

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (CHFFA)

REFINANCING SUMMARY

Applicant:	Children’s Hospital of Orange County (“CHOC” or “Borrower”)	Amount Requested:	\$130,000,000
Project site:	Orange County	Outstanding Principal:	Approximately \$110,150,000
Date Requested:	August 28, 2008	Resolution Number:	334

Background: Many hospital borrowers have faced unanticipated and staggering financial burdens associated with significant interest rate increases, due to recent dramatic changes in the auction and variable rate bond markets since the first quarter of 2008. Consequently, borrowers (including CHOC) are seeking to quickly refund their debt to extricate themselves from untenable debt service obligations to position themselves into more affordable and stable rates and, in some cases, to get out from under a downgraded insurer.

Purpose: Bond proceeds will be used to refund previously issued auction rate securities insured by MBIA. These bonds were previously used for various capital expenditures at the facilities owned or operated by CHOC.

Financial Overview: Based on staff’s review of CHOC’s most recent audited financial statements, CHOC’s income statement and balance sheet appear solid. Additionally, CHOC appears to meet CHFFA’s minimum requirements for debt service coverage as set forth within CHFFA’s Bond Issuance Guidelines. This refunding is expected to lower CHOC’s interest costs for the refunded bonds.

Most Recent Underlying Bond Rating: Based on CHOC’s long-term rating: A+ (S&P), A+ (Fitch) and its liquidity.

Sources and Uses/Costs of Issuance/Cost Savings

Within 90 days of board approval, bond proceeds will be used to redeem designated prior bonds, and in some cases, to cover cost of issuance or debt service reserves, if needed, on the refunding bonds. There may also be a relatively small equity contribution from the borrower to cover costs of issuance. The borrower expects the refunding to provide more stable and lower interest rates, as well as an improved opportunity for debt management.

Due Diligence: Due diligence of the following items has been completed or will be completed prior to closing:

- **Religious Due Diligence**
 - **Legal Review**
 - **Community Service Obligation**
 - **CEQA (not required because borrower is refunding their bonds)**
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Staff Recommendation: Staff recommends the Authority approve a Resolution in an amount not to exceed \$130,000,000 for Children’s Hospital of Orange County subject to financing terms acceptable to the Authority, that the Authority waive the pass-through requirement in connection with this refinancing, and that the Authority consider an appropriate fee reduction for this borrower as the circumstances may warrant.