series 2007 Bonds	47,337,960
Escrow to Current Refund a Portion of the Series 2007 Bonds	33,599,028
Redemption of Series 2013 Bond	22,242,990
Partial Redemption of Series 2015 Bond	873,684
Partial Advance Refunding of Series 2015 Bond	13,346,886
Issuance Costs	1,573,748
	$196,388,694

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, auditing fees, and verification agent fees (the verification agent will assure proper funding of any and all escrow accounts for the refundings).

In total, the transaction will generate significant economic savings to NRHS due to the lower interest rate on the proposed debt and due to the lower amount of overall debt outstanding. Under current market conditions, the transition will generate approximately $27.0 million of present value savings (14.2% of the total amount of debt redeemed and refunded) and approximately $54.632 million of annual cash flow savings. The all-in total interest cost of the transaction will be 3.37%.