

BOARD OF REGENTS
BRIEFING PAPER

1. AGENDA ITEM TITLE: Resolution to Authorize Working Capital Loan, UNLV Medicine Faculty Practice Plan

MEETING DATE: March 2-3, 2017

2. BACKGROUND & POLICY CONTEXT OF ISSUE:

At the March 2016 meeting, in preparation for the UNLV School of Medicine's (hereinafter "UNLV SOM") initial inaugural class July 2017, the Board of Regents approved UNLV's request to establish the University School of Medicine faculty practice plan, a tax exempt 501(c)(3) non-profit corporation. As such, UNLV SOM has established the centralized multi-specialty faculty practice plan, named "UNLV Medicine," as a Nevada non-profit corporation that is affiliated with, but legally separate from, the University. The principal purpose of UNLV Medicine is to provide support for the education, research and patient care mission of UNLV SOM. UNLV Medicine will bill, collect and disburse all patient revenues and other revenues earned by the faculty, and is authorized to enter into contracts and obligations for the generation and collection of such revenues. As a condition of employment with UNLV SOM, all clinical faculty, whether part-time or full-time, are required to sign a Member Practice Agreement assigning all clinical revenue to UNLV Medicine, which allows UNLV Medicine to bill and collect on behalf of the faculty of UNLV SOM.

UNLV Medicine is preparing to begin operations on July 1, 2017 with the transition of faculty from the University of Nevada, Reno clinical practice plan to UNLV Medicine, as approved by the Board of Regents at its September 2016 meeting. This transition will provide a rapid start-up involving the transfer of approximately 110 physicians, 270 residents and fellows and 300 clinical staff to the new UNLV Medicine multi-specialty clinical practice. As a newly organized entity, historical operating data is not available; however, based on the activities formerly conducted by the clinical faculty under the University of Nevada, Reno clinical practice plan ("MedSchool Associates South"), UNLV Medicine initially anticipates generating approximately \$73.6 million in annual revenues (see attached comparative chart).

During the first year (FY18), UNLV Medicine anticipates a lag in collections attributable to the startup year. Although it is anticipated that UNLV Medicine will at least break even on an accrual basis, the balance outstanding in accounts receivable will be approximately 120 days of patient revenue (estimated at \$13.2 million) and the balance outstanding of contract receivable of 60 days of professional services (estimated at \$5.7 million). UNLV Medicine seeks a \$19 million start-up working capital loan.

The attached business plan presentation estimates that as early as year four, UNLV Medicine will have paid off the loan in full. The business plan presentation and projections reflect the following expected enhancements resulting from the transition from MedSchool Associates South to UNLV Medicine:

- Productivity Based Compensation Plan. New "X,Y,Z" faculty compensation plan, with their total compensation directly tied to clinical productivity. The new annual leave policy is also a major change, moving to a maximum of five carryover days at the end of any year (opposed to 48 days under the current structure) and no payout for accumulated leave upon termination/retirement (opposed to the current structure of up to 48 days).
- On-Site Management. Day to day management/oversight of all clinical activity will be from leadership located in Las Vegas and focused on financial performance and quality patient service.
- Clinic Sites. Initially moving from 20 to 11 clinic sites in order to decrease overhead costs and increase productivity. Longer term, UNLV SOM sees the number of sites decreasing further, with larger clinics, and further reduction of overhead. Additionally, UNLV SOM will select strategic locations in the valley to maximize revenue while still meeting its service mission.

- Patient Records Management. UNLVSOM is outsourcing the billing and collection activities with the goal of decreasing the time from service to collection and increasing total collections.
- Electronic Medical Records System. Such systems are critical to the training of doctors and the operation of clinics. UNLVSOM is partnering with UMC to use the same EMR system they have selected (EPIC), with full supported implementation and on-going operations.
- No UNLV “Taxes” on Clinics Until Stabilized. UNLVSOM will not bill and collect any “Dean/Chair” type tax on the clinical activities until such time as the financial operation is stabilized, there is no outstanding debt, and there are resources to pay the tax and still maintain a positive financial balance for UNLV Medicine.

UNLV Medicine has started its implementation phase as it readies for a July 1, 2017 opening. The infrastructure is coming together within areas of contracting, credentialing, EMR implementation planning, medical service organization (MSO) functions, financial support, human resources, marketing and communications with patients and transition operation coordination from the UNR practice plan. The 4-year financial plan projects to achieve profitability demonstrated in year 5. UNLV Medicine believes its projections are consistent with industry benchmarks and results in conservative trends. The attached financial summary shows the modelling that was used to arrive at a maximum of \$19,000,000 for the loan.

3. SPECIFIC ACTIONS BEING RECOMMENDED OR REQUESTED:

UNLV President Len Jessup requests approval of the resolution to authorize the issuance by NSHE on behalf of UNLV Medicine, of a taxable promissory note in an amount not to exceed \$19,000,000 to fund start-up working capital needs for NSHE employees and other operating obligations of NSHE, to be repaid from the practice plan revenues.

4. IMPETUS (WHY NOW?):

The UNLV School of Medicine will launch its faculty practice plan clinical enterprise on July 1, 2017, consisting of six (6) multispecialty departments: Family Medicine, Obstetrics, Psychiatry, Pediatrics, Internal Medicine and Surgery. More than 110 physicians, 270 residents and fellows and 300 administrative staff will support these operations. This transfer of clinical faculty and support staff from the MedSchool Associates South to UNLV Medicine will provide for a rapid start-up operation. However, during the first year, UNLV Medicine anticipates a lag in collections attributable to the startup year. Although it is anticipated that UNLV Medicine will be profitable on an accrual basis, the balance outstanding in accounts receivable will be approximately 120 days of patient revenue and the balance outstanding of contract receivable of 60 days of professional services. As such, UNLV Medicine requests that NSHE seek a \$19,000,000 start-up working capital loan.

The working capital borrowing by NSHE seeks to ensure cash flow requirements for NSHE employees and other operating obligations of NSHE can be met during the startup period.

5. BULLET POINTS TO SUPPORT REQUEST/RECOMMENDATION:

- UNLV Medicine is preparing for the transition July 1, 2017 based on the plan approved by the Board of Regents at their September 2016 meeting. Due to the normal business cycle for billing and collection of the practice plan’s services, a working capital loan is needed to support the clinical operation during the start-up phase.
- UNLV Medicine is implementing improvements to the transitioning faculty practice plan business model that are expected to yield positive results resulting in clinic profitability on an accrual basis in its first year of operation and on a cash-flow basis by year five.
- The principal purpose of UNLV Medicine is to provide support for the education, research and patient care mission of UNLVSOM, and the working capital loan is intended to provide funds to pay salaries for NSHE employees and other operating obligations of NSHE during the startup period of UNLV Medicine.

6. POTENTIAL ARGUMENTS AGAINST THE REQUEST/RECOMMENDATION:

Should the business plan not produce the projected results, the obligation to repay the loan will fall to the UNLV School of Medicine and this would redirect resources from other initiatives at that time, should this become necessary.

7. ALTERNATIVE(S) TO WHAT IS BEING REQUESTED/RECOMMENDED:

The University could provide operational bridge financing directly rather than soliciting a third-party financing; however, it is expected that UNLV Medicine will operate as an independent self-supporting activity and as such, having a third-party obligation better reflects this expectation and overall financial responsibility.

8. COMPLIANCE WITH BOARD POLICY:

- Consistent With Current Board Policy: Title #_____ Chapter #_____ Section #_____
- Amends Current Board Policy: Title #_____ Chapter #_____ Section #_____
- Amends Current Procedures & Guidelines Manual: Chapter #_____ Section #_____
- Other:_____

Fiscal Impact: Yes No_____

Explain: UNLV Medicine is expected to repay the borrowing from generated fee for service and contract revenues, but should UNLV Medicine be unable to repay, the UNLV School of Medicine would be required to cover any shortfall (with UNLV Medicine being required to repay at the earliest future date feasible).

RESOLUTION NO. _____

WHEREAS, pursuant to the Constitution and laws of the State of Nevada, including but not limited to chapter 396 of Nevada Revised Statutes (the "Project Act") and all laws supplemental thereto, the Board of Regents (the "Board") of the Nevada System of Higher Education ("NSHE") is authorized to issue an obligation to repay money in the form of a promissory note (the "Note") in the maximum principal amount up to \$19,000,000 as specified in a certificate of the Chancellor or the Vice Chancellor for Finance (the "Vice Chancellor for Finance") dated on or before the date of delivery of the Note (the "Certificate") to finance the costs of working capital and capital improvements at the University of Nevada, Las Vegas, including for the University of Nevada, Las Vegas School of Medicine practice plan, capitalized interest, if any, and the costs of issuance of the Note (the "Project"); and

WHEREAS, the Board hereby authorizes the Vice Chancellor for Finance to arrange for the issuance and sale of the Note for the Project, including distributing and accepting bids for the purchase of the Note; and

WHEREAS, after distribution of notice inviting bids for the purchase of the Note, the Vice Chancellor for Finance, as the chief financial officer of NSHE or the Chancellor, as the chief administrative officer of NSHE, is hereby authorized to receive and publicly open bids and sell the Note to the best bidder therefor (the "Purchaser") and either of such officer is hereby authorized to accept a binding contract for the Note, the Note to bear interest at the rate or rates per annum, including a variable interest rate, provided in the purchase proposal submitted by the Purchaser (the "Proposal"), at a price consisting of the principal amount and accrued interest thereon from their date to the date of their delivery, less a discount or plus a premium as set forth in the Certificate and otherwise upon the terms and conditions herein provided.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF REGENTS OF THE NEVADA SYSTEM OF HIGHER EDUCATION:

Section 1. The officers of the System are hereby authorized to take all action necessary to effectuate the provisions of this resolution, including, without limitation, the Chancellor or the Vice Chancellor for Finance is authorized to sell the Note and sign the Proposal as a binding contract with the Purchaser for the purchase of the Note and negotiate the terms of the Note (in one series or more) by the Chancellor or the Vice Chancellor for Finance with the Purchaser which terms shall not be materially inconsistent with the terms of the Certificate, the Proposal and the form of the Note attached hereto as Exhibit A, in the judgment of the Chancellor or the Vice Chancellor for Finance, including any covenants to protect the owner of the Note and NSHE that the Chancellor or Vice Chancellor for Finance determines are necessary or desirable to obtain favorable terms for NSHE which covenants, if any, shall be set forth in the Certificate and any such determination made is conclusive absent fraud or abuse of discretion.

Section 2. The Note shall be issued payable in fully registered form, i.e., registered as to both principal and interest and shall be dated as of the date of delivery of the Note. The Note shall bear interest from its date until the maturity dates thereof (or, if redeemed prior to

maturity as provided below, the redemption dates) at the respective rates set forth in the Certificate, and payable semi-annually in the designated years as set forth in the Certificate commencing as set forth in the Certificate; provided that any Note which is reissued upon transfer, exchange or other replacement shall bear interest at the rate or rates set forth in the Certificate from the most recent interest payment date to which interest has been paid, or if no interest has been paid, from the date of the Note. The Note shall mature in the designated amounts of principal and designated years as set forth in the Certificate. Capitalized interest on the Note up to one year from the date of issuance of the Note shall be as set forth in the Certificate. The final principal payment under the Note shall be paid to the registered owner of the Note at the office of the registrar and paying agent for the Note designated in the Certificate (the "Paying Agent") on presentation and surrender of the Note at maturity or on call for redemption as provided below. Installments of maturing principal and interest on the Note shall be paid by check or draft mailed on or before each interest payment date (or if such date is not a business day, on the next succeeding business day) to the registered owner hereof at the address appearing on the registration records of NSHE maintained by the Paying Agent or by electronic funds transfer or such other means acceptable to the Purchaser and the Paying Agent. All such payments shall be made in lawful money of the United States of America.

Section 3. The Note, or portions thereof, maturing on and after the date specified in the Certificate, shall be subject to redemption prior to their respective maturities, at the option of NSHE, at any time on and after the date specified in the Certificate, in whole or in part from any maturities selected by NSHE, at a price equal to the principal amount of the Note, or portion thereof, so redeemed, accrued interest thereon to the redemption date, and a premium, if any, as provided in the Certificate. The Note may be transferred to a commercial bank without the prior written consent of NSHE and may be transferred to others with the prior written consent of NSHE or as otherwise set forth in the Certificate.

Section 4. The Board hereby authorizes the execution and delivery of the Note with manual or facsimile signatures of the Chairman, Chancellor, ex officio Treasurer, and the Chief Executive Officer of the Board, ex officio Secretary to the Board, and such certificates as may be necessary to evidence the validity and enforceability of the Note, including the execution of closing certificates by the officers of the Board and the Chancellor, Vice Chancellor for Finance and Interim Chief Counsel.

Section 5. This resolution shall be effective on its passage and approval.

PASSED, ADOPTED AND APPROVED March ____, 2017.

NEVADA SYSTEM OF HIGHER EDUCATION

Chairman, Board of Regents

Attest:

Chief Executive Officer of the Board of Regents

Exhibit A
(Attach form of Note)

TRANSFER OF THIS NOTE OTHER THAN BY REGISTRATION IS NOT EFFECTIVE

NEVADA SYSTEM OF HIGHER EDUCATION
TAXABLE PROMISSORY NOTE
(UNIVERSITY OF NEVADA, LAS VEGAS)
SERIES 2017

No. R-1

FINAL MATURITY DATE: _____ MAXIMUM PRINCIPAL AMOUNT: \$ _____
INTEREST RATE: [_____% per annum]
[as calculated herein] DATE OF DELIVERY: _____, 2017

For value received, the Nevada System of Higher Education (the "System"), hereby promises to pay in installments as outlined below, from any sources legally available therefor to the order of _____ (the "Lender"), or its registered assigns as shown on the registration panel appended hereto, the maximum aggregate principal amount of \$ _____, or such lesser amount as shall represent the aggregate principal amount advanced to the System together with interest on the unpaid principal of the Note from the date of delivery of the Note or the date of each advance until the principal advanced under the Note is paid in full at the interest rate set forth above. Principal may be advanced under this Note until _____.

Interest shall be calculated on the basis of a _____-day year of _____ day months. Interest shall be payable on _____ 1 and _____ 1 of each year commencing on _____, 20__ until the maturity date hereof. The outstanding principal of this Note shall mature in installments of principal payable on _____ 1 and _____ 1 of each year commencing on _____ 1, ____ and ending on _____ 1, _____ at which time all unpaid principal plus accrued unpaid interest shall be due and payable. The installments of principal shall be due as set forth in the amortization schedule attached hereto as Exhibit A and made a part hereof.

The final principal payment under this Note shall be paid to the registered owner of this Note at the office of the U.S. Bank National Association, as registrar and paying agent for the Note (the "Paying Agent") on presentation and surrender of this Note at maturity or on call for prepayment as provided below. Installments of principal and interest on this Note shall be paid by check or draft mailed or electronic funds transfer initiated on or before each interest payment date or prepayment date (or if such interest payment date or prepayment date is not a Business Day, on the next succeeding Business Day) to the registered owner hereof at the address appearing on the registration records of the System maintained by the Paying Agent or such other means acceptable to the Lender and the Paying Agent. "Business Day" means a day which is not (a) a Saturday, Sunday or legal holiday on which banking institutions in Reno, Nevada or New York, New York or the states where the principal corporate office of the System or the principal corporate trust office of the Paying Agent is located are authorized by law to close, or (b) a day on which the New York Stock Exchange or the Federal Reserve Bank is closed. . Notwithstanding the foregoing, all payments of principal and interest on this Note to the Lender may be made via wire transfer pursuant to instructions on file

with the Paying Agent and without presentment or surrender of this Note except presentment or surrender shall be required upon final maturity or prepayment in whole of this Note. All such payments shall be made in lawful money of the United States of America.

The outstanding principal of the Note may be prepaid in whole or in part in any order or maturity on and after _____ at the option of the System as directed by the Vice Chancellor of Finance without premium or penalty on 10 days' written notice by first class mail postage prepaid or electronic notice to the registered owner hereof. On any date on which the System is prepaying all or any portion of the principal balance of this Note, interest accrued on such principal so prepaid to the date of prepayment shall also be paid. After the date of the prepayment of all or part of the principal hereof, interest on the portion of the principal so prepaid will cease to accrue. The amount of principal so prepaid may be noted on the prepayment panel appended to this Note and shall be maintained in the registration records by the Registrar.

Partial principal prepayments shall be applied to the principal due under the Note as directed by the Chancellor or the Vice Chancellor for Finance of the System, including application to the most remote installment of principal due under this Note which may result in a shortened term for this Note.

The principal of and interest on this Note are payable only to the registered owner hereof at the address appearing on the registration records of the System maintained by the Paying Agent. This Note may be transferred on presentation by the registered owner to the Paying Agent, together with evidence of transfer satisfactory to the Paying Agent and Registrar, and such transfer shall be noted in the registration records of the System maintained by the Registrar and may be similarly noted on the registration panel hereof and no such transfer shall be effective until the registered owner shall have provided such satisfactory evidence of transfer to the Paying Agent and Registrar. This Note may be transferred in minimum authorized denominations of \$250,000 if (i) written notice of such transfer, together with addresses and related information with respect to such purchaser, is delivered to the Registrar by such transferor and (ii) such purchaser shall have delivered to the Registrar and the transferor an investor letter in the form attached as Exhibit B to this Note executed by a duly authorized officer of such purchaser; provided that each such purchaser shall constitute (1) a "qualified institutional buyer" as defined in Rule 144A promulgated under the Securities Act of 1933, as amended, and (2) a commercial bank organized under the laws of the United States, or any state thereof, or any other country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of any such country, and, in any such case, having a combined capital and surplus, determined as of the date of any transfer, of not less than \$5,000,000,000. Notwithstanding the foregoing, this Note may be transferred without limitation to an affiliate of the Lender, each of the beneficial owners of which are "qualified institutional buyers" as defined in Rule 144A promulgated under the Securities Act of 1933, as amended.

The Paying Agent shall not be required to transfer ownership of this Note within 30 days of any date on which any portion of the principal hereof is to be prepaid. The System, the Registrar and the Paying Agent shall be entitled to treat the registered owner of this Note as noted in the registration records maintained by the Registrar as the absolute owner hereof for all purposes hereof and any applicable laws, notwithstanding any notice to the contrary received by any or all of them and the Paying Agent shall transmit payments to the registered owner hereof as shown on the registration records of the System maintained by the Registrar.

This Note is issued by the System pursuant to authorization by the Board of Regents of the System (the "Board") for the purpose of financing in part the cost of working capital and capital improvements for the University of Nevada, Las Vegas. This Note is payable from any monies of the System legally available for the purpose of making such payment, and the System hereby covenants to make sufficient provision annually in its budget to pay the principal of and interest on this Note when due. This Note does not constitute a debt or indebtedness of the State of Nevada or a charge against the State's credit or taxing power. Repayment of this Note is not subject to annual appropriation by the System.

Each of the following are defined to be an "Event of Default" hereunder.

- (i) the System is 5 or more calendar days late in making any regularly scheduled payment of the principal of or interest on this Note when due;
- (ii) the System files a petition or similar pleading or any petition or similar pleading is filed against the System seeking a discharge composition or other form of relief of the System's debt under the Federal Bankruptcy laws or under any other applicable bankruptcy, insolvency or similar laws of the United States or the State of Nevada;
- (iii) an order or decree is entered in a court of competent jurisdiction in an insolvency case under the Federal Bankruptcy laws or under any other applicable federal or state bankruptcy, insolvency, or similar law appointing a receiver, custodian, liquidator, or trustee for the assets of the System or any substantial part of the System's property and such decree or order continues unstayed and in effect for a period of 90 days; or
- (iv) the System voluntarily suspends its business.

If an Event of Default shall have occurred hereunder, and in the case of those events listed in clauses (ii) through (iv) of the preceding sentence only, such Event of Default is not cured within 30 days after written notice from the registered owner hereof to the Paying Agent specifying the Events of Default and requiring that it be remedied, then:

- [(i) the registered owner may declare the unpaid principal balance of this Note, together with the interest thereon to be then fully due and payable;]
- (ii) the registered owner may proceed against the System to protect and enforce all of its rights hereunder by mandamus or by other suit, action or special proceeding in law or in equity in any court of competent jurisdiction for the specific performance of the covenants and agreements of the System hereunder; and
- (iii) the registered owner may exercise such other remedies available to it at law or in equity.

Any failure on the part of the registered owner to exercise, and any delay in exercising, any right hereunder shall not operate as a waiver thereof or of any other remedy; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any other remedies provided by law.

Payments made on this Note shall be applied in the following order of priority: (i) to pay any reasonable expenses incurred in collecting amounts due under or in enforcing the provisions of this Note, (ii) to pay interest in arrears or then due, and (iii) to pay the installments of principal in arrears or then due. If any principal payment is not made when due, interest shall continue on the unpaid installment of principal until it is paid.

This Note shall be governed by the laws of the State of Nevada.

It is hereby certified, recited, declared and warranted that all actions required to be taken prior to the issuance hereof have been had and taken by the System.

IN WITNESS WHEREOF, the Nevada System of Higher Education has caused this Note to be signed and executed by the manual or facsimile signature of the Chairman of its Board of Regents, to be countersigned by the manual or facsimile signature of the Chancellor, ex-officio Treasurer of the System and to be signed and attested by the manual or facsimile signature of the Chief Executive Officer of the Board, ex officio Secretary, all as of the date of this Note appearing above.

NEVADA SYSTEM HIGHER EDUCATION

Chairman, Board of Regents

Countersigned:

Chancellor, ex-officio Treasurer

(SEAL)
Attest:

Chief Executive Officer of the Board of Regents,
ex officio Secretary, Board of Regents

PROVISION FOR REGISTRATION AS TO PRINCIPAL AND INTEREST

This Note must be registered as to both principal and interest on the registration records of the System, kept by U.S. Bank National Association, as registrar and paying agent (the "Registrar"). After registration as to both principal and interest, the Registrar shall note such registration on such registration records and may not such amounts in the registration blank below, and the principal and interest on this Note shall be paid to such registered owner. This Note may be transferred by the registered owner or such registered owner's legal representative only upon a duly executed assignment in form satisfactory to the Registrar and a duly executed investor letter in the form attached to this Note as Exhibit B, such transfer to be made on the registration records and endorsed hereon. The System, the Registrar and the Paying Agent shall be entitled to treat the registered owner of this Note as noted in the registration records maintained by the Registrar as the absolute owner hereof for all purposes of this Note and any applicable laws, notwithstanding any notice to the contrary received by any or all of them and the Paying Agent shall transmit payments to the registered owner hereof as shown on the registration records of the System maintained by the Registrar.

Every privilege, registration, and transfer, shall be exercised only in accordance with the authorizing resolution and such reasonable rules and regulations as the Registrar may prescribe.

<u>Date of Registration</u>	<u>Name of Registered Owner</u>	<u>Signature of Registrar</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

ASSIGNMENT

The within and foregoing Note No. R-1 is hereby sold, assigned, transferred and set over, without recourse, unto _____, or order, subject to the terms and conditions of said Note.

Dated this _____, _____.

Owner

Signature Guaranteed:

PREPAYMENT PANEL

Principal of this Note has been prepaid on the dates indicated below:

<u>Date of Prepayment</u>	<u>Amount Prepaid</u>	<u>Signature of Paying Agent</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

EXHIBIT A

(Attach Amortization Schedule)

EXHIBIT B

FORM OF INVESTOR LETTER

Nevada System of Higher Education
2601 Enterprise Road
Reno, Nevada 89512

Re: **[\$19,000,000]**
NEVADA SYSTEM OF HIGHER EDUCATION
PROMISSORY NOTE
(UNIVERSITY OF NEVADA, LAS VEGAS)
SERIES 2017

Ladies and Gentlemen:

This letter is to provide you with certain representations and agreements with respect to our purchase of all of the above-referenced note (the "*Note*"), dated _____, 2017. _____ (the "*Purchaser*," the "*undersigned*," "*us*" or "*we*," as applicable) is purchasing the Note issued by the Nevada System of Higher Education (the "*System*"). We hereby represent and warrant to you and agree with you as follows:

1. We understand that the Note has not been registered pursuant to the Securities Act of 1933, as amended (the "*1933 Act*") or the securities laws of any state. We acknowledge that the Note (i) is not being registered or otherwise qualified for sale under the "blue sky" laws and regulations of any state, (ii) will not be listed on any securities exchange, and (iii) will not carry a rating from any rating service.
2. We have not offered, offered to sell, offered for sale or sold any of the Note by means of any form of general solicitation or general advertising, and we are not an underwriter of the Note within the meaning of Section 2(11) of the 1933 Act.
3. We have sufficient knowledge and experience in financial and business matters, including purchase and ownership of municipal and other tax-exempt obligations, to be able to evaluate the risks and merits of the investment represented by the purchase of the Note.

4. We have authority to purchase the Note and to execute this letter and any other instruments and documents required to be executed by the purchaser in connection with the purchase of the Note.

5. The undersigned is a duly appointed, qualified and acting representative of the Purchaser and is authorized to cause the Purchaser to make the certifications, representations and warranties contained herein by execution of this letter on behalf of the Purchaser.

6. The Purchaser is a "qualified institutional buyer" as defined in Rule 144A promulgated under the 1933 Act and is a commercial bank organized under the laws of the United States, or any state thereof, or any other country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of any such country, and, in any such case, having a combined capital and surplus of not less than \$5,000,000,000 as of the date hereof, and is able to bear the economic risks of such investment.

7. The undersigned understands that no official statement, prospectus, offering circular, or other comprehensive offering statement is being provided with respect to the Notes. The undersigned has made its own inquiry and analysis with respect to the System, the Note and the security therefor, and other material factors affecting the security for and payment of the Note.

8. The undersigned acknowledges that it has either been supplied with or been given access to information, including financial statements and other financial information, regarding the System, to which a reasonable investor would attach significance in making investment decisions, and has had the opportunity to ask questions and receive answers from knowledgeable individuals concerning the System, the Note and the security therefor, so that as a reasonable investor, it has been able to make its decision to purchase the Note.

9. The Note is being acquired by the Purchaser for investment for its own account and not with a present view toward resale or distribution; *provided, however*, that the Purchaser reserves the right to sell, transfer or redistribute the Note, but agrees that any such sale, transfer or distribution by the Purchaser shall be to a Person:

(a) that is an affiliate of the Purchaser;

(b) that is a trust or other custodial arrangement established by the Purchaser or one of its affiliates, the owners of any beneficial interest in which are limited to qualified institutional buyers; or

(c) that the Purchaser reasonably believes to be a qualified institutional buyer and a commercial bank organized under the laws of the United States, or any state thereof, or any other country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of any such

country, and, in any case, having a combined capital and surplus of not less than \$5,000,000,000 as of the date of such sale, transfer or distribution who executes an investor letter substantially in the form of this letter.

Very truly yours,

_____, AS PURCHASER

By: _____

Name: _____

Title: _____