

Health and Educational Facilities Authority of the State of Missouri

Policies, Practices and Application Materials

Revised January 1, 2018

The following are the Policies, Practices and Application Materials (“Policies”) of the Health and Educational Facilities Authority of the State of Missouri (the “Authority”). This summary has been prepared to assist parties to Authority financings and it addresses issues that are common to many transactions. This is not intended to be all-inclusive and questions regarding issues that are not addressed by the following should be directed to the Authority or its advisors. The Exhibits listed are an integral part of the Policies.

Exhibit A – Letter from the Borrower

Exhibit B – Letter from the Underwriter, Bond Purchaser or Lease Provider

Exhibit C – Application Data Request

Exhibit D – Policies for Multi-State Issuance

Exhibit E – Fee Schedule

Exhibit F – Typical Timetable for Financing

GENERAL POLICIES AND PHILOSOPHY

Fulfill Authority’s Mission. The Mission of the Authority is to provide access to the capital markets in an effort to lower the cost of health and educational services in Missouri by providing high quality, readily available, low cost financing alternatives for Missouri public and private, nonprofit health and educational institutions. References herein to “bond” or “bonds” shall also include notes and other evidence of indebtedness. The bonds are solely payable out of payments made by the borrowing institution. The payments on the bonds are not an obligation of the Authority or the State of Missouri.

Professional Decorum. The Authority’s staff and advisors are to interact with borrowing institutions prior to, during and after financings in a professional and courteous manner. The staff and advisors operate under the assumption that the Authority is in existence to serve its constituents.

Authority’s Role in Financings. The Authority is to assist borrowing institutions in qualifying for, structuring and completing quality transactions. The Authority has determined not to dominate financings and dictate financial terms. The Authority defers to the rating agencies, credit enhancers, bond trustees and the underwriters or other bond purchasers to negotiate terms with the borrowing institutions and to assure that proper protection and disclosure is provided bondholders. The Authority reviews the terms of the financing, assists the borrowing institution with the financing process and insists on certain terms for the protection of its reputation and to assure that it is free from monetary liability. The borrowers are

responsible for their own decisions as to financings and should employ financial professionals and attorneys to advise them with respect to the structure and terms of the financings.

DURING THE FINANCING

Preliminary Intent Resolution. The Authority process typically starts with the adoption by the Authority of a preliminary intent (or inducement) resolution. The Authority’s counsel drafts the resolution upon receipt by the Authority of the Application and Data listed in **Exhibit C** and the letters from the borrowing institution and its underwriter, placement agent, financial advisor, bond purchaser or lease provider requesting inducement and generally describing the proposed financing. The letters should include a description of the project or refunding, any other relevant details, the estimated principal amount, and an acknowledgment of the Authority’s Policies. Attached hereto as **Exhibits A and B** are general forms of such letters.

Organizational Call. The Authority requires an “in-person” organizational telephone conference call at the outset of the financing involving all relevant parties.

Official Statement. In connection with public offerings, in which a bond offering document (Official Statement) is used, the following guidelines shall typically be followed:

- a. Official Statement must follow legal requirements and general industry practices as to disclosure relative to bonds and borrowing institution; the borrowing institution and underwriter, rather than the Authority, are responsible for the preparation of and the disclosure in the Official Statement.
- b. Official Statement provides that Authority is not responsible for payments on the bonds other than out of loan repayments from the borrowing institution.
- c. The Authority does not sign the Official Statement.
- d. In addition to being addressed to the Underwriter, the Underwriter’s or Disclosure Counsel provides a legal opinion (or reliance letter) addressed to and satisfactory to the Authority as to the adequacy of the disclosure in the Official Statement.
- e. The borrowing institution will be required to comply with any contractually agreed upon requirements concerning on-going disclosure after the bonds are issued.
- f. The Official Statement, including Appendices thereto, should be in “substantially final” form at the time of the adoption by the Authority of the final bond issuance resolution.
- g. The Official Statement can be printed and/or electronically distributed and the bonds marketed in advance of the adoption of the final bond issuance resolution by the Authority with the prior consent of Authority staff; the risk that the resolution may not be adopted will rest with the borrowing institution.

Bond Documents. The bond documents should contain:

- a. Standard representations, warranties, covenants and default provisions and provisions regarding indemnification of the Authority and its members, officers and staff and payment of its charges.
- b. All attorneys’ opinions and accountants’ letters are to be addressed to the Authority.
- c. Bond Counsel to draft basic bond documentation and to provide legal opinion as to the validity and tax exemption of the bonds. Authority’s counsel typically drafts purchase contract for bonds and Authority closing certificate.
- d. Bond Counsel to draft bond issuance resolution to be adopted by Authority, to be provided to Authority and Authority’s counsel for review no later than seven (7) days before the meeting at which the resolution is to be adopted.
- e. Bond documents in “substantially final” form at the time of adoption by the Authority of the final bond issuance resolution.

- f. Bond Counsel to prepare and cause the publication of any TEFRA notice of public hearing, after review by the Authority and its counsel, and obtain the Governor's or such other approval as is required by the tax or other laws.
- g. Bond Counsel to provide material referencing tax compliance.

Purchase Contract. The Purchase Contract among the underwriter or other bond purchaser, the Authority and the borrowing institution providing for the sale of the bonds typically is drafted by the Authority's counsel. The Purchase Contract will contain provisions regarding indemnification of the Authority by the underwriter or other bond purchaser and the borrowing institution.

Trustee's Role. Once the bonds are issued, the bond documents provide, to the extent possible, that the Trustee rather than the Authority is responsible for monitoring the borrowing institution's compliance with the documents for the protection of the bondholders. This includes declaring defaults and covenant compliance. Trustees also must provide information regarding the bonds and the borrowing institution reasonably requested by the Authority including any year-end audit materials. A bond trustee is not required in all transactions but will typically be used in public offerings. The charges of the Trustee are not the responsibility of or obligation of the Authority.

Post-Issuance Matters: In addition to the discussion under the section "Trustee's Role," following the issuance of the bonds in any Authority financing, the underwriter or other bond purchaser and the borrowing institution shall be responsible for any record-keeping, continuing disclosure and filing requirements required of them by the bond documentation, applicable law, regulation or practice.

POLICIES REGARDING FINANCING PARTICIPANTS:

Bond Counsel: The Authority appoints Bond Counsel and requires that Bond Counsel be a Missouri firm subject to these Policies and any historical variances relative to financings of particular borrowers. The Authority considers the request of the borrowing institution if there is a preference for a particular firm. The Authority retains the right to refuse to appoint any firm. The fees of Bond Counsel are negotiated and paid by the borrower.

Underwriter's/Purchaser's Counsel: The Senior Managing Underwriter or Purchaser selects the Underwriter's/Purchaser's Counsel which must be a Missouri firm subject to these Policies and any historical variances relative to financings of particular borrowers. The Authority retains the right to refuse the selection of any firm. Disclosure Counsel may be used as desired by borrower or underwriter. The fees of Underwriter's/Purchaser's Counsel and Disclosure Counsel are not the responsibility of or the obligation of the Authority. A Purchaser or Lease Provider in a direct purchase or placement shall select and pay for its own legal counsel.

Senior Managing Underwriter, Placement Agent, Financial Advisor, Bond Purchaser or Lease Provider: The borrowing institution selects the Senior Managing Underwriter, Placement Agent, Financial Advisor, Bond Purchaser or Lease Provider. The Authority staff and Authority Financial Advisor will assist in making these selections if requested by the borrowing institution. The Senior Manager, Placement Agent, Financial Advisor, Bond Purchaser or Lease Provider must execute and deliver to the Authority a copy of the letter included as **Exhibit B** hereto in connection with the submission by the borrower of the Application Data in **Exhibit C** and the letter (**Exhibit A**) requesting an inducement resolution. The fees and charges of the Underwriters, Placement Agents, Financial Advisors, Bond Purchasers and Lease Providers are not the responsibility of or obligation of the Authority.

Public Offering – Co-Managing Underwriters: In a public offering of bonds the borrowing institution and its Senior Managing Underwriter are to manage the underwriting process including its procedures, allocations priorities, documents, timing, etc., subject to the provisions hereof. The borrowing institution may select as few or as many Co-Senior Managing or Co-Managing Underwriters as it desires but the

Authority encourages the selection of at least one Co-Senior Managing Underwriter or Co-Manager for fixed rate transactions in excess of \$100 million. The Authority retains the right to refuse the selection of any Co-Manager. The Authority staff and its financial advisor will assist in making Co-Manager selections if requested by the borrowing institution.

Authority Financial Advisor and Legal Counsel: It is the practice of the Authority to utilize the services of a Financial Advisor. Certain services of the Authority's Financial Advisor are extended to Authority borrowers in the course of a financing but the Authority's Financial Advisor does not serve as a financial advisor to the borrower. The Authority's Financial Advisor does not serve as a financial advisor for individual borrowings under the Direct Deposit Program. The borrowing institution may also employ a separate financial advisor and is encouraged to do so and the fees of such borrower's financial advisor are not the responsibility of or the obligation of the Authority.

The Authority employs its own legal counsel on each financing and such counsel does not serve as counsel to the borrower. The borrower will employ its own separate legal counsel on each financing and the fees of such counsel are not the responsibility of or the obligation of the Authority.

Same Underwriter/Credit Enhancer/Bond Trustee: Firms can serve multiple roles as Senior Managing or Co-Managing Underwriter, as Credit Enhancer and/or as Bond Trustee on transactions rated BBB+/Baa1/BBB+ or higher by Standard & Poor's, Moody's and/or Fitch. The same law firm can represent such a financial firm in multiple roles in the same transaction.

Bond Pricing: The Authority requires that it and its financial advisor be involved in the process of the "pricing" of the bonds in a public offering and, at a minimum, this should include participation in the pre-pricing and the final pricing calls. All final pricing decisions are made by the borrowing institution.

Borrower's Counsel and Financial Advisor: The borrowing institution shall be represented by counsel which shall provide a standard legal opinion to the parties. The borrowing institution may also employ a financial advisor. The cost of counsel and financial advisor are the responsibility of the borrowing institution.

Trustee: If used in a bond issue, the trustee must be an institution which is (or an affiliate is) qualified to do business in the State of Missouri, with a Missouri presence and which is large enough to handle the financing in question based on assets and experience. The trustee, or its guarantor, must have a minimum reported capital and surplus of the lesser of the principal amount of the bonds or \$50 million (or comparable financial test satisfactory to the Authority). A Request for Proposals from banks qualified to do corporate trust work in Missouri can be coordinated by the Authority, if requested by the borrowing institution. The proposals are collected and forwarded to the borrowing institution for selection. The Authority does not choose the trustee nor is the borrowing institution required to accept the lowest bid. The cost of the trustee is the obligation of the borrowing institution. Financial institutions can serve multiple roles as a Senior- or Co-Manager and/or as Bond Trustee or Master Trustee and/or as credit enhancer on transactions rated BBB+/Baa1/BBB+ or higher by Standard & Poor's, Moody's and/or Fitch.

Credit Enhancers/Derivatives: The borrower is responsible for the selection and payment of any credit enhancement relative to or in connection with the bonds. The Authority has no role in the selection of or advice provided by any credit enhancer or provider of derivatives with respect to or in connection with the bonds. The charges of any credit enhancer or provider of derivatives with respect to or in connection with the bonds are not the responsibility of or obligation of the Authority.

OTHER POLICIES AND PRACTICES

Minimum Credit Rating: The Authority has discretion as to whether to issue bonds applied for by a borrowing institution. In connection with the proposed issuance of bonds the Authority will consider each financing based on the higher of the underlying or enhanced credit ratings from Standard & Poor's, Moody's and/or Fitch, materials provided by the borrower, analysis of the staff and advisors and any other applicable information. Financings with a rating of BBB/Baa2/BBB or lower will require further analysis and discussion during the approval process and will be considered on a case by case basis. The nature of the credit, the collateral, the project, the covenants and borrowing alternatives will all be part of the analysis. A presentation to the Authority by the borrower or its representatives may be required. Unrated financings will be considered for private placements or direct bank (or bank affiliate) purchases with sale restricted to financial institutions, corporations and other sophisticated investors and on such other terms as approved by the Authority staff at the time of issuance. Direct bank (or bank affiliate) purchases will not require a rating. The charges of any credit rating agency with respect to any bonds shall not be the responsibility of or obligation of the Authority.

Any analysis of a financing by the Authority, and the actual issuance of any bonds by the Authority, shall not constitute a representation by the Authority to any party, including any underwriter or other bond purchaser, of the credit strength of the financing or the likelihood of payment of bonds. Neither the Authority nor its members, officers, employees, advisors, attorneys or agents shall have any financial liability or fiduciary responsibility or obligation to the borrowing institution, any underwriter or other bond purchaser or any other party involved in a financing transaction arising out of any of their activities or role in any Authority financing.

Certificate of Need: A health care institution that is contemplating a financing to cover certain specified levels of cost may be required by Missouri statute to obtain a Certificate of Need ("CON") from the Missouri Health Facilities Review Committee before proceeding with the project. The CON process involves the review of health care projects on the basis of need, financial feasibility and impact on quality of care. The Authority fully supports compliance with CON requirements and will take no action to cause the avoidance of compliance with such requirements.

Authority Fees and Costs: The borrowing institution will be responsible for the payment of the Authority's application fee, the on-going annual service fee and the cost of the Authority's legal counsel pursuant to the then-current schedule of the Authority. The current schedule is attached hereto as **Exhibit E.**

SUNSHINE LAW/DOCUMENT DISCLOSURE

As a state authority, the Authority is subject to many of the laws applicable to governmental entities in Missouri. The Authority is subject to the Missouri "Sunshine Law" which opens its meetings and records in its possession to the general public. The materials provided to the Authority by the borrower typically will be open to public inspection and copying.

POLICIES RELATING TO BORROWERS OPERATING IN MULTIPLE STATES

It has long been the policy of the Authority to encourage and support participation by Missouri financial and law firms on financings completed through the Authority. However, understanding the burden this policy may place on some health and educational borrowers with operations in multiple states or which have had prior financings involving non-Missouri entities, the Authority has determined the need to be flexible in situations where the financing is completed with such borrowers

POLICIES REGARDING PROJECTS OUTSIDE MISSOURI

For a discussion of the issuance of bonds by the Authority for projects located outside Missouri, please see the discussion in the accompanying document “Issuance of Bonds for Projects Located Outside the State of Missouri – Policy Matters and Procedures” attached hereto as **Exhibit D**.

APPLICATION OF POLICIES

The Policies set forth herein are for the sole benefit of the Authority. These Policies are designed to allow the Authority to continue to be of service to Missouri health care and educational institutions and the users of the services of those institutions. The Authority retains the right to make changes in these Policies at any time. The Executive Director of the Authority, after consultation with the Authority Chair, may grant variations deemed appropriate to any of these Policies. Any Authority financing transaction which has closed and in which a variance to any of these Policies has occurred shall be deemed to have been approved by the Executive Director.

Exhibit A
To Policies, Practices and Application Materials
(Letter from Borrower)

[BORROWER'S LETTERHEAD]

[Date]

Mr. Michael J. Stanard
Executive Director
Health and Educational Facilities
Authority of the State of Missouri
15450 South Outer Forty Road, Suite 230
Chesterfield, Missouri 63017

Re: [Name of Borrower]

Dear Mr. Stanard:

[Name of Borrower] ("the Borrower") hereby applies to the Authority for the issuance of bonds or other obligations and requests that the Authority adopt an inducement resolution with respect to the following:

Project: _____

Location of Project: _____

Dollar Amount: _____

Underwriter, Placement Agent, Financial Advisor, Bond Purchaser, Lease Provider (if selected): _____

[_____] has been selected as [Underwriter, Placement Agent, Financial Advisor, Bond Purchaser, Lease Provider] and is submitting to the Authority the form of letter (Exhibit B) attached hereto at the time of submission of this letter from the Borrower.

Preference for Bond Counsel: _____

The undersigned agrees that a copy of the Authority's Policies, Practices and Application Materials, including all Exhibits, has been received and reviewed and that the Borrower understands and will comply with such Policies, Practices and Application Materials in connection with the financing requested herein.

[Name of Borrower]

By: _____

Name: _____

Title: _____

Exhibit B
To Policies, Practices and Application Materials
(Letter from Underwriter, Placement Agent, Financial Advisor, Bond Purchaser or Lease Provider)

[FIRM'S LETTERHEAD]

[Date]

Mr. Michael J. Stanard
Executive Director
Health and Educational Facilities
Authority of the State of Missouri
15450 South Outer Forty Road, Suite 230
Chesterfield, Missouri 63017

Re: [Name of Borrower]

Dear Mr. Stanard:

The undersigned [Underwriter, Placement Agent, Financial Advisor, Bond Purchaser or Lease Provider] has been selected by the above-captioned Borrower to serve as underwriter, bond purchaser or lease provider in connection with the proposed financing through the Authority.

The undersigned represents that a copy of the Authority's Policies, Practices and Application Materials, including all Exhibits, has been received and reviewed and that the financial institution understands and will comply with same in connection with the proposed financing unless an exception to a Policy is otherwise agreed to by the Authority's Executive Director.

Very truly yours,

[Name of Underwriter, Placement Agent, Financial Advisor, Bond Purchaser or Lease Provider]

By: _____
Name: _____
Title: _____

Exhibit C
To Policies, Practices and Application Materials

Health and Educational Facilities Authority of the State of Missouri

APPLICATION DATA REQUEST

General

1. Letter from the borrower applying for the issuance of bonds or other obligations and requesting Authority adoption of the initial inducement resolution (sample of letter in **Exhibit A** of Authority's Policies, Practices and Application Materials)
2. Letter from the underwriter, placement agent, financial advisor, bond purchaser or lease provider stating knowledge of, and commitment to compliance with, Authority's Policies, Practices and Application Materials (sample of letter in **Exhibit B** of Authority Policies, Practices and Application Materials)
3. Description of the project including amount, purpose, need, proposed facilities and/or improvements to be financed, details of any refinancing and proposed timetable
4. Tentative Plan of Finance including:
 - a.) Sources and Uses of Funds (Project description, refunding, etc.)
 - b.) Interest Rate Mode (e.g. fixed rate, variable rate - daily, weekly, etc.)
 - c.) Underlying Rating of Institution, if applicable
 - d.) Credit Enhancement? Provider?
 - e.) Liquidity Facility? Provider?
5. IRS Letter of Determination of Tax Status (for 501 (c) 3 borrowers)
6. Audited Financial Statements for Preceding Three Years
7. Status of Capital Campaign Activities Directly Related to the Project, if applicable

Status of Certificate of Need *(for health care institutions only - if legally required for new projects)*

Student Enrollment Data for Preceding Three Years *(for educational institutions only)*

Other Information

The Authority reserves the right to request additional legal, financial or other information as it deems necessary or appropriate.

Exhibit D
To Policies, Practices and Application Materials

Health and Educational Facilities Authority of the State of Missouri

**Policy Matters and Procedures Regarding Issuance of Bonds for
Projects Located Outside the State of Missouri**

The Missouri Health and Educational Facilities Authority Act authorizes the Authority to issue bonds for health facilities and educational facilities outside of Missouri if the borrowing institution or an affiliate also operates a health facility or educational facility within the State of Missouri or maintains a regional or national headquarters within the State of Missouri. The following policy criteria will be applied by the Authority on a case by case basis in deciding to issue bonds to finance projects outside of Missouri:

I) **Finding of Public Purpose**

The Authority shall make a determination as to whether the project outside the State of Missouri meets the public purposes of its enabling act by:

- a) Lowering the cost of health care and/or education and resulting in a savings to patients, students, third parties, including federal or state governments, and others who must pay for such costs; and
- b) Providing a benefit to Missouri by (i) enhancing the quality or quantity of health care and/or education in Missouri, (ii) furthering economic development in the State by job creation, retention or stabilization, and/or (iii) promoting more efficient and economical operation of health care and/or educational systems with a regional or national headquarters and/or substantial operations in Missouri.

II) **Missouri Presence and Relationship**

The Authority shall make a determination as to whether the borrowing institution, an affiliate or related entity has a substantial presence, relationships and impact in the State of Missouri. Each or any combination of the following factors will be considered by the Authority on a case by case basis in making such determination:

- a) Whether the institution, affiliate or related entity has or is part of a system that has a regional or national headquarters in Missouri;
- b) Whether the institution, affiliate or related entity has substantial operations in Missouri;
- c) Whether a significant portion of the bond issue is to finance facilities in Missouri; and
- d) Whether the Missouri and out of state facilities are functionally and operationally related.

Unless expressly approved in advance by an Authority resolution, the Authority will consider all contacts

and relationship with Missouri and the various degrees of each will be part of the analysis. In connection with that consideration, based on the Authority's experience and analysis to date, the proceeds of bond issues should involve the expenditure of at least the following percentages of the proceeds on facilities located in Missouri: (a) 25% in the case of a borrowing institution, affiliate or related entity whose headquarters is located in Missouri; and (b) 40% in all other cases. The foregoing percentage analysis may include bond proceeds from prior Authority bonds issued in the three years prior to the new bond issue but shall not include any subsequent bond issue.

III) Presentation and Certifications as To Public Purpose and Missouri Contacts

In connection with the finding of public purpose and Missouri presence:

a) The institution may be asked to make, or cause to be made on its behalf, an in-person or telephonic presentation to the Authority at a meeting; and

b) The institution shall execute and deliver to the Authority a Certificate which has been finalized with representatives of the Authority detailing certain factors supporting a finding of public policy and Missouri presence with respect to the proposed bond issue. This process shall be completed at least one week prior to the consideration of the Authority of a final bond issuance resolution with respect to the financing.

IV) Other State Involvement

The Federal tax code requires that (a) a public hearing be held in the locale of the out of state project and (b) the approval for the project be obtained from the "highest elected" official or governing body in the locale of the project. The hearing and approval requirement can be met at the State level by the Governor or at the local level by the chief elected official or the governing body of the local governmental unit. In either event, there will need to be coordination outside of Missouri. The Authority will retain the option of coordinating the hearing and approval with required assistance of borrower and the financing team but these approvals will typically be the responsibility of the other members of the financing team including the borrower, Bond Counsel and the Underwriters. The Authority will consider working with other state authorities on these matters.

V) Requirement of Bond Counsel Opinion

Each borrower will have to evidence that a qualified Bond Counsel firm will provide a legal opinion on the legality of the bond issuance.

Exhibit E
To Policies, Practices and Application Materials

Health and Educational Facilities Authority of the State of Missouri

FEE SCHEDULE

For Bonds Issued After the Revised Date of These Policies Set Forth Above

One-Time Authority Application Fee: \$1,000

On-going Authority Annual Service Fee (payable throughout the life of the financing):

- .0002 X principal amount of Bonds outstanding up to \$40 million
plus
- .0001 X principal amount of Bonds outstanding in excess of \$40 million

One-Time Authority's Counsel Fee – paid by the borrower based on firm's hourly rates – the fees typically range from \$10,000 to \$20,000 (but in rare cases may exceed this range); such fees typically are at the higher end of the range in complex or extended transactions and in bond issues involving projects outside the State of Missouri.

There is no Authority Financial Advisor Fee payable by the Borrower

Exhibit F
To Policies, Practices and Application Materials

Health and Educational Facilities Authority of the State of Missouri

TYPICAL TIMETABLE FOR FINANCING

* Authority Board meetings generally are held on the first Wednesday of each month*
Each financing requires a two meeting/two resolution process except in unusual circumstances

At least **14 days prior** to first Authority Meeting: Application Letters and Application Data Request materials received at Authority office

10 days prior to first Authority Meeting: Authority Meeting Notice and Agenda distributed by Authority staff

7 days prior to first Authority Meeting: Meeting materials including Application summary distributed to Authority Members

FIRST AUTHORITY MEETING: Initial Inducement Resolution considered and adopted, preliminary approval granted

Financing timetable, structure and documents completed by financing team as appropriate, may take more than one month

At least 7 days prior to second Authority Meeting: Final Authorizing Resolution prepared by Bond Counsel and provided to Authority staff and advisors for review and distribution to Authority Members

At least 2 days prior to second Authority Meeting: “substantially final” bond documents and official statement, including appendix A, completed and distributed to Authority staff and advisors to be available at the Authority Meeting

SECOND AUTHORITY MEETING: Final Authorizing Resolution (“Parameters” Resolution) considered and adopted, final approval of transaction and final form of bond documents

Transaction ready for closing as appropriate