MultiCare
MultiCare Health System
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March 31, 2025

Eric Hernandez, Acting Executive Director
Certificate of Need Program
Office of Community Health Systems
Washington Department of Health
111 Israel Road SE
Tumwater, WA 98501
e.hernandez@doh.wa.gov

RE: Determination of Non-Reviewability Request—MultiCare Health System's Potential Substitution of Bond Financing Related to Certificate of Need Approval CN #21-63 (CN1920A) to Relocate Mary Bridge Children's Hospital

Dear Mr. Hernandez,

Pursuant to WAC 246-310-570(d), and on behalf of MultiCare Health System, I am requesting a Determination of Non-Reviewability regarding the potential substitution of a portion of existing bond financing for the relocation of MultiCare Mary Bridge Children's Hospital, certificate of need approved under CN1920, as amended to CN1920A.

Please note check number 129088 in the amount of $1,925 as our filing fee was mailed on March 21, 2025, tracking number ER117545469US. Please let me know if there is any other information that is necessary to provide the requested determination. We would appreciate you providing this determination as soon as practicable. I can be reached at 253.403.8771 or at ekobberstad@multicare.org. Thank you for your assistance.

Sincerely,

K Erin Kobberstad

K. Erin Kobberstad
Vice President, Strategic Planning
253-403-8771
MultiCare Health System
820 A Street
Tacoma, WA 98402

Request for a Determination of Non-Reviewability ("DOR") regarding the potential substitution of a portion of existing bond financing for the relocation of MultiCare Mary Bridge Children's Hospital, certificate of need ("CN") approved under CN1920A.

BACKGROUND

1. The Department approved the relocation of the CN-approved MultiCare Mary Bridge Children's Hospital to a new site in Tacoma Washington (CN APP #21-63, November 21, 2021). The Department issued CN1920 on December 3, 2021 approving the relocation.
2. The Department subsequently issued CN1920A on March 9, 2023 approving the revised project description to remove the conditions limiting the bed capacity and services of Mary Bridge Children's Hospital concurrent with the Department's CN-approval of the transfer of Level III and IV neonate bassinets from MultiCare Tacoma General / Allenmore's license to MultiCare Mary Bridge Children's Hospital's license.
3. Conditions of each of these approvals included Condition #3: "MultiCare will finance this project as described in the application."[1]
4. Approved costs were "…$343,738,912 and includes the costs for land purchase, construction and fixed equipment, movable equipment and associated fees."[2]
5. In the Department's evaluation, it stated that MultiCare provided the following information regarding financing of the replacement hospital in its application: "MultiCare has already obtained $300,000,00 *in bond financing* for this replacement project, and it will pay for the remaining project-related capital expenditures from its corporate reserves."[3] (emphasis added)

[1] Department Evaluation, CN #21-63, November 21, 2021, p. 2.
[2] Ibid.
[3] Ibid, p. 32.

REQUEST

1. WAC 246-310-570 details the circumstances for which an amended certificate of need is required, and Paragraph (d) of that code section states that an amendment is needed for the modification or release of a condition placed on a certificate of need.

2. We are requesting a DOR to confirm a potential substitution of a portion of MultiCare's existing bond financing is consistent with our CN approval and will not require an amendment, given that the Project remains bond-financed, as approved.
    a. Specifically, MultiCare is seeking to substitute a portion of the $300 million 2020 Taxable Bonds, approved as part of CN APP #21-63, with 2025 Tax-Exempt Bonds, which is part of a broader 2025 financing to generate savings for both the Mary Bridge project and to MultiCare enterprise-wide, as further discussed below.
    b. The proceeds from the 2025 Tax-Exempt Bonds will substitute the 2020 Taxable Bonds' proceeds *without* increasing the project cost, project completion time, the debt financed portion of the Project, or interest expenses. Further, it will not impact the estimated opening and operating performance of Mary Bridge Children's Hospital.
    c. As demonstrated below, in fact, this proposed bond substitution will have a materially beneficial impact on Mary Bridge's forecasted financials due to changed bond market conditions, as described below.

3. MultiCare representatives discussed this request with CN program staff March 18, 2025 during a Technical Assistance ("TA") call. During that call, it was agreed MultiCare representatives would (1) research relevant prior Department decisions and summarize their applicability, if any, to this situation; (2) provide additional background on the potential bond refinancing; and (3) focus this request on the financial benefits of the 2025 Tax-Exempt Bonds to the Mary Bridge project, including the forecasted savings as identified in the pro forma forecast and the balance sheet improvements for the project. It was agreed that the financial model would remain as approved in CN APP #21-63, with only bond finance costs changed.

4. We respectfully request the Department expedite, to the extent feasible, our request. In our opinion, bond markets are very favorable at this point in time, and that situation could well change and negatively impact MultiCare's ability to acquire such accretive financing terms for the project and its enterprise needs.

OTHER RELEVANT CERTIFICATE OF NEED DECISIONS

1. Based on our research, there are no directly applicable prior hospital CN decisions where an amendment has been required to approve substitute bond financing where the project (e.g., location, scope, capital expenditure, etc.) remains constant. *This is our DOR request — a determination that the substitution of one type of bond for another to finance the CN-approved Mary Bridge relocation project without otherwise changing the project is not reviewable.*

2. In the March 18th TA call, the participants discussed a prior Swedish Issaquah project amendment request, which included changes to approved project financing. In that discussion, it was unknown whether that amendment request was relevant to MultiCare's DOR request. We indicated that we would research this issue, and have identified two CN reviews related to project financing:

    a. Amendment CN #14-29, August 11, 2014. This approved a request to amend CN #1498, which was an approval for Swedish Issaquah to operate a 15-bed Level II project. The amendment approved an increase in approved capital expenditures. The approval also reflected a change in financing, from bond financing to the use of cash reserves, necessitating an amendment.[4]

    b. Amendment CN #11-02, amending CN #1379A, which had been an approval to change the approved site of Swedish Issaquah.[5] The amendment (CN #11-02) sought approval for a change in financing, from cash reserves to tax exempt bonds.[6]

    These two amendment requests are fundamentally different from our request to **only** substitute a portion of the existing bond financing to other bond financing, not change from bond financing to cash reserves or to request an approval for increased capital expenditures, which WAC 246-310-570(1)(e) specifies as a situation where a project amendment would be warranted.

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[4] Letter from Steven Saxe, Director, Office of Community Health Systems to Ms. Aylsworth, approving the Swedish amendment request to CN #1498, August 11, 2014.

[5] CN #11-02, "Evaluation of the Certificate of Need Application Submitted By Swedish Health Services Proposing to Amend Certificate of Need #1379A Because of a Change in Financing."

[6] Ibid, p. 15

BOND REFINANCE INFORMATION

Overview of Benefits

1. The proposed financing does not change the approved capital cost, timing, viability, or funding mechanism of the approved project. Currently, the project is on time and under budget.
2. There are material savings to the Mary Bridge CN project resulting from the proposed financing. We can demonstrate a net interest savings of $392,000 in the 2025 projected Mary Bridge pro forma, which are annual savings from lower finance costs from the conversion. There are also balance sheet benefits –reducing long term liabilities with less bond debt.
3. Further, MultiCare as-a-whole will benefit from the net interest savings. MultiCare's system-level balance sheet will benefit from this substitution with an additional cash infusion from the substitute financing and the earnings on the additional cash and investments.

Structure and Detail – 2025 Tax-Exempt Debt Financing

The 2020 Taxable Bonds were issued during a period when taxable bond rates were at historical lows and tracking close to tax-exempt bond rates. Since then, the taxable rates have increased significantly; tax-exempt rates remain relatively low compared to taxable. The increase in taxable rates has caused 2020 Taxable Bonds to trade at significantly discounted prices and created opportunities for borrowers such as MultiCare to initiate a tender offer to purchase the 2020 Taxable Bonds from willing investors at a discounted price and fund the purchase price of these bonds with tax-exempt debt. The investment bankers working with MultiCare (BofA Securities and RBC Capital Markets) note that the 2020 Taxable Bonds are currently trading at approximately $0.61 per $1.00 and, based on recent similar transactions, MultiCare can anticipate approximately 30% of current bond holders to participate in the tender offer. Please see attached as Exhibit 1 a letter from Michael Quinn, Managing Director of Bank of America, attesting to the reasonableness of the assumptions used in this DOR request under current market conditions.

The 2025 proposed substitute bond financing[7] includes MultiCare's purchase of $90 million of 2020 Taxable Bonds (30% of the outstanding par amount) through a tender offer purchase at $0.61, equating to a $54.9 million purchase price ($90 million * $0.61). MultiCare is planning to issue approximately $50.1 million of tax-exempt debt to raise $54.9 million in bond proceeds to purchase the tendered 2020 Taxable Bonds. The $90 million reduction in the 2020 Taxable

[7] As noted in Exhibit 1, the financing terms and plan referenced herein reflect the opinions of BofA Securities, Inc. and information that MultiCare presented to the Washington Health Care Facilities Authority ("WHFCA"). The terms and structure of the final refinancing are derived from market conditions, which are subject to change.

Bonds equates to $2.52 million savings in interest expenses, while the $50.1 million new tax-exempt debt will add $1.75 million to interest expenses, generating net interest savings of approximately $774,000 annually.

The second portion of the proposed financing is for MultiCare to borrow $100 million new tax-exempt debt and use that money to fund or reimburse Mary Bridge Children's Hospital construction costs in lieu of using the 2020 Taxable Bonds. Remaining funds from the corresponding 2020 Taxable Bonds will be used by MultiCare for other operational needs and/or to make other investments. To complete this portion of the transaction, MultiCare will issue $91.3 million in tax-exempt bonds to generate $100 million in bond proceeds (under the current interest rate environment, the proposed 2025 Tax-Exempt Bonds structure will demand a premium from investors, where investors will pay $1.09574 per $1.00). This portion of the transaction will reduce the 2020 Taxable Debt interest expense allocated to Mary Bridge Children's Hospital Project by $2.8 million and the $91.3 million new tax-exempt debt will add $3.19 million, for net impact of an increase of $382,000 of interest expenses to the Project.

Combined, the first and the second portions of the proposed financing will generate a net interest savings to MultiCare of $392,000 ($774,000 - $382,000). This financing will also have positive impact on Mary Bridge Children's Hospital's pro forma balance sheet with a net decrease in the bonds payable, as shown in the "Pro Forma Balance Sheet – Long Term Debt" table below.

Part 1 - Tender Purchase Financing		
2020 Taxable Bond Tendered Amount	$90,000,000	(A)
Tender Price ($0.61 per $1.00)	61%	(B)
Tender Cost	$54,900,000	(C) = (A)x(B)
2020 Taxable Interest Rate	2.803%	(D)
Interest Savings on Tendered Bonds	**$2,522,700**	**(E) = (A)x(D)**
New Tax-Exempt Debt Issue	$50,103,127	(F)
Price	109.574%	(G)
Sales Proceeds	$54,900,000	(H) = (F)x(G)
Interest of New Debt	3.49%	(I)
Interest Cost on New Debt	**$1,748,599**	**(J) = (F)x(I)**
Net Savings (Cost)	**$774,101**	**(K) = (E)–(J)**

Part 2 - New Borrowing / Substitution		
New Tax-Exempt Debt Issue	$91,262,526	(L)
Price	109.574%	(M)

Sales Proceeds	$100,000,000	(N) = (A)x(B)
Interest of New Debt	3.49%	(O)
Interest Cost on New Debt	**$3,185,062**	**(P) = (L)x(O)**
2020 Taxable Debt Substitution	$100,000,000	(Q)
2020 Taxable Interest Rate	2.803%	(R)
Interest Cost on New Debt	**$2,803,000**	**(S) = (Q)x(R)**
Net Savings (Cost)	**($382,062)**	**(T) = (S)–(P)**
Total Net Savings (Cost)	**$392,039**	**(W) = (K)+(T)**

Mary Bridge Children's Hospital
Pro Forma Income Statement

	CON 2025 (Full)	Tender Offer	Debt Subtitution	Pro Forma
Net Patient Revenues	438,565,296			438,565,296
Other Op. Revenues	10,809,932			10,809,932
Total Op. Revenues	449,375,228			449,375,228
Salaries and Wages	142,876,672			142,876,672
Benefits	28,321,855			28,321,855
Supplies	20,308,515			20,308,515
Prof Fees	9,268,364			9,268,364
Purchased Services	115,284,282			115,284,282
Other Op Costs	22,867,122			22,867,122
Leases & Rental Fees	3,873,770			3,873,770
Interest (1)	10,499,833	(774,101)	382,062	10,107,794
Depreciation & Amort	17,322,724			17,322,724
Total Exp	370,623,137			370,231,098
Op Income	78,752,091			79,144,130
Corporate Services	6,039,381			6,039,381
Operating Margin	72,712,710			73,104,749
			Net Impact	392,039

(1) Includes interest expenses on Mary Bridge Children's Hospital P&L prior to the Project

Mary Bridge Children's Hospital
Pro Forma Balance Sheet – Long Term Debt

Bonds Payable (FY2025 CON)	$	281,211,872
2020 Taxable Tendered		(90,000,000)
2020 Taxable Substituted		(100,000,000)
2025 Tax-Exempt to Fund Tender		50,103,127
2025 Tax-Exempt New Debt/Substitution		91,262,526
Pro Forma Bonds Payable	$	232,577,524

Impact to MultiCare Health System

The substituted portion of the 2020 Taxable Debt that was originally issued to fund the Mary Bridge Children's Hospital Project will be reassigned to other MultiCare Health System needs, such as operating liquidity support and routine capital. This will allow MultiCare to maintain higher cash and investments on our balance sheet, giving us additional flexibility on our balance sheet to absorb various proposed federal and state reimbursement cuts and anticipated supply cost increases stemming from tariffs. In addition, the additional cash will earn investment returns well above the interest on the 2020 Taxable Debt. Currently, we estimate this will net more than $2 million annually to MultiCare's bottom line.

EXHIBIT LIST

Exhibit 1. Bank of America Letter

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Bank of America Letter

BANK OF AMERICA

March 31, 2025

Eric Hernandez, Acting Executive Director
Certificate of Need Program
Office of Community Health Systems
Washington Department of Health
111 Israel Road SE
Tumwater, WA 98501
e.hernandez@doh.wa.gov

Dear Mr. Hernandez:

BofA Securities, Inc. and RBC Capital Markets, LLC are serving as senior managers on the proposed 2025 financing for MultiCare Health System ("MultiCare"). It is our understanding that MultiCare is requesting a Determination of Non-Reviewability regarding the potential substitution of a portion of the existing taxable bonds for the relocation of MultiCare Mary Bridge Children's Hospital.

We have reviewed the accompanying document and the economics of the transaction benefits and believe they are representative of current market conditions. However, the market remains volatile and can provide no assurance that at the time of pricing the MultiCare transaction that these economics will be achieved. Additionally, the amount of existing taxable bondholders that will elect to tender their bonds varies transaction to transaction depending on market conditions and bondholders' goals.

Very truly yours,

Michael J. Quinn

Michael J. Quinn
Managing Director