FISCAL DEPARTMENT

TO: Cuyahoga County Council

FROM: Dennis Kennedy, Fiscal Officer DK

SUBJECT: Metro Hospital Financing Assistance

DATE: March 24, 2017

I will not be available to attend the Committee of the Whole meeting scheduled for March 28, 2017 but did want to communicate the involvement of the Fiscal Office in discussions and negotiations relative to the County's participation in Metro Hospital's transformation initiative.

I have attended various meetings, conference calls and email exchanges related to the Metro project. The evolution of those interactions has led the County to agree to participate in supporting Metro's financial commitment to the transformation by providing a Debt Service Reserve (DSR) Fund to the bond offering. The County's involvement will essentially lower Metro's cost of financing as the County will be able to supply a DSR at a cost substantially less than what Metro would incur had the hospital funded a DSR on its own.

The County team reviewed and discussed a number of options with respect to the DSR, some of which were proposed by the Metro team. Ultimately, the County team settled on the decision to fully fund the DSR on behalf of Metro in an effort to reduce Metro's overall cost of borrowing. Internally, we reviewed the various possibilities as to how most effectively and economically support a DSR.

We have agreed that the County would fund a DSR on behalf of the hospital in the estimated amount of $82 million through a letter of credit (LOC) obtained from one or more financial institutions. We looked, as well, at the prospect of funding the DSR internally through a redirection or restriction of our cash reserves.

After discussing those set aside options with the County Investment Manager and our contracted investment advisory group we have determined that such a strategy is not a recommended option relative to the DSR. I have attached a memorandum summarizing the concerns of the Investment Manager (Mr. Farris) for your review. We have also discussed the impact of formally reserving or restricting a portion of our unencumbered balance as opposed to acquisition of a LOC. A restriction of our balance dedicated solely to provide support for a DSR for Metro would reduce our available reserves to a level below the minimum level established by County code.

The option to pursue a LOC appears to be best for the County and Metro. We have initiated discussions with our banking representatives to supply us with a term sheet detailing the components of pricing for the LOC and expect to have that document by the end of the month.

I have recommended a consolidated LOC supported by credit provided by a number of financial institutions in an effort to make the offering more attractive from a rate standpoint for the banks. Banks are somewhat reluctant to supply high end credit extensions due to the imposition it places on the bank's own reserves. By involving a consortium of lenders, we should minimize the impact on an individual bank's reserves and provide us with the depth of credit coverage we need to support the DSR.

It is my recommendation (consistent with that of the other County team participants) that the County move forward with pricing for a LOC to support the Metro project and finalize the contract to obtain such a credit facility in the coming weeks. I believe that the County has significant financial support to restore the LOC if needed during the term of the Metro financing and our agreement with the hospital satisfactorily limits our extended liability while concurrently assisting Metro with a viable means of lowering their overall cost of borrowing.

cc: Armond Budish, County Executive
Nate Kelly, Office of the County Executive
Maggie Keenan, Office of Budget and Management

memo

Cuyahoga County

To: Dennis Kennedy

From: Joseph Farris

CC: Jason Click & Jason Headings, Meeder Investment Management

Date: 3/23/2017

Re: Metro Hospital LOC

Comments: **In working with Meeder Investment Management, the County's Investment Advisor, the following are the comments we have prepared in response to the three questions posed below, as detailed in your email.**

A) It may be non-compliant with our investment policy

Under Ohio Revised Code and the County's Investment Policy, holding an LOC as an investment in the County's portfolio is not permissible

B) It would cause too large of an amount in short-term liquidity vs the total portfolio value

The current investment strategy is to maintain a $20 million cash position. It is our opinion that the County is currently operating with an appropriate blend between the liquid portfolio and investment portfolio. Adding an additional $82 million to this amount would create an overabundance of liquidity, resulting in a substantial loss of interest income.

C) The lost interest of keeping $82 million aside in short-term (<1% return) vs. potential interest earnings in longer-term investments would be prohibitive

If we were to set aside the $82 million, it would be detrimental to the interest earnings of the County. For example, if the County was to invest the $82 million in a 3-year agency at 1.50%, that would generate annual interest income of $1,230,000 vs having it invested in a liquid account at approximately 0.80% which would generate only $656,000 annually, resulting in a lost opportunity cost of approximately $574,000 annually.

If the County were to assist in the costs of the LOC, the interest earned by having the $82 million invested longer-term would more than cover the $350,000 Cuyahoga County required portion associated with maintaining the LOC.