

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF TEXAS
SHERMAN DIVISION

IN RE:	§	
	§	
GAINESVILLE HOSPITAL DISTRICT	§	Case No. 17-40101
D/B/A NORTH TEXAS MEDICAL	§	
CENTER,	§	
	§	Chapter 9
DEBTOR.	§	

EX PARTE

ADVERSARY NO. 17-04072

GAINESVILLE HOSPITAL DISTRICT
D/B/A NORTH TEXAS MEDICAL
CENTER

DECLARATORY JUDGMENT

On July 28, 2017, Gainesville Hospital District d/b/a North Texas Medical Center (“District”), filed its Original Complaint/Petition for Expedited Declaratory Judgment (“Petition”) pursuant to Chapter 1205 of the Texas Government Code.¹ On August 21, 2017, the District appeared and announced ready by and through its counsel of record. The Attorney General of the State of Texas (the “Attorney General”), required by Chapter 1205 to be individually served with process in actions of this nature, also appeared. The Court convened the trial. The Court heard and considered arguments of counsel and evidence presented relative to the relief sought in the Petition.

The Court, having considered the Petition, together with the evidence and authorities submitted in support thereof, is of the opinion that the Petition is meritorious and the relief requested should be, and hereby is, GRANTED. All questions of fact were submitted to the

¹ All capitalized terms in this Declaratory Judgment not otherwise defined herein have the meaning set forth in the Petition.

Court through proffered evidence. Such evidence, together with the arguments and authorities cited by counsel, supports and is the basis for the Court's findings and conclusions.

In support of this Declaratory Judgment, the Court makes the following FINDINGS:

1. The District is an "issuer" and that the bonds at issue qualify as a "public security" under TEX. GOV'T CODE ANN. §§ 1205.001 and 1207.001.

2. Proper and timely notice of the filing of this action, and of the August 21, 2017 hearing thereon, was provided. Specifically, notice was provided by this Court's order of July 31, 2017 in accordance with TEX. GOV'T CODE ANN. § 1205.041 and publication of a substantial copy of the same was timely made in newspapers of general circulation in Travis County, Texas and Cooke County, Texas (the only county in which the District has territory) in accordance with TEX. GOV'T CODE ANN. § 1205.043. Such publication is evidenced by the Affidavits of Publication filed of record in this matter concerning publications in the Austin-American Statesman and the Gainesville Daily Register.

3. The Court has jurisdiction over all persons who reside in the territory of the District, own property located within the boundaries of the District, are taxpayers of the District, have or claim a right, title, or interest in any property or money to be affected by a public security authorization or the issuance of the public securities by the District to refund the liabilities and obligations described in the Petition, or are creditors in the captioned bankruptcy proceeding, and over the Attorney General of the State of Texas, pursuant to TEX. GOV'T CODE ANN. § 1205.041 ("Interested Parties"). The Chapter 9 Proceeding is pending in the United States Bankruptcy Court for the Eastern District of Texas, Sherman Division. Venue is proper in the Eastern District of Texas because the District is organized and maintains its principal office in Cooke County, Texas, which is located in the Eastern District of Texas. *See Longhorn Partners Pipeline L.P. v. KM Liquids Terminals, L.L.C.*, 408 B.R. 90, 101 (Bankr. S.D. Tex.

2009) (“[T]he venue of the bankruptcy petition is presumed to be the proper venue for any adversary proceeding involving the debtor. Under 28 U.S.C. § 1409(a), “venue of an adversary proceeding is presumed proper in the district where the debtor filed its bankruptcy case ...” *Manchester Inc. v. Lyle (In re Manchester, Inc.)*, 2009 WL 1533614, at *4 (Bankr.N.D.Tex. June 1, 2009) (citing *In re Conmaco/Rector, L.P.*, 348 B.R. 362, 367 (Bankr.E.D.La.2005)). Based, in part, on § 1409(a) and its predecessor, § 1473, courts have held that there is a “home court presumption” favoring transfer of adversary proceedings to the court adjudicating the bankruptcy case.”). Under the circumstances, venue in the United States Bankruptcy Court is consistent with the requirements of TEX. GOV’T CODE ANN. § 1205.022. The Court has subject matter jurisdiction and jurisdiction over the Interested Parties to fully and finally adjudicate the issues raised in the Petition. Reference to the Court of this adversary proceeding is proper pursuant to 28 U.S.C. §157(a). This is a core proceeding as contemplated by 28 U.S.C. § 157(b)(2)(A), (B), (D), (K), and (O).

4. In the alternative, the U.S. Court of Appeals for the Fifth Circuit (the “Fifth Circuit”) has construed “related to” jurisdiction broadly. See *TXNB Internal Case v. GPR Holdings L.L.C. (In re TXNB Internal Case)*, 483 F.3d 292, 298 (5th Cir. 2007). At a minimum, this Court has “related to” jurisdiction pursuant to 28 U.S.C. § 1334(b). Section 1334 provides that district courts have subject matter jurisdiction over all “civil proceedings arising under title 11, or arising in or related to cases under title 11.” 28 U.S.C. § 1334(b). The Fifth Circuit noted that § 1334(b)’s language operates conjunctively to define the scope of jurisdiction.” Consequently, bankruptcy courts need only “determine whether a matter is at least ‘related to’ the bankruptcy.” *Bass v. Denney (In re Bass)*, 171 F.3d 1016, 1022 (5th Cir. 1999)(citing *Walker v. Cadle Co. (In re Walker)*, 51 F.3d 562, 569 (5th Cir. 1995); *Wood v. Wood (In re Wood)*, 825 F.2d 90, 93 (5th Cir. 1987).

5. The District was created and established pursuant to article IX, section 9 of the Constitution of the State of Texas and Chapter 211, 64th Legislature, 1975, now codified as Chapter 1077 Texas Special District Local Laws Code, as amended (collectively, the “Enabling Legislation”) and is now a legally and validly organized, established hospital district of the State of Texas.

6. Pursuant to the Enabling Legislation, an election (the “Election”) was legally and validly held in the District on August 23, 1975, in which the majority of voters (1) approved the creation of the District “with the authority to levy annual ad valorem taxes at a rate not to exceed 75 cents on the \$100 valuation of all taxable property within the District for the purpose of meeting the requirements of the District’s bonds (including those assumed) and for the care of indigents,” and (2) authorized the District to issue bonds and “to levy annually a tax to create an interest and sinking fund sufficient to pay the interest on and principal of said bonds, as the same becomes due and mature, provided such taxes levied for paying the interest on and creating a sinking fund for bonds (including those assumed) of the District shall not exceed 65 cents on each \$100 valuation of taxable property in any one year.”

7. Article 717k-3 of Vernon’s Annotated Texas Civil Statutes (“717k-3”), approved and effective on June 14, 1969, was in effect at the time of the Election and applies to the District. 717k-3 was later codified under Chapter 1207, Texas Government Code (together with its predecessor statute, 717k-3, the “Refunding Law”).

8. The District is a rural hospital district created in 1975 as a political subdivision of the State of Texas. The District operates a hospital in Gainesville, Cooke County, Texas, doing business as the North Texas Medical Center, which currently staffs 48 beds and provides all normally associated essential inpatient and outpatient services, including laboratory, medical

imaging, cardiology, orthopedics, intensive care, operating rooms, emergency medical services, rehabilitation, radiology, obstetrics and gynecology, a swing-bed program and outpatient clinic services (“Hospital”). The Hospital is also a designated Trauma 4 facility offering 24-hour emergency services.

9. The Hospital serves as the primary care and acute care center for residents of approximately two-thirds of Cooke County, which comprises the majority of the county’s population, including the communities of Gainesville, Lake Kiowa, Valley View, Era, Callisburg, Lindsay, Sivells Bend and Walnut Bend, Texas.

10. The Hospital is the only acute care hospital in the District’s service area providing service to the District’s indigent population. All residents within the District’s service area depend upon the Hospital for basic acute and long-term healthcare needs and, but for the existence of the Hospital, would have to drive over 30 miles to access another hospital in either Denton or Denison, Texas with equivalent services.

11. Although the District has always been committed to providing, within its service area and through the Hospital, the highest possible level of patient care for the residents, the District has encountered serious financial difficulties that have resulted in the District’s seeking relief under Chapter 9 of the Bankruptcy Code to adjust, restructure and refinance its outstanding obligations and liabilities so that it may continue to provide such services as it is constitutionally and statutorily required to do.

12. Following the District’s filing of the Chapter 9 Proceeding, on January 17, 2017, this Court issued an Interim Order Granting Approval of Agreement for Postpetition Secured Credit and Scheduling Final Hearing (the “Interim DIP Order”) and on February 15, 2017, this Court issued a Final Order Granting Approval of Agreement for Postpetition Secured Credit and Scheduling Final Hearing (the “Final DIP Order”). In the Final DIP Order, the Court authorized

and directed the District to incur post-petition indebtedness (the “DIP Loan”), in an amount not to exceed \$3,200,000, with UHS of Delaware, Inc. (the “DIP Lender”) in order to keep the Hospital operating during bankruptcy proceedings. The DIP Loan matures by its own terms on February 1, 2018 (the “DIP Loan Maturity Date”).

13. Effective January 20, 2017, the District entered into the Management Agreement, as amended by Amendment to Management Services Agreement, effective May 3, 2017, with McAllen Medical Center Physicians, Inc., a Texas nonprofit corporation (and an affiliate of the DIP Lender) to manage, operate and supervise the Hospital and assist the District in providing medical and hospital care for the District’s needy inhabitants in a manner consistent with the District’s constitutional and statutory responsibilities. The Management Agreement is structured as a temporary measure to allow uninterrupted operation of the Hospital until the Lease can commence and the APA can be consummated.

14. For several months leading up to the filing of the Chapter 9 Proceeding, the District explored options to restructure its obligations in an attempt to avoid closing the Hospital. The District has determined that its only viable option is to lease the Hospital to an operator in order to resolve its financial difficulties and for the Hospital to remain in operation. To that end, the District has begun negotiations for the DIP Lender or one of its affiliates (the “Operator”) to assume responsibility for the operations of the Hospital under the terms of a lease (the “Lease”).

15. The District’s consummation of the Lease and uninterrupted operation of the Hospital are dependent upon the District’s payment in full of its past due expenses and liabilities, as described in the Petition.

16. The following obligations qualify as general or special obligations of the District under the Refunding Law and may lawfully be paid with refunding bonds issued pursuant to the District’s powers under the Refunding Law:

(a) The DIP Loan Liability, consisting generally of (1) amounts not to exceed \$3,200,000 advanced to the District by the DIP Lender under the DIP Loan, plus interest thereon, to (i) fund its operations, until the Operator leases the Hospital and begins operations of the Hospital, in a manner consistent with the initial estimated budget attached as an exhibit to the Final DIP Order and subsequent budgets as agreed between the District and the DIP Lender; and (ii) pay fees and expenses related to the DIP Loan and the District's bankruptcy case (collectively, the "Budgeted Expenses"), as authorized by the Court's "Final Order Granting Approval of Agreement for Postpetition Secured Credit and Scheduling Final Hearing," (2) the associated costs and fees related to the implementation of the DIP Loan under the Chapter 9 Proceeding, and (3) issuance costs of the Bonds refunding the DIP Loan. Budgeted Expenses to be funded by the DIP Loan are to be approved by the DIP Lender at the DIP Lender's discretion;

(b) The Subsequent DIP Indebtedness, consisting of (1) additional Court-approved debtor-in-possession indebtedness, plus interest thereon, which may be incurred by the District upon Court approval substantially in the form of the existing DIP Loan, with maturities of no more than one year, to (i) pay Budgeted Expenses not paid with proceeds of the DIP Loan and/or (ii) repay the DIP Loan at the DIP Loan Maturity Date if the District has not successfully exited the Chapter 9 Proceeding, (2) the associated costs and fees related to the implementation of such indebtedness under the Chapter 9 Proceeding, and (3) issuance costs of the Bonds refunding such indebtedness;

(c) The Prepetition and Unpaid Postpetition Obligations, consisting of (1) other Budgeted Expenses, Employee Obligations, Prepetition Obligations, and other unpaid postpetition obligations that are not paid by either the DIP Loan or Subsequent DIP Indebtedness (2) the associated costs and fees related to such obligations under the Chapter 9 Proceeding, and (3) issuance costs of the Bonds refunding such obligations;

(d) The Pension Liability, consisting of (1) the amount required to fully fund the District's unfunded pension liability under its defined benefit pension plan, as reflected in an actuarial valuation as of June 30, 2017, (2) the associated costs and fees related to such unfunded pension liability under the Chapter 9 Proceeding, and (3) issuance costs of the Bonds refunding such unfunded pension liability;

(e) The Medicare Obligation, consisting of (1) any amount or amounts that may be assessed against the District by the Office of Inspector General, Department of Health and Human Services, due to an administrative error within its electronic medical record management software (as more fully described in the Petition), (2) the associated costs and fees related to such owed amounts under the Chapter 9 Proceeding, and (3) issuance costs of the Bonds refunding such owed amounts;

(f) The OIG Obligation, consisting of (1) any amount or amounts assessed against the Hospital by the Office of Inspector General, Department of Health and Human Services, related to payments made to a particular physician for services performed within the District's facilities (as more fully described in the Petition), (2) the associated costs and fees related to such owed amounts under the Chapter 9 Proceeding, (3) and issuance costs of the Bonds refunding such owed amounts (the DIP Loan Liability, Subsequent DIP Indebtedness, Prepetition and Unpaid Postpetition Obligations, the Pension Liability, the Medicare Obligation, and the OIG Obligation, collectively, the "Obligations");

17. The District is fully authorized to expend the current and future proceeds of the Bonds for the purposes set forth herein and that each such expenditure and proposed expenditure relating to the Bonds is legal, valid, enforceable, and incontestable.

THE COURT THEREFORE ORDERS, DECLARES, and DECREES that:

(a) The District is authorized to issue its limited tax general obligation refunding bonds from time to time, in one or more series as may be necessary, pursuant to Chapter 1207 of the Texas Government Code to restructure and refinance each of the District's general or special obligations established herein without an election in connection with the issuance thereof;

(b) The District is authorized to levy ad valorem taxes in an amount not to exceed 75 cents on the \$100 valuation of all taxable property within the physical boundaries of the District, in order to provide indigent medical care to residents within the District and to pay the Bonds (of which not more than 65 cents on the \$100 valuation may be imposed to pay principal of and interest on the Bonds in any given year);

(c) The District was and is authorized to incur the Obligations in order to operate and maintain the Hospital and provide indigent care prior to and during this bankruptcy proceeding;

(d) The Obligations, in the not-to-exceed amounts specified in the Petition and herein, qualify as general or special obligations of the District under the Refunding Law and are eligible for refunding pursuant to the issuance of bonds in the not-to-exceed principal amounts as set forth in the Petition or herein;

The DIP Loan Liability

(e) The District was authorized to enter into the DIP Loan attached to the Petition as Exhibit 8, and such agreement constitutes a legal, valid, binding and enforceable obligation under State law.

(f) The DIP Loan Liability, as and when incurred, is a legally binding, incontestable liability of the District, which amount when aggregated with Subsequent DIP Indebtedness shall not exceed \$3,600,000;

(g) The DIP Loan Liability is a “general” or “special” obligation of the District pursuant to §1207.002;

(h) As of the date hereof, the District has unpaid and owed liability under the DIP Loan of \$\$3,116,129.31 plus interest thereon, as set forth in Exhibit 13 of the Petition;

(i) The District is immediately entitled to issue one or more series of Bonds, in principal amount not to exceed \$3,600,000, including costs of issuance of such Bonds, for the purpose of refunding the DIP Loan Liability;

(j) The District is authorized to issue the Bonds to refund the DIP Loan Liability; provided, however, the District acknowledges approval of such Bonds by the Attorney General is subject to any changes in law which may be enacted by the Texas Legislature or contained in a formal opinion by the Attorney General of Texas, which may occur subsequent to the final judgment in this action;

(k) Subject to any change in law as described in paragraph (j) above, proceeds from the Bonds may be expended for repayment of the DIP Loan Liability according to the terms thereof;

(l) The District is authorized to issue, in one or more series, its Limited Tax General Obligation Refunding Bonds, the proceeds of which will be expended to restructure and refinance the DIP Loan Liability, which principal amount when aggregated with Subsequent DIP Indebtedness shall not exceed \$3,600,000, such Bonds to be issued in substantially the same form set forth in the proposed Bond Order attached to the Petition as Exhibit 12;

(m) The District is authorized to levy ad valorem taxes in an amount not to exceed 75 cents on the \$100 valuation of all taxable property within the physical boundaries of the District, in order to provide indigent medical care to residents within the District and to pay its Limited Tax General Obligation Refunding Bonds, the proceeds of which will be expended to restructure and refinance the DIP Loan Liability (of which not more than 65 cents on the \$100 valuation may be imposed to pay principal of and interest on the bonds of the District, including such Bonds, in any given year);

(n) The District's Limited Tax General Obligation Refunding Bonds, once issued in one or more series to restructure and refinance the DIP Loan Liability, shall be valid, legal, binding, and enforceable obligations of the District under Texas law payable from and secured by a pledge of ad valorem taxes sufficient to provide for the payment of the principal of, premium, if any, and interest on said bonds, within the limits prescribed by law (not to exceed \$0.65 per \$100 valuation for interest and sinking fund purposes, and

in an amount which together with taxes levied for the care of indigents does not exceed \$0.75 per \$100 valuation);

(o) The proposed Bond Order attached to the Petition as Exhibit 12 ordering the issuance and delivery of the District's Limited Tax General Obligation Refunding Bonds, the proceeds of which would restructure and refinance the DIP Loan Liability, is valid and enforceable under Texas law;

Subsequent DIP Indebtedness

(p) Any Subsequent DIP Indebtedness will be a "general" or "special" obligation of the District pursuant to §1207.002 that, when and if issued in the Chapter 9 Proceeding, which amount when aggregated with the DIP Loan Liability shall not exceed \$3,600,000;

(q) The District is authorized to issue the Bonds to refund the Subsequent DIP Indebtedness; provided, however, the District acknowledges approval of such Bonds by the Attorney General, and all actions and contracts related thereto, is subject to any changes in law which may be enacted by the Texas Legislature, contained in a formal opinion by the Attorney General of Texas, which may occur subsequent to the final judgment in this action;

(r) Subject to any change in law as described in paragraph (q) above, proceeds from the Bonds may be expended for repayment of the Subsequent DIP Indebtedness according to the terms thereof;

(s) The District is authorized to issue one or more series of Limited Tax General Obligation Refunding Bonds, the proceeds of which will be expended to restructure and

refinance Subsequent DIP Indebtedness that, when and if issued in the Chapter 9 Proceeding, which principal amount when aggregated with the DIP Loan Liability, shall not exceed \$3,600,000, including the costs of issuance of such Bonds, such Bonds to be issued in substantially the same form set forth in the proposed Bond Order attached to the Petition as Exhibit 12;

(t) The District is authorized to levy ad valorem taxes in an amount not to exceed 75 cents on the \$100 valuation of all taxable property within the physical boundaries of the District, in order to provide indigent medical care to residents within the District and to pay its Limited Tax General Obligation Refunding Bonds, the proceeds of which will be expended to restructure and refinance Subsequent DIP Indebtedness (of which not more than 65 cents on the \$100 valuation may be imposed to pay principal of and interest on the bonds of the District, including such Bonds, in any given year);

(u) The District's Limited Tax General Obligation Refunding Bonds, once issued in one or more series to restructure and refinance the Subsequent DIP Indebtedness, shall be valid, legal, binding, and enforceable obligations of the District under Texas law payable from and secured by a pledge of ad valorem taxes sufficient to provide for the payment of the principal of, premium, if any, and interest on said bonds, within the limits prescribed by law (not to exceed \$0.65 per \$100 valuation for interest and sinking fund purposes, and in an amount which together with taxes levied for the care of indigents does not exceed \$0.75 per \$100 valuation);

(v) The proposed Bond Order attached to the Petition as Exhibit 12 ordering the issuance and delivery of the District's Limited Tax General Obligation Refunding Bonds

to restructure and refinance the Subsequent DIP Indebtedness, is valid and enforceable under Texas law;

Prepetition and Unpaid Postpetition Obligations

(w) The Prepetition and Unpaid Postpetition Obligations are legally binding, incontestable liabilities of the District in the amount that shall not exceed \$6,000,000;

(x) The Prepetition and Unpaid Postpetition Obligations are “general” or “special” obligations of the District pursuant to §1207.002;

(y) As of the date hereof, there remains \$3,829,310.44 unpaid and owing Prepetition Obligations, as set forth in Exhibit 5 to the Petition;

(z) As of June 30, 2017, there are \$140,122.53 of other unpaid postpetition obligations of the District, including costs related to (i) the Chapter 9 Proceeding and (ii) the District’s affiliation with the DIP Lender and/or its affiliates relating to the long-term lease of the District’s hospital facilities, as set forth in Exhibit 5 to the Petition;

(aa) The District is immediately entitled to issue one or more series of Bonds, in aggregate principal amount not to exceed \$4,269,432.97, including costs of issuance of such Bonds, for the purpose of restructuring and refinancing the Prepetition and Unpaid Postpetition Obligations;

(bb) The District is authorized to issue the Bonds to refund the Prepetition and Unpaid Postpetition Obligations; provided, however, the District acknowledges approval of such Bonds by the Attorney General, and all actions and contracts related thereto, is subject to any changes in law which may be enacted by the Texas Legislature, contained in a

formal opinion by the Attorney General of Texas, which may occur subsequent to the final judgment in this action;

(cc) Subject to any change in law as described in paragraph (bb) above, proceeds from the Bonds may be expended to restructure and refinance the Prepetition and Unpaid Postpetition Obligations;

(dd) The District is authorized to issue one or more series of Limited Tax General Obligation Refunding Bonds, the proceeds of which will be expended to restructure and refinance the Prepetition and Unpaid Postpetition Obligations, in the aggregate principal amount not to exceed \$6,000,000, such Bonds to be issued in substantially the same form set forth in the proposed Bond Order attached to the Petition as Exhibit 12;

(ee) The District is authorized to levy ad valorem taxes in an amount not to exceed 75 cents on the \$100 valuation of all taxable property within the physical boundaries of the District, in order to provide indigent medical care to residents within the District and to pay its Limited Tax General Obligation Refunding Bonds, the proceeds of which will be expended to restructure and refinance Prepetition and Unpaid Postpetition Obligations (of which not more than 65 cents on the \$100 valuation may be imposed to pay principal of and interest on the bonds of the District, including such Bonds, in any given year);

(ff) The District's Limited Tax General Obligation Refunding Bonds, once issued in one or more series to restructure and refinance the Prepetition and Unpaid Postpetition Obligations, shall be valid, legal, binding, and enforceable obligations of the District under Texas law payable from and secured by a pledge of ad valorem taxes sufficient to provide for the payment of the principal of, premium, if any, and interest on said bonds, within the limits prescribed by law (not to exceed \$0.65 per \$100 valuation for interest

and sinking fund purposes, and in an amount which together with taxes levied for the care of indigents does not exceed \$0.75 per \$100 valuation);

(gg) The proposed Bond Order attached to the Petition as Exhibit 12 ordering the issuance and delivery of the District's Limited Tax General Obligation Refunding Bonds, the proceeds of which would restructure and refinance the Prepetition and Unpaid Postpetition Obligations, is valid and enforceable under Texas law;

Pension Liability

(hh) The District was authorized to enter into the Pension Plan attached to the Petition as Exhibit 9, and such agreements constitute legal, valid, binding and enforceable obligations under State law.

(ii) The Pension Liability is a legally binding, incontestable liability of the District in an amount not to exceed \$16,600,000;

(jj) The District's liability to fund the Pension Liability is a "general" or "special" obligation of the District pursuant to §1207.002;

(kk) The District is immediately entitled to issue one or more series of Bonds, in aggregate principal amount not to exceed \$16,600,000, including costs of issuance of such Bonds, for the purpose of refunding the Pension Liability;

(ll) The District is authorized to issue the Bonds to refund the Pension Liability; provided, however, the District acknowledges approval of such Bonds by the Attorney General, and all actions and contracts related thereto, is subject to any changes in law which may be enacted by the Texas Legislature, contained in a formal opinion by the

Attorney General of Texas, which may occur subsequent to the final judgment in this action;

(mm) Subject to any change in law as described in paragraph (ll) above, proceeds from the Bonds may be expended to restructure and refinance the Pension Liability;

(nn) The District is authorized to issue one or more series of Limited Tax General Obligation Refunding Bonds, the proceeds of which will be expended to restructure and refinance the Pension Liability, in the aggregate principal amount not to exceed \$16,600,000, such Bonds to be issued in substantially the same form set forth in the proposed Bond Order attached to the Petition as Exhibit 12;

(oo) The District is authorized to levy ad valorem taxes in an amount not to exceed 75 cents on the \$100 valuation of all taxable property within the physical boundaries of the District, in order to provide indigent medical care to residents within the District and to pay its Limited Tax General Obligation Refunding Bonds, the proceeds of which will be expended to restructure and refinance the Pension Liability (of which not more than 65 cents on the \$100 valuation may be imposed to pay principal of and interest on the bonds of the District, including such Bonds, in any given year);

(pp) The District's Limited Tax General Obligation Refunding Bonds, once issued in one or more series to restructure and refinance the Pension Liability, shall be valid, legal, binding, and enforceable obligations of the District under Texas law payable from and secured by a pledge of ad valorem taxes sufficient to provide for the payment of the principal of, premium, if any, and interest on said bonds, within the limits prescribed by law (not to exceed \$0.65 per \$100 valuation for interest and sinking fund purposes, and

in an amount which together with taxes levied for the care of indigents does not exceed \$0.75 per \$100 valuation);

(qq) The proposed Bond Order attached to the Petition as Exhibit 12 ordering the issuance and delivery of the District's Limited Tax General Obligation Refunding Bonds, the proceeds of which would restructure and refinance the Pension Liability, is valid and enforceable under Texas law;

Medicare Obligation

(rr) The Medicare Obligation is a legally binding, incontestable liability of the District in an amount not to exceed \$3,450,000;

(ss) The Medicare Obligation is a "general" or "special" obligation of the District pursuant to §1207.002;

(tt) The District is authorized to issue the Bonds to refund the Medicare Obligation; provided, however, the District acknowledges approval of such Bonds by the Attorney General, and all actions and contracts related thereto, is subject to any changes in law which may be enacted by the Texas Legislature, contained in a formal opinion by the Attorney General of Texas, which may occur subsequent to the final judgment in this action;

(uu) Subject to any change in law as described in paragraph (tt) above, proceeds from the Bonds may be expended to restructure and refinance the Medicare Obligation;

(vv) The District is authorized to issue one or more series of Limited Tax General Obligation Refunding Bonds, the proceeds of which will be expended to restructure and

refinance the Medicare Obligation, in aggregate principal amount not to exceed \$3,450,000, including costs of issuance of such Bonds, such Bonds to be issued in substantially the same form set forth in the proposed Bond Order attached to the Petition as Exhibit 12;

(ww) The District is authorized to levy ad valorem taxes in an amount not to exceed 75 cents on the \$100 valuation of all taxable property within the physical boundaries of the District, in order to provide indigent medical care to residents within the District and to pay its Limited Tax General Obligation Refunding Bonds, the proceeds of which will be expended to restructure and refinance the Medicare Obligation (of which not more than 65 cents on the \$100 valuation may be imposed to pay principal of and interest on the bonds of the District, including such Bonds, in any given year);

(xx) The District's Limited Tax General Obligation Refunding Bonds, once issued in one or more series to restructure and refinance the Medicare Obligation, shall be valid, legal, binding, and enforceable obligations of the District under Texas law payable from and secured by a pledge of ad valorem taxes sufficient to provide for the payment of the principal of, premium, if any, and interest on said bonds, within the limits prescribed by law (not to exceed \$0.65 per \$100 valuation for interest and sinking fund purposes, and in an amount which together with taxes levied for the care of indigents does not exceed \$0.75 per \$100 valuation);

(yy) The proposed Bond Order attached to the Petition as Exhibit 12 ordering the issuance and delivery of the District's Limited Tax General Obligation Refunding Bonds to restructure and refinance the Medicare Obligation, is valid and enforceable under Texas law;

OIG Obligation

(zz) The OIG Obligation is a legally binding, incontestable liability of the District in an amount not to exceed \$5,100,000;

(aaa) The OIG Obligation is a “general” or “special” obligation of the District pursuant to §1207.002;

(bbb) The District is authorized to issue the Bonds to refund the OIG Obligation; provided, however, the District acknowledges approval of such Bonds by the Attorney General, and all actions and contracts related thereto, is subject to any changes in law which may be enacted by the Texas Legislature, contained in a formal opinion by the Attorney General of Texas, which may occur subsequent to the final judgment in this action;

(ccc) Subject to any change in law as described in paragraph (bbb) above, proceeds from the Bonds may be expended to restructure and refinance the OIG Obligation;

(ddd) The District is authorized to issue one or more series of Limited Tax General Obligation Refunding Bonds, the proceeds of which will be expended to restructure and refinance the OIG Obligation, in aggregate principal amount not to exceed \$5,100,000, including costs of issuance of such Bonds, such Bonds to be issued in substantially the same form set forth in the proposed Bond Order attached to the Petition as Exhibit 12;

(eee) The District is authorized to levy ad valorem taxes in an amount not to exceed 75 cents on the \$100 valuation of all taxable property within the physical boundaries of the District, in order to provide indigent medical care to residents within the District and to pay its Limited Tax General Obligation Refunding Bonds, the proceeds of which will be

expended to restructure and refinance the OIG Obligation (of which not more than 65 cents on the \$100 valuation may be imposed to pay principal of and interest on the bonds of the District, including such Bonds, in any given year);

(fff) The District's Limited Tax General Obligation Refunding Bonds, once issued in one or more series to restructure and refinance the OIG Obligation, shall be valid, legal, binding, and enforceable obligations of the District under Texas law payable from and secured by a pledge of ad valorem taxes sufficient to provide for the payment of the principal of, premium, if any, and interest on said bonds, within the limits prescribed by law (not to exceed \$0.65 per \$100 valuation for interest and sinking fund purposes, and in an amount which together with taxes levied for the care of indigents does not exceed \$0.75 per \$100 valuation);

(ggg) The proposed Bond Order attached to the Petition as Exhibit 12 ordering the issuance and delivery of the District's Limited Tax General Obligation Refunding Bonds, the proceeds of which would restructure and refinance the OIG Obligation, is valid and enforceable under Texas law;

District Required to Prove Up Remaining Undetermined Amounts

(hhh) Upon a satisfactory showing to this Court that the amounts the District is obligated to pay in satisfaction of one or more of the Obligations which, in whole or in part, do not qualify for immediate refunding at the time this Court signs its final judgment prayed for herein, are at that time (1) due and owing in the amounts submitted, (2) sufficiently definite to qualify for refunding under the Refunding Law, and (3) that such amounts do not exceed the "not to exceed" amounts set forth in the Petition, such amounts, by a signed and entered order of this Court, will be deemed legally binding,

incontestable liabilities of the District, the District may issue Bonds that meet the requirements of the parameters heretofore established);

Issuance of Bonds and Approval of Attorney General

(iii) Subsequent to completion of the validation procedures contemplated in this proceeding, or at such time prior thereto as may be required by the procedures for approval of the Bonds by the Attorney General of the State of Texas, the District is authorized to cause to be executed for delivery such further or additional instruments as may be required by the procedures for approval of the Bonds by the Attorney General of the State of Texas;

(jjj) The District is authorized to proceed to take all actions which the District deems necessary or appropriate to authorize, issue, sell and deliver the Bonds, in one or more series from time to time, to a purchaser thereof for cash;

(kkk) That certified copies of the proceedings herein alleged together with all proposed instruments set forth and alleged herein as required, shall be submitted to the Attorney General of the State of Texas under the provisions of applicable law; that all such proceedings as hereafter approved by the Attorney General shall be fully registered with the Comptroller of Public Accounts of the State of Texas as required by law; and such Bonds proposed to be issued will be subject to approval by the Attorney General of Texas with the effect provided by law;

(lll) The District is authorized to issue each series of Bonds in substantially the form set forth in the proposed Bond Order attached to the Petition as Exhibit 12, and to make all corrections, modifications and changes necessary so that the documents and

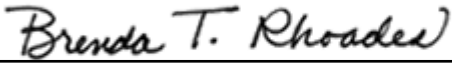
instruments necessary or required in connection with the authorization, sale and issuance of such Bonds at the time ultimately enacted, executed or delivered shall accurately reflect the conditions at the time of such enactment, execution, or delivery, provided such corrections, modifications and changes shall not substantially or materially affect the substance of such documents and instruments, and provided such documents and instruments will reflect the true facts, circumstances and conditions at the time of ultimate execution thereof;

(mmm) The Attorney General of Texas is hereby authorized, subject to changes in applicable law, to approve each series of Bonds in substantially the form set forth in the proposed Bond Order attached to the Petition as Exhibit 12;

IT IS FURTHER ORDERED AND DECLARED that, pursuant to TEX. GOV'T CODE ANN. § 1205.151, this Declaratory Judgment shall, as to all matters adjudicated, be forever binding and conclusive against the District, the Attorney General of the State of Texas, the Comptroller, and all Interested Parties, irrespective of whether any such parties filed an answer or otherwise appeared herein.

IT IS FURTHER ORDERED AND DECLARED that, pursuant to TEX. GOV'T CODE ANN. § 1205.151, this Declaratory Judgment shall constitute a permanent injunction against the filing by any person or entity of any action or proceeding contesting the validity of the Bonds, the authorization of the Bonds, the expenditure of money relating to the Bonds, the provisions made for the payment of the Bonds or of interest thereon, any matter adjudicated by this Declaratory Judgment, and any matter that could have been raised in these proceedings.

Signed on 8/22/2017



SR
HONORABLE BRENDA T. RHOADES,
UNITED STATES BANKRUPTCY JUDGE