



October 28, 2016

Erie County Legislature
 92 Franklin Street, 4th Floor
 Buffalo, New York 14202

Re: Intergovernmental Transfer Payments – Erie County Medical Center Corporation

Dear Honorable Legislators:

We are writing to brief your Honorable Body regarding the proposed agreement between the County and Erie County Medical Center Corporation (“ECMCC”) concerning intergovernmental transfer (“IGT”) payments.

As you may recall, when the Collins Administration negotiated a new agreement with ECMCC in 2009, language was agreed to that ECMCC would assume 100’s of millions of dollars in liabilities for retiree health and pension prior to 2004 and in exchange the County was required to annually pay on behalf of ECMCC \$16.2 million or the aggregate required IGT payments for that fiscal year, whichever is greater. In 2012, facing large IGT costs exceeding \$16.2 million, your Honorable Body unanimously approved a \$28 million “credit” process to help temporarily address the IGT issue. That credit expired in 2015 when the County had accessed the \$28 million facility. ECMCC has always indicated that they are willing to develop a new credit, and on August 12th of this year the County Executive’s office presented a plan to continue this credit. However, unlike 2012, this credit would not create a loan or “credit card” for the County.

It was not until recently that New York State began providing clear estimates on future IGT payments and a consensus was reached on a new credit process that is budget neutral to both the County and ECMCC. This new process entails County issuance of bonds generating proceeds sufficient to finance loans to ECMCC to fund construction of a new emergency department and other major capital improvements at the ECMCC campus and capitalized interest. In addition, the County would issue its bonds in a sufficient amount to refinance the 2011 County loan to ECMCC which funded the new residential healthcare facility through bonds issued by the Erie County Fiscal Stability Authority (“ECFSA”) at the request of the County. By utilizing the County’s current strong credit rating, ECMCC will save tens of millions of dollars in long-term debt service expense because of the lower interest expense it will incur by borrowing through the County rather than attempting to borrow on its own. As was done in the 2011 loan transaction, ECMCC will issue its revenue bonds to the County to secure its obligations

to pay the debt service on the County's bonds (which is similar to the mirror bond transaction process used by ECMCC, the County and ECFSA to issue the original 2011 bonds, except this time ECMCC would borrow directly from the County, instead of using the County as a pass-through to borrow from the ECFSA). As in the past, the ECMCC revenue bonds will be secured by a pledge of all revenues from operations of ECMCC healthcare facilities, thereby ensuring that the County's bonds will be self-supporting and excludable from the County's debt limit in accordance with Local Finance Law.

In recognition of the more favorable credit rating of Erie County, ECMCC will pay Erie County points in a sufficient amount so that the effective interest rate to ECMCC on the loan will be the rate that it would otherwise obtain in the market rather than the more favorable Erie County rate. The payment of points will create a credit to offset the impact of IGT payments made by the County for the benefit of ECMCC over the next few years. At the same time, this borrowing is budget-neutral to the County, as ECMCC would pay the annual debt service for the life of the bonds, thus resulting in no new net costs to the County. It will also be budget neutral to ECMCC as they are paying the effective interest rate that they otherwise would pay without access to the credit rating of the County.

Through this mechanism, the hospital will receive the benefit of IGT payments from the County (and federal government) for its past claims for indigent care while benefitting from new and modern facilities for treating the patients of our community, and the County will ameliorate the impact of projected substantial IGT payments greater than \$16.2 million per year until the credit is exhausted.

From a technical standpoint, this process would involve the County Comptroller's Office transmitting bond resolutions for the new money bond sale and the refinancing bond sale to your Honorable Body for consideration. If these bond resolutions are approved by a two-thirds vote of the Erie County Legislature, and if logistically possible given the current financing schedule for the County's 2016 capital bond sale, the bonds would be issued in tandem or parallel with such sale to reduce transaction expense. Otherwise, the County bonds for ECMCC loans will be issued in a separate transaction. Like the 2012 credit mechanism, the County will then enter into a credit mechanism agreement or amendment to the 2009 agreement, again, subject to approval by your Honorable Body.

This process, conducted for the mutual benefit of the County and ECMCC was unanimously approved by ECMCC's board of directors on October 13, 2016. A copy of the ECMCC board resolution is attached for your reference and will be incorporated in the bond resolutions.

On October 13, 2016, four members of your Honorable Body sent a letter to the County and ECMCC rejecting this proposal before a formal request was made that contained all of the facts of this transaction. While we appreciate the recognition of the need for capital for ECMCC to continue its great work as a Level One Trauma Center, it appears that incomplete information was informally given to the legislature and a misunderstanding exists among some legislators on the way the IGT credit would be determined and the rationale for the transaction. As noted above, the IGT credit is determined by the amount the County saves ECMCC by borrowing through the issuance of County bonds. In fact, the proposed agreement addresses projected large IGT claims and capital improvements at ECMCC in a way that mutually financially benefits both the County and ECMCC.

We request an opportunity for County and ECMCC representatives to appear before the Legislature to discuss and explain the IGT situation and the proposed credit mechanism. We urge you to

Poloncarz and Quatroche Letter to Legislature on IGT

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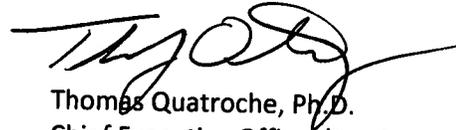
keep an open mind and engage in a dialogue with us concerning this proposal, which not only resolves a fiscal issue for the County but creates a better, stronger and healthier community by permitting ECMCC to invest significant capital in its institution to continue its life saving work and the greater good of all.

Thank you in advance for your assistance and courtesies.



Mark C. Poloncarz, Esq.
Erie County Executive

Sincerely yours,



Thomas Quatroche, Ph.D.
Chief Executive Officer/President
Erie County Medical Center Corporation

Attachment

**Resolution Requesting Loans From County of Erie to Finance
ECMCC Capital Borrowing and 2011 Loan Refinancing.**

Approved October 13, 2016

WHEREAS, the Corporation is authorized by section 3630 of the New York Public Authorities Law to borrow funds to continue its mission to provide access to high quality health care services to the citizens of Western New York; and

WHEREAS, the Corporation has identified certain capital funding needs in order to continue to serve the citizens of Western New York, including a new Emergency Department and Trauma Center facility, emergency generators, heating/ventilating/air conditioning equipment, improvements to the building envelope, nursing unit renovations, clinic renovations, and an education center; and

WHEREAS, the Corporation also desires to refinance existing debt, particularly the 2011C Revenue Bonds that were issued by the Erie County Fiscal Stability Authority to finance the related loan by the County to the Corporation which funded the construction of Terrace View Long Term Care Facility; and

WHEREAS, the Board of Directors of the Corporation previously authorized the Corporation's officers to negotiate with the County of Erie to determine the terms and conditions under which a borrowing by the Corporation from the County for the above purposes may be structured;

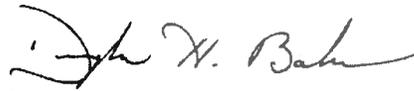
NOW, THEREFORE, the Board of Directors resolves as follows:

1. The Corporation is in need of financing for new money projects to maintain the quality of, and access to, its health care services for the citizens of Western New York and also to refinance the 2011 County loan and convert that loan to a thirty (30) year term at lower current interest rates.
2. The Corporation acknowledges that the interest cost of borrowing by the County of Erie is more favorable than the interest rate that would be charged to the Corporation without the County's assistance and that assistance from the County will save the Corporation many millions of dollars at present value.
3. The Corporation formally requests that the County provide financial assistance through the issuance of up to \$100 million in County bonds to provide new money financing for the capital projects noted on the attached exhibit with such bonds having a term of thirty (30) years.
4. The Corporation formally requests that the County provide financial assistance through the issuance of up to \$88 million of County bonds with a maximum term

of up to thirty (30) years to refinance the 2011 loan from the County to the Corporation with the proceeds of such bonds being used to defease the 2011 ECFSA bonds and thereby substitute lower interest cost County debt for the currently outstanding 2011 ECFSA project financing.

5. That the officers of the Corporation remain authorized to continue their work negotiating the terms and conditions of these transactions, to cooperate in providing all information requested by the County to induce the County to provide the requested financial assistance, and to otherwise obtain all necessary approvals of these transactions by the Erie County Legislature, the New York State Department of Health and any other governmental entities.

6. This resolution shall take effect immediately.



Douglas H. Baker
Corporation Secretary

New Money Projects Request to County of Erie—10/13/2016

Trauma Center / ED Project	45
Land Acquisition and Parking	3
Energy Projects	
Energy Controls / Management	13
Boilers and Chillers	15
Generators	<u>10</u>
Total Energy Projects	38
Building Envelope	15
Elevators	3
Clinics	5
Education Center	1
Nursing Unit Renovations	<u>10</u>
Total Capital Requirements	120
Capital Campaign Funding	<u>(20)</u>
Net Capital Requirements	<u>100</u>