

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

Adventist Health System/West

**Request For Adjustment Of The Loan Fund Share For Adventist Health System/West
Pursuant To The Indenture Dated August 1, 1991**

**Staff Summary
Resolution No. 2006-12**

December 7, 2006

ISSUE:

Sutter Health intends to prepay its \$31 million loan funded with the proceeds of the CHFFA Adventist Health System/West – Sutter Health Revolving Loan Pool Bonds Series 1991 (“Bonds”). Adventist Health System/West (“Adventist”) is requesting Authority consent to an adjustment of the Loan Fund Share in accordance with the provisions of the 1991 Bond Indenture (“Indenture”) so that Adventist may obtain a loan in the amount of \$31 million. The above consent will have no impact on the Bonds themselves.

BACKGROUND:

In 1991, proceeds of the Bonds funded loans to Sutter Health and Adventist. Loan Fund Shares were allocated to Sutter Health in the amount of \$31,382,518 (including \$382,518 for costs of issuance) and to Adventist in the amount of \$28,471,482 (including \$471,482 for costs of issuance). Sutter Health intends to prepay its loan upon the issuance of bonds in 2007. Under the Indenture, Sutter Health’s Loan Fund Share can be transferred to Adventist with the consent of the Authority, Sutter Health, and the letter of credit provider. Sutter Health has agreed to the transfer its Loan Fund Share and U.S. Bank, acting as letter of credit provider, is expected to approve the extension of credit for the Bonds based on its review of Adventist as the sole borrower.

Upon prepayment in full of the Sutter Health loan, Adventist seeks to acquire Sutter Health’s Loan Fund Share in the amount of \$31 million and use the funds to finance construction and improvement projects identified in Exhibit A to Resolution 2006-12. Adventist is asking for the consent of the Authority to adjust the Loan Fund Shares under the Indenture so Adventist will have a Loan Fund Share equal to \$59,417,482, and Sutter Health will have a Loan Fund Share equal to \$0. Adventist expects this loan to be more economical than other available lending products.

FINANCIAL OVERVIEW:

Adventist has maintained its profitability. In 2005, it generated unrestricted net income of \$34 million on \$1.8 billion in unrestricted revenue, a margin of 1.9% (compared to 1.2% in 2004). The additional \$31 million in debt will have a minimal impact on Adventist's finances, with debt service coverage remaining strong. Proforma debt service coverage decreases slightly from 3.55x to 3.33x, and debt-to-unrestricted net assets increases minimally, from 0.88x to 0.91x. In addition, U.S. Bank has reviewed Adventist's credit and is prepared to extend the letter of credit to cover the additional \$31 million loan.

LEGAL REVIEW:

Staff has reviewed the Adventist's responses to the questions contained in the Legal Status questionnaire. The information that was disclosed does not appear to question the financial viability or legal integrity of this applicant.

COMPLIANCE WITH ASSEMBLY BILL 1341:

Assembly Bill 1341 (Chapter 714, 2006) requires that prior to an action by the Authority Board, all applicants must provide the Authority with documentation certifying that a proposed project has complied with the California Environmental Quality Act (CEQA), or that the project is not subject to CEQA. Adventist has provided the necessary documents to show compliance with AB1341.

STAFF RECOMMENDATION:

Staff recommends the Authority consent to the adjustment of the Loan Fund Share as set forth in Resolution 2006-12, for Adventist Health System/West provided that all required conditions identified in the Indenture shall be satisfied.

RESOLUTION NO. 2006-12

**RESOLUTION OF THE CALIFORNIA HEALTH FACILITIES FINANCING
AUTHORITY CONSENTING TO ADJUSTMENT OF THE LOAN FUND SHARE
FOR ADVENTIST HEALTH SYSTEM/WEST, PURSUANT TO THE
INDENTURE DATED AUGUST 1, 1991**

WHEREAS, the California Health Facilities Financing Authority (the "Authority"), a public instrumentality of the State of California, is authorized and empowered by the provisions of the California Health Facilities Financing Authority Act (the "Act") to issue revenue bonds to finance construction, expansion, remodeling, renovation, furnishing, equipping and acquisition of health facilities operated by participating health institutions;

WHEREAS, the Authority has previously issued its Variable Rate Revenue Bonds (Adventist Health System/West – Sutter Health Revolving Loan Pool) Series 1991A and 1991B (together, the "Bonds"), in the aggregate principal amount of \$59,800,000, pursuant to an indenture dated as of August 1, 1991 (the "Indenture"), between the Authority and The Bank of New York Trust Company, N.A., as successor trustee (the "Trustee");

WHEREAS, it is anticipated that Sutter Health, a nonprofit public benefit corporation and one of the Borrowers, as defined in the Indenture ("Sutter"), will prepay its loan funded with proceeds of the Bonds in the principal amount of \$31 million upon the issuance by the Authority of revenue bonds intended to be sold and issued in 2007 for the benefit of Sutter and its affiliates, as set forth in Sutter's November 1, 2006 bond application filed with the Authority;

WHEREAS, it is also anticipated that Sutter will prepay at the same time its share of the original costs of issuance of the Bonds in the amount of \$382,518;

WHEREAS, upon prepayment in full of the Sutter loan, Adventist Health System/West, the other Borrower defined in the Indenture ("Adventist"), seeks to obtain another Loan (as defined in the Indenture) in the principal amount of \$31 million to finance the capital projects identified in **Exhibit A** hereto (the "Project");

WHEREAS, Adventist has represented to the Authority that the Project is a "health facility" and it is owned and operated by a "participating health institution," as those terms are defined in the Act;

WHEREAS, Adventist has submitted documentation to the Authority demonstrating that each element of the Project has complied with Division 13 (commencing with Section 21000) of the Public Resources Code (California Environmental Quality Act) or is not a project under that division;

WHEREAS, in accordance with Section 3.04(C) of the Indenture, Adventist hereby requests the consent of the Authority to adjust the Loan Fund Shares under the

Indenture such that: (1) Adventist will have a Loan Fund Share equal to \$59,417,482, and (2) Sutter will have a Loan Fund Share equal to \$0;

WHEREAS, the actual adjustment of the Loan Fund Shares under the Indenture described in the above WHEREAS clauses shall not take effect unless and until all conditions to such adjustment set forth in the Indenture are satisfied and delivery of the required certifications, Bank consents and legal opinions, all in form satisfactory to the Authority, has been made to the Trustee and the Authority;

WHEREAS, the consent of the Authority is now sought;

NOW, THEREFORE, BE IT RESOLVED by the California Health Facilities Financing Authority, as follows:

Section 1. The Authority hereby consents to adjustment of the Loan Fund Shares in accordance with the Indenture such that: (1) Adventist Health System/West will have a Loan Fund Share equal to \$59,417,482, and (2) Sutter will have a Loan Fund Share equal to \$0.

Section 2. The Authority hereby delegates the authority to the Chairman, any Deputy to the Chairman, the Executive Director or the Deputy Executive Director (each, an "Authorized Officer"), jointly and severally, to execute and deliver, for and on behalf of the Authority, any written consent, direction, certificate or other instrument required by the Indenture, including, without limitation, acknowledgement of a Loan Fund Transfer Certificate, necessary to effectuate the adjustment of the Loan Fund Share described above and to fund the additional loan to Adventist, with such insertions and changes therein consistent with the stated terms of this Resolution as such Authorized Officer, with the advice of the Attorney General of the State of California or such other counsel as the Authority shall select may require or approve, such approval to be conclusively evidenced by execution and delivery thereof.

Section 3. This Resolution shall become effective immediately upon adoption.

Date of Adoption:

EXHIBIT A

The Project to be financed with the additional Loan to Adventist Health System/West includes acquisition, construction, renovation, improvement and equipping of the following health facilities:

1. White Memorial Medical Center located on the campus at 1720 Brooklyn Avenue, Los Angeles, California. A new patient tower was recently complete and occupied in April 2006. The additional Loan proceeds will be used to complete seismic related improvements on existing facilities. The site of these improvements was published in advance of the required TEFRA public hearing in 1991.
2. Simi Valley Hospital located on the campus at 2975 North Sycamore Drive in Simi Valley, California. The additional loan proceeds will be used for a new patient tower being constructed to meet seismic requirements, and for other seismic related improvements on existing facilities. The site of these improvements was published in advance of the required TEFRA public hearing in 1991.
3. St. Helena Hospital located on the campus at 10 Woodland Road in St. Helena, California (the same site formerly referred to at 650 Sanitarium Road, Deer Park, California). The additional loan proceeds will be used for replacing chilling towers and central plan improvements. The site of these improvements was published in advance of the required TEFRA public hearing in 1991.
4. Feather River Hospital located on the campus at 5974 Pentz Road in Paradise, California. The additional loan proceeds will be used for emergency room, utility and infrastructure improvements. The site of these improvements was published in advance of the required TEFRA public hearing in 1991.