Memo

To: Louisville/Jefferson County Metro Government, Economic Development Committee

From: Orrick, Herrington & Sutcliffe, LLP

Cc: Norton Healthcare, Inc.

Date: January 24, 2020

Re: Proposed Issuance of the Louisville/Jefferson County Metro Government, Health System Revenue Bonds (Norton Healthcare, Inc.), Series 2020

In connection with the proposed issuance of the above captioned bonds, we have prepared the following responses to questions that Norton Healthcare Inc. and Norton Hospitals, Inc. (collectively, "Norton") have asked us to address for the Economic and Development Committee of Louisville/Jefferson County Metro Government ("Metro Government").

1. Why does a not-for-profit hospital need approval from Metro Government for these Bonds?

The federal tax code and related regulations permit tax-exempt debt to be issued only by a state or political subdivision of the state.[1] Various issuers are authorized to issue bonds and lend the proceeds to one or more nongovernmental borrowers to finance facilities, the development of which is deemed to be a public purpose. This includes projects for the benefit of hospitals and other health care facilities. The criteria for qualification as a borrower are derived from state constitutional and statutory criteria and federal tax requirements and, typically, facilities for private hospitals and other health care facilities may be financed with tax-exempt bonds if the borrower is an organization that is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code").[2] By requesting that Metro Government issue the Bonds, Norton can finance projects for its health care facilities with tax-exempt bonds, the interest on which is excluded from gross income for federal tax purposes. This allows Norton to access capital for necessary projects that serve the residents of Louisville at a lower cost.

2. How does this affect the general fund of the city of Louisville (the "City")?

The issuance of the Bonds will not impact the general fund of the city of Louisville. The Bonds will be issued as revenue bonds and, therefore, will be payable solely from and secured by payments made by Norton to Metro Government under the Loan Agreement, which is expected to be entered into by Norton and Metro Government (the "Loan Agreement"). Under the Loan Agreement, Metro Government agrees to loan the proceeds of the Bonds to Norton, and Norton is absolutely and unconditionally obligated to make payments sufficient to pay the Bonds. The Bonds will be limited obligations of Metro Government because Metro Government's liability is limited to the funds received from Norton under the Loan Agreement. The Bonds will not be considered a debt or liability of Metro Government or the City. In the event the pledged revenues are insufficient to pay the debt service on the Bonds, the bondholders would have no recourse

[1] See Internal Revenue Code of 1986, as amended.

[2] See Industrial Buildings and Pollution Control Facilities for City and Counties Act, as amended, KRS 103.200 to 103.285; see also Sections 103(b) and 149(c) of the Internal Revenue Code of 1986, as amended.

against the general fund of Metro Government, the City, the Commonwealth of Kentucky, or any political subdivision thereof.

3. In the event Norton were to go bankrupt, who is responsible for paying off bonds?

In the event of bankruptcy, Norton would remain responsible for the repayment of the Bonds and bondholders would look solely to the bankruptcy estate of Norton Healthcare, Inc. and Norton Hospitals, Inc. for payment.

4. Why issue tax-exempt municipal bonds vs. taxable?

The decision to issue tax-exempt vs. taxable municipal debt is largely driven by market factors, including investor demand and the nature of the projects that the borrower needs to fund. As described above, the federal tax code and related regulations permit tax-exempt debt to be issued for the benefit of certain qualified not-for-profit organizations, such as Norton. The interest on such debt is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, which allows organizations, such as Norton, to borrow funds at a lower interest cost. In exchange, however, the borrower must agree to use the proceeds of such tax-exempt debt only for certain eligible projects.[3] Norton is considering using taxable bonds to refinance debt that will not be eligible to be refinanced on a tax-exempt basis for several more years. Although taxable debt can bear a higher interest rate, Norton nonetheless may be able to achieve debt service savings by refinancing such existing tax-exempt debt with taxable debt because of current overall interest rates.

5. Will the issuance of the Bonds impact the City's bond rating?

The Bonds will not affect the City's bond rating. As discussed above, the Bonds will be supported solely by the revenues of Norton and are not a debt or liability of the City.

[3] See Internal Revenue Code of 1986, as amended.