STAFF SUMMARY REGARDING CHFFA/CEFA BOND GUIDELINES
PROPOSED STAFF REPORT METHODOLOGY

July 29, 2010

At the June 24, 2010 Authority board meeting, staff presented the board with a proposed new methodology for the analysis of bond applications and the preparation of staff reports. This new methodology included a comprehensive process of due diligence, investigation and analysis of proposed bond covenants, security features and disclosures submitted to the Authority by a borrower's bond finance team. Board members requested Authority staff to create a template staff report to best illustrate the proposed new methodology for evaluating bond transactions.

Staff applied the new proposed methodology for evaluating bond transactions and created a template staff report from previously approved transactions for Children's Hospital Los Angeles (CHLA).

CHLA came before and was approved by the CHFFA board for bond financing at the February 25, 2010 and April 29, 2010 board meetings. The purpose of the second meeting was only to allow an adjustment in the financing structure to permit CHLA to include a variable rate component. As part of the overall approval, CHFFA authorized numerous guideline exceptions (including allowing minimum denominations of $5,000, accepting a lower debt service coverage ratio than 1.25x and allowing CHLA to publically market the bonds rather than to qualified institutional buyers or pursuant to a private placement). Staff concluded that all of the foregoing and CHLA's split bond rating (BBB+/BBB-) made the CHLA transaction an ideal candidate to present the Authority's proposed evaluation methodology.

For your review and consideration, staff has included the following documents:

- **Exhibit A –** The entire proposed Revenue Bond Application Resources and Review Process (as presented to the board at the June 24, 2010 meeting)
- **Exhibit B –** An excerpt from Exhibit A showing the relevant review process which leads to the new methodology staff recommends including within Authority staff reports (also previously presented to the board at the June 24, 2010 meeting)
- **Exhibit C –** Original CHLA staff report (please note, in the spirit of efficiency, staff combined the two reports generated for the two separate CHLA agenda items for February 25, 2010 and April 29, 2010 inasmuch as they were essentially identical with the exception of the fixed and variable rate pieces of the transaction)
- **Exhibit D –** Redlined CHLA staff report, incorporating proposed methodology
- **Exhibit E –** Clean CHLA staff report, incorporating proposed methodology

Exhibit A

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
INVESTMENT GRADE PUBLIC OFFERINGS

Revenue Bond Application Resources and Review Process

OUTLINE

I. CHFFA MISSION STATEMENT (link)

II. CHFFA COMMITMENT TO "CUSTOMER" SERVICE

III. CHFFA ACT (link)

(A) Qualifying Borrowers; Definition of "Participating Health Institution" (link)

(B) Qualifying Projects; Definitions of "Project," "Cost," and "Health Facility" (link)

(C) Savings Pass-Through Requirement (link to § 15438.5 and CHFFA policy)

(D) Community Service Assurance; Access Requirements (link to §§ 15459 through 15459.4)

(E) Financed Projects must comply with CEQA (link to § 15455 and required documentation)

(F) State Treasurer (STO) acts as agent for sale for CHFFA (link)

IV. CHFFA MEETINGS/HEARINGS/AGENDA REQUIREMENTS

(A) Transactions are set for hearings and approvals after receipt of an application (see Article VI below)

(B) Regular Meeting Schedule is typically the last Thursday of every month at approximately 1:30 pm at CHFFA offices in Sacramento (link)

(C) Special Meetings are possible in extraordinary circumstances

(D) Agenda Deadlines (CHFFA must distribute each meeting agenda at least 10 days in advance of meetings unless there is an extraordinary situation meeting legal requirements for shorter notice; link to public meeting law)

(E) TEFRA Hearing Arrangements

(1) A single public hearing covers projects throughout the State

(2) CHFFA's custom is to hold hearings at its offices on the Wednesday preceding each regular monthly meeting at 10:00 a.m.; Borrowers are not required to attend; alternative days and times available upon request

(3) Bond Counsel arranges publication of hearing notices and provides affidavits of publication to CHFFA at least 2 business days prior to the hearing

(4) STO provides issuer approval certificate within 10 days after hearing (link to model certification language)

(F) Single Meeting Approval via Resolution (link to model resolution)

V. SELECTION OF FINANCE TEAM

(A) Underwriter(s) may be designated by Borrower from STO approved list (link)

(B) Borrower selects its own Counsel

(C) Borrower may select Bond Counsel with CHFFA consent

(D) CHFFA represented by Attorney General's (AG) Office or a designated outside attorney, acting as issuer counsel

(E) CHFFA/STO Financial Advisor is PFM

(F) STO is Agent for Sale (following approval, pricing and bond sale are to be coordinated through CHFFA with STO)

(G) Trustee/Paying Agent May Be Selected by Borrower with CHFFA consent

(H) CHFFA will designate an Analyst for each Financing as Primary Contact

(I) CHFFA Analyst will Provide contacts for CHFFA/STO/AG participants

(J) Credit or Liquidity Enhancer Identified by Borrower

VI. APPLICATION SUBMISSION

(A) Staff Assistance Available Prior to Formal Application

(1) Discuss Project/Borrower Eligibility

(2) Consideration of Corporation or Obligated Group as an appropriate Applicant and Borrower

(3) Resources for Municipal Borrowing Information (links to STO resources; CDIAC Primer and materials gathered by CHFFA)

(B) On-Line Application Form (link)

(C) Timing – Due by 1st business day of month in which approval is sought

(D) Application Fee (link); Issuance Fee Information (link)

(E) Borrower Documents Requested with Application

 (1) Latest Audited Financial Statements

 (2) Latest Unaudited Financial Information

 (3) Previous Official Statement (if any)

 (4) Evidence of CEQA Compliance or Exemption

 (5) Draft of CHFFA Resolution

 (6) Master Indenture or other document containing Borrower or Obligated Group existing covenants

 (7) Latest Rating Agency Reports of Borrower or Obligated Group

(F) Bond Documents

 (1) Substantially Final Drafts Due No Later than 10th of the month in which approval is sought; further refinements of the documents may continue to be submitted to CHFFA staff

 (2) Standard Provisions of CHFFA Loan Agreements and Indentures to be Used (link)

  (a) Recitals

  (b) Representations

  (c) Reporting Requirements

  (d) Indemnification

  (e) California Choice of Law

  (f) Venue in Sacramento County

  (g) CHFFA Named as "Additional Insured"

  (h) Signature Block format

 (3) Community Service Assurance Form (link)

(a) Physician List

(b) Certification

(c) Annual Notices

(4) Tax Agreement Provisions, including rebate reporting (link)

(5) CHFFA Closing Certificate Forms (link)

(G) Underwriting Documents

(1) Substantially final drafts due no later than 10th of the month in which approval is sought; further refinements of the documents may continue to be submitted to CHFFA staff

(2) Standard provisions of CHFFA Bond Purchase Agreement and Official Statement (link)

(a) CHFFA disclosure/disclaimers

(b) Required Legal Opinions

(i) Issuer Counsel

(ii) Bond Counsel (validity opinion and supplemental opinion including SEC Act § 10b(5) opinion)

(iii) Underwriters' Counsel

(iv) Borrower Counsel (must cover SEC § 10b(5) opinion on full OS with very limited exclusions)

(3) Authority 15c-2(12) Certificates (link to model and process and timing for obtaining from CHFFA)

VII. INVESTMENT GRADE RATING REQUIRED

(A) Borrower must obtain an Investment Grade Rating from at least 1 nationally recognized rating agency on bonds to be issued; BBB-/BBB-/Baa3 or better from S&P/Fitch/Moody's

(B) For Variable Rate Bonds that may be Converted to Fixed Rate Bonds without further CHFFA action, Indenture provisions shall require confirmation prior to the Conversion that an Investment Grade Rating will apply to the bonds following Conversion

(C) If proposed bonds have more than 1 rating, the highest rating shall be used to determine compliance

VIII. CHFFA STAFF EVALUATION PROCESS

(A) Staff Diligence Pursuant to § 15437(b) (link)

(B) Work Compiled in Staff Report

(1) Sample Staff Report Form (link)

(2) Draft Report will be provided to Borrower, UW, BC, CHFFA's Financial Analyst and AG for review and comment

(3) Final Report Sent to Authority Members **7** Days Prior to Meeting

(4) Deference to Cal Mortgage Loan Committee credit review process

(C) Staff Makes Recommendation but Authority retains discretion

IX. CONSIDERATION OF COVENANTS AND SECURITY FOR BONDHOLDERS

(A) Borrower and CHFFA Analyst to compile list of key provisions; CHFFA does NOT require particular covenants

(B) Clarify which entities' finances secure repayment of CHFFA loan, e.g. single Borrower corporation, Obligated Group, Guarantors

(C) Sample Covenants/Security (#1 is required; ## 2-4 are strongly preferred; remaining ones are examples of what is often seen in various financings depending on credit strength and market conditions)

(1) Unconditional Promise to Pay

(2) Gross Revenue or Gross Receivables Pledge

(3) Negative Pledge Against Prior Liens

(4) Limited Permitted Encumbrances

(5) Debt Service Reserve Fund

(a) Would one be funded with bond proceeds or equity

(b) If it is a springing funding requirement, what is the trigger

(c) How is the reserve requirement sized

(d) Is a surety or letter of credit permitted in lieu of a cash deposit

(e) Are there circumstances where all moneys in the reserve may be released

(6) Debt Service Coverage Requirement

(a) Maximum Annual Debt Service or Annual Debt Service to be covered; what is the required ratio; how low can it be before default?

(b) Is a Consultant review required if the ratio falls below a threshold?

(c) Steps and Timing Before Event of Default

(7) Additional Debt Limitation

(8) Disposition of Cash and Property Limitations

(9) Cash or Liquidity Requirements

(10) Debt to Capitalization Requirement

(11) Security Interest in Designated Property

(12) Mortgage or Deed of Trust

(13) Other

X. CONTINUING DISCLOSURE

(A) Comply with SEC Rule 15c2-12

(B) Authority Standard Provisions (link)

Exhibit B

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
INVESTMENT GRADE PUBLIC OFFERINGS

Revenue Bond Application Review Process

I. INVESTMENT GRADE RATING REQUIRED

(A) Borrower must obtain an Investment Grade Rating from at least 1 nationally recognized rating agency on bonds to be issued; BBB-/BBB-/Baa3 or better from S&P/Fitch/Moody's

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(C) If proposed bonds have more than 1 rating, the highest rating shall be used to determine compliance

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(1) Sample Staff Report Form (link)

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(C) Staff Makes Recommendation but Authority retains discretion

III. CONSIDERATION OF COVENANTS AND SECURITY FOR BONDHOLDERS

(A) Borrower and CHFFA Analyst to compile list of key provisions; CHFFA does <u>NOT</u> require particular covenants

(B) Clarify which entities' finances secure repayment of CHFFA loan, e.g. single Borrower corporation, Obligated Group, Guarantors

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(9) Cash or Liquidity Requirements

(10) Debt to Capitalization Requirement

(11) Security Interest in Designated Property

(12) Mortgage or Deed of Trust

(13) Other

Exhibit C

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (CHFFA)
BOND FINANCING PROGRAM
EXECUTIVE SUMMARY

Applicant: Childrens Hospital Los Angeles ("CHLA")
4650 Sunset Boulevard
Los Angeles, CA 90027
Los Angeles County

Amount Requested: $265,000,000
Date Requested: February 25, 2010
Requested Loan Term: Up to 40 years[1]
Resolution Number: 352

Projects Sites: 4546, 4551, 4584, 4601, 4650 and 4661 Sunset Boulevard; 4616 DeLongpre Avenue and 4600 Maubert, Los Angeles, California
Facility Types: Acute care Hospital/Children's Hospital
Prior Borrower: Yes (date of last issue 1991)

Background: Incorporated in 1901, CHLA is a California nonprofit public benefit corporation operating a 286-bed acute care hospital, various outpatient clinics and related facilities for the care and treatment of sick and injured children.

Use of Proceeds: CHLA is in the process of finalizing the plan of finance, which is subject to market conditions. Bond proceeds may be used to refund, on a current basis, all or a portion of outstanding previously issued California Statewide Communities Development Authority (CSCDA) Certificates of Participation Series 1999, Insured Revenue Bonds 2004 Series A and B and Variable Rate Revenue Bonds 2008 Series A, B and C. Additionally, bond proceeds may be used to finance portions of the construction, improvement and equipping of CHLA's new inpatient tower.

Type of Issue: Negotiated public offering with fixed rate bonds
Credit Enhancement: Possible use of bond insurance (dependent upon market conditions)
Additional Security: Real estate mortgage on property (pending CHLA Board approval) and a fully funded debt service reserve fund
Expected Credit Rating: BBB+/Baa2 S&P/ Moody's
Senior Underwriters: Bank of America Merrill Lynch
Citigroup
Bond Counsel: Orrick, Herrington & Sutcliffe LLP
Financing Team: See Exhibit 1 (page 15)

Financial Overview: CHLA's income statement appears to show operating improvement over the review period. CHLA's balance sheet appears substantially leveraged. CHLA exhibits adequate liquidity and marginal debt service coverage.

Net Patient Service Revenue (FYE June 30, 2009):

Payor Source	Percent
Medi-Cal	54.9%
Managed Care	28.8%
DSH	12.0%
Other	4.0%
Medicare	0.3%
Total	100.0%

Estimated Sources of Funds:		**Estimated Uses of Funds:**	
Par amount of CHFFA bonds	$265,000,000	Refunding of CSCDA bonds	$180,000,000
		Patient Tower Project	40,000,000
		Debt service reserve fund	25,000,000
		Insurance premium	10,000,000
		Original issue discount	5,000,000
		Financing costs	5,000,000
Total Sources	$265,000,000	Total Uses	$265,000,000

Legal Review: No information was disclosed to question the financial viability or legal integrity of the applicant.

Staff Recommendation: Staff recommends the Authority approve Resolution Number 352 in an amount not to exceed $265,000,000 for Childrens Hospital Los Angeles subject to a bond rating of at least a "BBB" rating by a nationally recognized rating agency. Macias Gini & O'Connell, LLP., the Authority's financial analyst, has reviewed all relevant financial documentation submitted by CHLA and has advised of its concurrence with the Authority's staff recommendations.

[1] The Authority's calculations are based on a 30 year schedule. If the final financing schedule includes 40 year bonds, debt service coverage ratios will likely improve.

(KM)

STAFF SUMMARY AND RECOMMENDATION
Childrens Hospital Los Angeles
February 25, 2010
Resolution Number: 352

I. GUIDELINE EXCEPTIONS:

This transaction presents the Authority with a unique and meaningful opportunity to assist a vital institution in Los Angeles County. CHLA serves the most vulnerable children in seven counties surrounding Los Angeles, across California, and around the world. Unfortunately, an extremely high Medi-cal census, a lack of affordable insurers, and the volatile financial market (over the last 24 months) have not made CHLA's access to capital an easy route. Though the Authority has been able to assist CHLA by disbursing more than $100 million in grants funds from the Children's Hospital Programs of 2004 and 2008 (Propositions 61 and 3), CHLA would greatly benefit from refunding out of auction rate securities and reducing the renewal and cost risk associated with obtaining letters of credit on variable rate bonds. Recognizing the essential services CHLA provides to its communities and beyond and the harsh financial impact to most health care facilities as a result of California and the nation's financial crises, staff requests multiple policy exceptions to afford CHLA the flexibility needed in this transaction.

Summarized more specifically below, here are the exceptions requested by CHLA and recommended by Authority staff:

- Allow CHLA to comply with its master indenture requirements of maintaining a debt service coverage ratio of 1.10x, rather than the debt service coverage ratio of 1.25x suggested by Authority guidelines;
- Allow CHLA to comply with its master indenture requirement of calculating debt service coverage using an "annual debt service" calculation rather than the "maximum annual debt service" suggested by Authority guidelines;
- Allow CHLA to publicly market the bonds rather than the private placement suggested by the Authority guidelines for BBB rated borrowers;
- Allow CHLA to market the bonds to all investors, rather than exclusively to "Qualified Institutional Buyers" (QIB) as suggested by Authority guidelines for BBB rated borrowers;
- Allow CHLA to market the bonds in minimum of $5,000 denominations, rather than the minimum denominations of $100,000 for BBB+ rated borrowers and $250,000 denominations for BBB rated borrowers.

The Authority adopted bond issuance guidelines in September 2000 which included language retaining discretion for the Authority to adjust the guidelines on a case by case basis. The Authority has since acknowledged on a number of occasions that all financings must be reviewed individually and exceptions to Authority guidelines may be considered if the applicant demonstrates that such exceptions are a necessary part of a cost-effective and prudent borrowing strategy. Staff submits that CHLA has demonstrated each of the above exceptions is an integral part of their cost-effective and prudent borrowing strategy.

Debt Service Coverage Ratio

Staff requests flexibility concerning the minimum debt service coverage ratio of 1.25x suggested under the bond covenant section of the guidelines. CHLA's Master Indenture dated December 1, 1993, which governs all of its public debt issued since that date, imposes a minimum 1.10x debt service coverage ratio. Staff recommends permitting a minimum debt service coverage ratio of 1.10x to allow CHLA to continue to operate in compliance with its existing Master Indenture covenant[2]. The Authority has granted such exceptions to other borrowers with similar Master Indenture covenants on several previous occasions and most notably within the last 24 months.

The Authority's guidelines suggest borrowers maintain a 1.25x "maximum annual debt service" whereas CHLA's Master Indenture specifies the appropriate debt service calculation as "annual debt service." The Authority's financial advisor notes the latter form of calculation actually provides a more realistic assessment of a borrower's ability to currently service debt, whereas the former calculation measures the borrower's ability to service debt at such time as the maximum debt service may be required under the debt service schedule – which in some cases may be several years after the closing date. The guidelines contain a more conservative approach to measuring debt repayment capacity, whereas the calculation specified by CHLA's Master Indenture is a more current measurement of CHLA's ability to repay its near-term obligations. Staff recommends granting this exception to the guidelines to permit CHLA to comply with its master indenture which will not in any way minimize the ability of investors or the Authority to accurately measure CHLA's ability to service its debt.

Private Placement, QIBs, Minimum Denominations

As noted on the cover sheet to this staff report, CHLA currently has two ratings, a BBB+ on negative outlook from S&P and a Baa2 from Moody's. CHLA does not anticipate being downgraded, yet it is balancing the need to fund some remaining capital needs either with cash or incremental new money borrowing and will not have received ratings from either rating agency until after the occurrence of the Authority's board meeting. CHLA nevertheless requests the Authority adopt a resolution permitting their bond issuance with a minimum rating requirement of BBB to give CHLA the flexibility it needs for the most cost effective financing prior to the receipt of actual ratings for the bonds. Both existing ratings trigger different portions of the Authority's guidelines, and consequently, CHLA requests exceptions to those portions of the guidelines which suggest private placement, marketing to "Qualified Institutional Buyers" and minimum denominations of $100,000 (at the BBB+ level) and $250,000 (at the BBB level). Without these exceptions, CHLA's financing team states that CHLA's cost of capital would be significantly higher and that many supportive potential investors would not have access to CHLA's bonds. CHLA would then be faced with the continued

[2] Based on the Authority's calculation of CHLA's debt service coverage ratio for the fiscal year ended June 30, 2009 (which calculation is based on operating results and is not calculated in accordance with CHLA's Master Indenture), CHLA's current debt service coverage ratio is an acceptable 1.79x. The Authority has calculated CHLA's proforma debt service coverage ratio for the fiscal year ended June 30, 2009 (using operating results from June 30, 2009 compared to debt service on the 2010 Bonds, assuming that the 2010 Bonds refund a portion of CHLA's 1999 COPs, as well as all of the 2004 and 2008 Bonds to be 1.08x (the decrease is associated with the change from lower auction and variable rates to higher fixed rates and consequently, higher annual debt service payments). The foregoing calculation assumes a par value of $180 million and a fixed rate of 6.0%. Please note, the Authority's calculation of CHLA's proforma debt service coverage for the fiscal year ended June 30, 2009 (including investment results) is an adequate 1.28x.

uncertainty of its auction and variable rate securities. CHLA would also be without the funding needed to equip the tower which is near completion.

CHLA desires to publicly market the bonds in denominations of $5,000 which would allow CHLA to market bonds to a variety of investors with the goal of reducing interest costs by increasing demand. To help guide staff's recommendation on these issues, staff consulted Public Financial Management (PFM), the Authority's financial consultant for bond transactions. According to PFM, research shows that $5,000 denominations have become an industry standard at all rating categories, including bonds rated less than A. PFM notes that the Official Statement provides the disclosure needed for investors to make informed decisions. With proper and intense focus on disclosure, $5,000 denominations permit all investors to support CHLA at smaller dollar amounts. According to PFM, financings rated BBB or higher have historically had minimal default risk and by definition, are considered investment grade bonds. PFM notes that many fiduciaries, trustees and mutual funds managers are required to invest only in the investment grade category, which provides security to investors that this category is of minimal risk. Staff recommends permitting CHLA to publicly market its bonds in $5,000 denominations.

II. PURPOSE OF FINANCING: This refunding will eliminate or reduce exposure of the volatility of auction rate securities and risks associated with maintaining a letter of credit for the variable rate bonds.

Refunding of various Series of CSCDA bonds $180,000,000

CSCDA Series 1999 Certificates of Participation $7,000,000
CHLA seeks to refund on a current basis a portion of the Certificates of Participation that were used to finance capital expenditures and pay costs of issuance.

CSCDA 2004 Series A & B Insured Revenue Bonds 56,000,000
CHLA seeks to refund on a current basis all or a portion of its outstanding CSCDA 2004 Series A and B Bonds. The 2004 Bonds rate is established for seven-day auction periods. Interest rates on the 2004 Bonds have ranged from 2.25% to 15% per annum. The Bonds were issued to prepay a portion of the 1993 Certificates, finance capital expenditures, and pay costs of issuance.

CSCDA 2008 Series A, B & C Variable Rate Revenue Bonds...117,000,000
Additionally, CHLA seeks to refund on a current basis all or a portion of its outstanding CSCDA Series 2008 A, B and C Bonds. Series A and B bear interest at a variable weekly rate, and Series C bears interest at a daily rate. Daily interest rates on the 2008 Bonds have ranged from 0.08% to 9.15% per annum, and weekly interest rates have ranged from 0.12% to 7.05% per annum. The Bonds are secured with a letter of credit provided by Bank of America, which is set to expire in July 2011. The Bonds were issued to refund all outstanding Series 2002 Bonds, refund a portion of the previously issued Series 2004 B Bonds, and pay the costs of issuance.

Patient Tower Project*... *40,000,000

A portion of the bonds proceeds may be used to fund the completion and equipping of 460,000 square-foot, 317-bed replacement hospital. The tower project was funded by Children's Hospital Program grant funds, bond funds, a capital campaign, FEMA grants and internal funds, with a total cost of approximately $636 million. The construction is projected to be completed in or before October 2010 with occupancy expected in July 2011.

CHLA is currently in discussions with the County of Los Angeles for the same purpose. Terms for this possible bridge loan have not been finalized. If the bridge loan is approved, CHLA will not issue new money bonds for the patient tower project. CHFFA has agreed to present the completion funding to the Board as a time saving measure as well as to eliminate the possibility of additional financing costs in the future.

Debt Service Reserve Fund*.. *25,000,000

Insurance Premium (if cost-effective)*.. *10,000,000

Original Issue Discount*.. *5,000,000

Financing Costs*.. *5,000,000

Cost of Issuance $2,500,000
Underwriters Discount 2,500,000

Total Uses of Funds.. $265,000,000

III. FINANCIAL STATEMENTS AND ANALYSIS:

Childrens Hospital Los Angeles

Statement of Activities

(in thousands)

	For the Year Ended June 30, 2009	2008	2007
Revenues:			
Net patient service revenue	$ 399,654	$ 372,489	$ 344,663
Grants, contract, and other	107,917	98,579	83,923
Unrestricted gifts and bequests	28,291	27,072	25,585
Investment income used for operations	16,552	13,027	13,191
Net assets released from restrictions	33,133	32,052	30,292
Total revenue	585,547	543,219	497,654
Expenses:			
Salaries and employee benefits	309,027	285,511	258,084
Professional fees and purchased services	114,910	104,477	106,619
Supplies	73,457	73,758	65,168
Provisions for doubtful accounts	7,117	9,926	11,506
Utilities	9,365	7,567	7,678
Rent	6,689	6,103	6,307
Insurance	3,638	3,464	3,031
Travel, dues, and subscriptions	4,366	4,513	3,531
Equipment	3,669	4,425	1,847
Other	13,347	13,407	14,634
Total program expenses before depreciation, amortization, and interest	545,585	513,151	478,405
Excess of revenues over expenses	39,962	30,068	19,249
Depreciation, amortization and interest:			
Depreciation and amortization	40,655	43,755	40,778
Interest	15,322	16,507	13,119
Total depreciation, amortization and interest	55,977	60,262	53,897
Deficiency of revenue over expenses	(16,015)	(30,194)	(34,648)
Other gains and losses:			
Net realized and unrealized (loss) gain on investments held in trading	(65,647)	28,014	-
Realized gains on investments	-	-	25,013
Other investments loss-net	(7,223)	(3,062)	(4,370)
Interest rate swap market loss	(4,096)	(3,832)	(94)
Other losses-net	(4,410)	(107)	(4)
Total other gains and (losses)	(81,376)	21,013	20,545
Deficiency of revenues over expenses and other gains and losses	(97,391)	(9,181)	(14,103)

(continued)

Childrens Hospital Los Angeles

Statement of Activities

(in thousands)

(continued)

	For the Year Ended June 30, 2009	2008	2007
Deficiency of revenues over expenses	(97,391)	(9,181)	(14,103)
Changes in unrealized gain on unrestricted investments available-for-sale	-	(56,166)	29,927
Proposition 61- construction revenue	-	33,043	20,556
FEMA grant revenue	-	14,016	19,557
Net assets released from restriction used for purchase of property and equipment	72,483	2,443	5,307
transfers and other	(4,096)	(2,381)	2,055
(Decrease) increase in unrestricted net assets	(29,004)	(18,226)	63,299
Temporarily restricted net assets			
Restricted grants, gifts, and bequests	33,750	44,431	43,943
Net investment income on restricted gifts and endowments	3,308	5,556	3,898
Net realized (loss) gain on sale of restricted investments	(8,479)	11,161	9,923
Net unrealized loss on unrestricted investments	(24,039)	(17,728)	12,338
Net assets released from restrictions used for operations, research, and education	(33,133)	(32,052)	(30,292)
Net assets released from restriction used for purchase of property and equipment	(72,483)	(2,443)	(5,307)
Change in value of split-interest agreements	(93)	(34)	393
Reclassification of net assets	(107)	277	(32)
(Decrease) increase in temporarily restricted net assets	(101,276)	9,168	34,864
Permanently restricted net assets			
Contributions	3,986	1,621	3,679
Change in value of split-interest agreements	43	113	
Reclassification of net assets	3	(1,301)	(124)
Increase in permanently restricted net assets	4,032	433	3,555
Change in net assets	**(126,248)**	**(8,625)**	**101,718**
Net assets, beginning of year	884,251	892,876	791,158
Net assets, end of year	$ 758,003	$ 884,251	$ 892,876

Childrens Hospital Los Angeles
Financial Position
(in thousands)

	As of June 30, 2009	2008	2007
ASSETS			
Current assets:			
Cash and cash equivalents	$ 11,430	$ 19,458	$ 8,203
Patient accounts receivable, net	74,629	72,225	82,630
Current portion of pledges receivable	26,325	21,530	23,430
Securities lent under securities lending program	18,332	41,549	45,348
Collateral received under securities lending program	18,805	42,365	46,417
Grants receivable	5,495	7,714	10,362
Receivables under government programs	4,841	-	3,216
Current portion of trustee-held funds	8,276	16,936	3,567
Restricted cash- Proposition 61 Funds	-	-	13,755
Other current assets	22,198	21,442	21,083
Total current assets	190,331	243,219	258,011
Assets limited as to use:			
Investments	408,232	560,818	509,367
Unitrust investments	3,826	4,468	5,184
Other restricted board-designated investments	-	-	67,096
Trustee-held funds-net of amount required to meet current obligations	13,205	88,533	193,774
Total assets limited to use-Net of current portion	425,263	653,819	775,421
Pledges receivable-net of current portion	38,532	52,723	50,189
Interest rate swap	-	-	1,716
Other assets	23,602	22,227	23,600
Property, plant and equipment	720,693	580,236	447,492
Total assets	$ 1,398,421	$ 1,552,224	$ 1,556,429

(continued)

Childrens Hospital Los Angeles
Financial Position
(in thousands)
(continued)

	As of June 30, 2009	2008	2007
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable and accrued expenses	$ 42,218	$ 60,790	$ 46,366
Salaries, wages, and related liabilities	32,606	31,490	30,146
Payable under securities lending program	18,805	42,365	46,417
Payable under government and state programs	-	1,371	-
Proposition 61- advance	-	-	13,755
Current portion of long-term debt	10,630	7,035	4,390
Total current liabilities	104,259	143,051	141,074
Long-term debt - net of current portion	487,525	494,853	502,031
Liability under antitrust agreement	2,517	2,651	2,849
Interest rate swaps	6,212	2,116	-
Other noncurrent liabilities	39,905	25,302	17,599
Total liabilities	640,418	667,973	663,553
Net assets:			
Unrestricted:			
Operating	179,526	115,294	112,365
Board-designated	316,369	409,605	430,760
Total unrestricted net assets	495,895	524,899	543,125
Temporarily restricted	121,125	222,401	213,233
Permanently restricted	140,983	136,951	136,518
Total net assets	758,003	884,251	892,876
TOTAL LIABILITIES AND NET ASSETS:	$ 1,398,421	$ 1,552,224	$ 1,556,429

Financial Ratios:	**Proforma (a) FYE June 30, 2009**	2009	2008	2007
Operating debt service coverage (x)	1.08 (b)	1.79	1.44	1.11
Debt/Unrestricted Net Assets (x)	1.15	1.02	0.96	1.00
Operating Margin (%)		(2.74)	(5.56)	(6.96)
Current Ratio (x)		1.83	1.70	1.80

(a) Recalculates FY 2009 audited results to include the impact of this proposed financing.

(b) The profroma debt service coverage decreased to 1.08x as a result of the proposed financing from variable rate to fixed rate bonds. Calculation is "Annual Debt Service" per CHLA's Master Indenture, assumes new bonds will carry a fixed rate of 6% and is net of estimated investment income.

Financial Discussion:

CHLA's income statement appears to show operating improvement over the review period.

Particular Facts to Note:

- CHLA's income statement reflects improving operations, as exhibited by the deficiency of revenues over expenses of only $16 million for FY 2009 versus $34 million in FY 2007.

- CHLA has seen a steady increase in revenue from $498 million in fiscal year 2007 to $586 million in fiscal year 2009. In fiscal year 2009, 68% total revenue consisted of net patient service revenue.

- Program expenses experienced an increase as a result of a response to the increase in revenue in fiscal years 2007 to 2009 (an increase of nearly 6%). The increase in program expenses was most notably in salaries and employees benefits, an increase of 9%. CHLA's revenue increased while expenses were kept in line.

- CHLA continues to implement both operating and strategic initiatives to improve performance. Additionally, CHLA has implemented a freeze on merit increases for a year, as well as salary reductions for senior management. This is reflected in a slight decrease in salaries and employees benefits.

- CHLA has developed and continues to refine short-term and long-term strategies to address challenges that will better position the hospital in the long-term. Short-term strategies include: cost containment, improving revenue cycle performance and improved payer contracting. Long-term strategies include: increased volume, improved operational efficiency and improved throughput from the new patient tower.

- CHLA debt service coverage is adequate at 1.79x for fiscal year 2009, along with a marginally adequate proforma debt service coverage of 1.08x. Please note, CHLA's management's calculations of debt service exhibit a higher DSC of 1.28x, which includes estimated investment income (an entry the Authority has not typically included within its calculations).

While CHLA's balance sheet appears significantly leveraged, it also appears to exhibit adequate liquidity supported by its current ratio.

Particular Facts to Note:

- CHLA is significantly leveraged with a debt-to-unrestricted net assets ratio of 1.02x. CHLA maintains adequate liquidity, with a current ratio of 1.83x. A relatively small portion of liquid assets are in cash and cash equivalents. CHLA management expects to improve cash flow by utilizing cost containment measures through a combination of short-term and long-term strategies.

- Patient accounts receivables decreased from $83 million in fiscal year 2007 to $74 million in fiscal year 2009, despite higher volumes and utilization. In our review period, CHLA investment in capital expenditures increased property, plant and equipment by approximately $273 million funded by primarily liquidating a sizable portion of its investment portfolio.

- The balance sheet reports a significant decrease in current liabilities of 26% over our review period as a result of gradual withdraw from a securities lending program.

- CHLA is in the final phase of a large capital project that includes a new patient tower. It should be noted that Proposition 3 funds started flowing in December 2009, which should reimburse cash outlays for construction activity that occurred in fiscal year 2009 and earlier.

Interim Financials for Six Months Ended December 31, 2009

Particular Facts to Note:

- The current interim period indicates an increase in total revenues compared to interim numbers for the six months ended December 31, 2008. CHLA indicates the increase for the interim period is the result of strong growth in patient service revenue (7%) as well as increases in unrestricted gifts and bequests (22%). Program expenses increased 5% compared to interim numbers for December 31, 2008. CHLA's income statement shows improvement for the six months ended December 31, 2009.

- Although the interim period shows a positive trend in cash flow, CHLA intends to improve its cash flow further by reducing expenses through cost containment and enhanced revenue cycle performance. CHLA has improved its cash position to approximately $22 million as of December 31, 2009. CHLA total assets increased, including property, plant and equipment.

IV. BACKGROUND:

Childrens Hospital Los Angeles (the "Corporation"), incorporated in 1901, is a California nonprofit public benefit corporation. The Corporation is classified as a 501(c)(3) organization by the Internal Revenue Service. The Corporation operates a 286-bed acute care hospital, approximately 31 hospital-based outpatient clinic programs and related facilities for the care and treatment of sick and injured children ranging in age from newborn through 21 years, with nearly 50% of the inpatient admissions being children under four years of age. The Corporation's facilities serve as a referral resource for critically ill and seriously injured children in the Southwestern United States. Nearly two-thirds of the children admitted to the Corporation's inpatient specialty care units are transferred from other hospitals. The Corporation maintains 46 intensive care beds, composed of 20 pediatric intensive care beds, 15 cardiac intensive care beds and 11 intensive care bone marrow transplantation beds, in addition to 40 neonatal intensive care beds, that attract pediatric patients from throughout the United States. In addition, the Corporation's 24-hour emergency room department has been designated by the County of Los Angeles as one of two Level I pediatric trauma centers and the only one dedicated solely to children.

The Corporation is the sole Member of the Obligated Group.

Licensure, Certification and Accreditation

The Corporation receives accreditation from The Joint Commission. The Corporation was last surveyed in June 2009 by The Joint Commission and received accreditation for the customary 39 month period. The Corporation is licensed by the State of California Department of Public Health, Licensing and Certification Division, and is a member of, among other organizations, the California Hospital Association, the California Children's Hospital Association, and the Healthcare Association of Southern California.

Governance

The Bylaws of the Corporation state there are two classes of membership on the Board of Trustees: active and honorary. Honorary members are not counted in determining the maximum number of active members and do not have voting privileges. The Bylaws also state there will be no fewer than 60 nor more than 90 active members of the Board of Trustees of the Corporation.

Active members consist of those elected and those who are appointed by virtue of holding designated positions. Elected members hold office for three-year terms and, unless an exception is granted, may hold up to five terms. Members are divided into three nearly equal staggered classes with one class being elected each year. Appointed members are the President and Chief Executive Officer, the Vice President of Surgery, the Vice President of Pediatrics, the Chairman of the Medical Staff, the Chief Nursing Officer, the Chair of the board of directors of Childrens Hospital Los Angeles Medical Group (formerly University Childrens Medical Group), and the Dean of the Keck School of Medicine of the University of Southern California.

V. UTILIZATION STATISTICS:

The following table shows utilization statistics of CHLA for the fiscal years ended June 30, 2009, 2008 and 2007:

	Fiscal Year Ended June 30,		
	2009	2008	2007
Licensed Beds	286	286	286
Admissions	10,920	10,784	11,115
Patient Days	89,297	90,429	88,367
Average Daily Census	245	247	242
Average Length of Stay (days)	8	8	8
Inpatient Surgery Procedures	6,405	6,339	6,115
Outpatient Surgery Procedures	9,056	7,782	7,176
Emergency Room Visits	66,129	62,058	64,788
Outpatient Visits	221,785	220,714	200,706

VI. OUTSTANDING DEBT:

(in thousands)

Bond Issue Name	Original Issue Amount	Amount Outstanding* As of June 30, 2009	Estimated Amount Outstanding after Proposed Financing
Existing Long-Term Debt:			
CSCDA, Series 2008 A, B, C	$150,000	$150,000	$0
CSCDA, Series 2007	170,000	170,646	170,646
CSCDA, Series 2004 A, B	100,925	56,950	0
CSCDA, Series 1999 Certificates of Participation	109,175	103,549	96,549
CSCDA, Series 1993 Certificates of Participation	103,780	17,010	17,010
CSCDA, Series 2009A**	30,000		30,000
Proposed:			
CHFFA Bonds 2010		N/A	**265,000**
TOTAL DEBT		**$498,155**	**$579,205**

*Includes current-portion of long-term debt.
**CSCDA, Series 2009A closed in December 2009 subsequent to the FY 2009 audit.

VII. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- **Section 15438.5(a) of the Act (Savings Pass Through)**: CHLA properly completed and submitted the "Pass-Through Savings Certification," in addition to a narrative explaining how it intends to pass through savings.
- **Section 15491.1 of the Act (Community Service Requirement)**: CHLA properly completed and submitted this certification and indicated that Medi-Cal and Medicare patients are accepted.
- **Compliance with Seismic Regulations**: CHLA properly completed and submitted a description of its seismic requirements.
- **Compliance with Section 15455(b) of the Act (California Environmental Quality Act)**: CHLA properly submitted documentation to the Authority demonstrating the proposed project has either complied with Division 13 (commencing with Section 21000) of the Public Resources Code, or is otherwise not a project under that division.
- **Religious Due Diligence**.
- **Legal Review**.

EXHIBIT 1

Childrens Hospital Los Angeles Financing Team

Corporation Counsel:	Jones Day
Financial Advisor:	Shattuck Hammond Partners
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP
Underwriters:	Bank of America Merrill Lynch
	Citigroup
Underwriters' Counsel:	Sidley Austin LLP
Bond and Master Trustee:	The Bank of New York Trust Company, N.A.
Trustee's Counsel:	Davis Wright Tremaine

Exhibit D

[NEW PROPOSED BOND STAFF SUMMARY TEMPLATE]
CHFFA REVENUE BOND FINANCING PROGRAM
EXECUTIVE SUMMARY

Applicant:	Childrens Hospital Los Angeles ("CHLA") 4650 Sunset Boulevard Los Angeles, CA 90027 Los Angeles County	**Amount Requested:** **Requested Loan Term:** **Authority Meeting Date:** **Resolution Number:**	$265,000,000 Up to 40 years[1] February 25, 2010 352

Project Site: 4546, 4551, 4584, 4601, 4650 and 4661 Sunset Boulevard; 4616 DeLongpre Avenue and 4600 Maubert, Los Angeles, California
Facility Type: Acute care Hospital/Children's Hospital
Prior Borrower: Yes (date of last CHFFA issue 1991)

~~**Guideline Exception:** Staff recommends waiving the minimum debt service coverage requirement ratio of 1.25x thus, allowing CHLA to continue to operate in compliance with its existing Master Indenture covenant. Additionally, staff requests flexibility for CHLA which would essentially allow CHLA to market bonds to all investors, offer bonds publically and offer bonds in $5,000 denominations (Please see page two for more detail).~~

Background: Incorporated in 1901, CHLA is a California nonprofit public benefit corporation operating a 286-bed acute care hospital, various outpatient clinics and related facilities for the care and treatment of sick and injured children. (see Exhibit 2 for more detail).

Use of Proceeds: CHLA is in the process of finalizing the plan of finance, which is subject to market conditions. Bond proceeds may be used to refund, on a current basis, all or a portion of outstanding previously issued California Statewide Communities Development Authority (CSCDA) Certificates of Participation Series 1999, Insured Revenue Bonds 2004 Series A and B and Variable Rate Revenue Bonds 2008 Series A, B and C. Additionally, bond proceeds may be used to finance portions of the construction, improvement and equipping of CHLA's new inpatient tower. (Please see page two for more detail).

Type of Issue:	Negotiated public offering with fixed and variable rate bonds Expected minimum denominations of $5,000 FRB/$100,000 for VRDB
Credit Enhancement:	Possible use of bond insurance for fixed rate bonds (depends on market) Letter of Credit provided by Bank of America, N.A for variable rate bonds
Additional Security:	Real estate mortgage on property (pending CHLA Board approval) and a springing fund debt service reserve fund for fixed rate bonds
Expected Credit Rating:	BBB+/Baa2 S&P/ Moody's Long-Term Underlying Ratings of CHLA A+/A-1 by S&P and Aa3/VMIG by Moody's based on the Bank of America letter of credit
Financing Team:	*Please see Exhibit 4 to identify Conflicts of Interest*

Financial Overview: CHLA's income statement appears to show operating improvement over the review period. CHLA's balance sheet appears substantially leveraged. CHLA exhibits adequate liquidity and marginal debt service coverage. (Please see page seven for more detail).

Estimated Sources of Funds:		**Estimated Uses of Funds:**	
Par amount of CHFFA bonds	$265,000,000	Refunding bonds	$178,000,000
		Patient Tower Project	40,000,000
		Debt service reserve fund	25,000,000
		Insurance and LOC	11,870,000
		Financing costs	5,130,000
		Original discount	5,000,000
Total Sources	$265,000,000	Total Uses	$265,000,000

Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through, Community Service Obligation, Seismic, and CEQA documentation. All documentation satisfies the Authority's requirements.

Staff Recommendation: Staff recommends the Authority approve Resolution Number 352 in an amount not to exceed $265,000,000 for Childrens Hospital Los Angeles subject to a bond rating of at least a "BBB" rating by a nationally recognized rating agency. Macias Gini & O'Connell, LLP., the Authority's financial analyst, concurs with the Authority's staff recommendations. [Public Financial Management, the Authority's pricing advisor, has reviewed the proposed covenants and security features and found them to be appropriate for Board approval.]

[1] The Authority's calculations are based on a 30 year schedule. If the final financing schedule includes 40 year bonds, debt service coverage ratios will likely improve.

I. PURPOSE OF FINANCING:

This transaction presents the Authority with a unique and meaningful opportunity to assist a vital institution in Los Angeles County. CHLA serves the most vulnerable children in seven counties surrounding Los Angeles, across California, and around the world. Unfortunately, an extremely high Medi-cal census, a lack of affordable insurers, and the volatile financial market (over the last 24 months) have not made CHLA's access to capital an easy route. Though the Authority has been able to assist CHLA by disbursing more than $100 million in grants funds from the Children's Hospital Programs of 2004 and 2008 (Propositions 61 and 3), CHLA would greatly benefit from refunding out of auction rate securities and reducing the renewal and cost risk associated with obtaining letters of credit on variable rate bonds. Recognizing the essential services CHLA provides to its communities and beyond and the harsh financial impact to most health care facilities as a result of California and the nation's financial crises, staff requests multiple policy exceptions to afford CHLA the flexibility needed in this transaction.

This refunding will eliminate or reduce exposure of the volatility of auction rate securities and risks associated with maintaining a letter of credit for the variable rate bonds. Additionally, CHLA intends to restructure its variable rate debt exposure with the Series 2010B Bonds to extend the average life of such indebtedness and reduce the debt service requirements associated with this debt.

Refunding of various Series of CSCDA bonds **.................................... *$178,000,000***

CSCDA Series 1999 Certificates of Participation $7,000,000
CHLA seeks to refund on a current basis a portion of the Certificates of Participation that were used to finance capital expenditures and pay costs of issuance.

CSCDA 2004 Series A & B Insured Revenue Bonds 56,000,000
CHLA seeks to refund on a current basis all or a portion of its outstanding CSCDA 2004 Series A and B Bonds. The 2004 Bonds rate is established for seven-day auction periods. Interest rates on the 2004 Bonds have ranged from 2.25% to 15% per annum. The Bonds were issued to prepay a portion of the 1993 Certificates, finance capital expenditures, and pay costs of issuance.

CSCDA 2008 Series A, B & C Variable Rate Revenue Bonds...115,000,000
Additionally, CHLA seeks to refund on a current basis all or a portion of its outstanding CSCDA Series 2008 A, B and C Bonds. Series A and B bear interest at a variable weekly rate, and Series C bears interest at a daily rate. Daily interest rates on the 2008 Bonds have ranged from 0.08% to 9.15% per annum, and weekly interest rates have ranged from 0.12% to 7.05% per annum. The Bonds are secured with a letter of credit provided by Bank of America, which is set to expire in July 2011. The Bonds were

issued to refund all outstanding Series 2002 Bonds, refund a portion of the previously issued Series 2004 B Bonds, and pay the costs of issuance.

***Patient Tower Project*..**	***40,000,000***

A portion of the bonds proceeds may be used to fund the completion and equipping of 460,000 square-foot, 317-bed replacement hospital. The tower project was funded by Children's Hospital Program grant funds, bond funds, a capital campaign, FEMA grants and internal funds, with a total cost of approximately $636 million. The construction is projected to be completed in or before October 2010 with occupancy expected in July 2011.

CHLA is currently in discussions with the County of Los Angeles for the same purpose. Terms for this possible bridge loan have not been finalized. If the bridge loan is approved, CHLA will not issue new money bonds for the patient tower project. CHFFA has agreed to present the completion funding to the Board as a time saving measure as well as to eliminate the possibility of additional financing costs in the future.

***Debt Service Reserve Fund*..**	***25,000,000***
CHLA's Debt Service Reserve Fund was not financed with bond proceeds.[2]	
***Insurance Premium (if cost-effective)/Letter of Credit*......................**	***11,870,000***
***Financing Costs*...**	***5,130,000***
Cost of Issuance $2,570,000	
Underwriters Discount 2,560,000	
***Original Issue Discount*...**	***5,000,000***
Total Uses of Funds...	**$265,000,000**

[2] For clarification, the original application suggested a funded debt service reserve fund but market conditions allowed a springing fund instead.

~~I. GUIDELINE EXCEPTION:~~

~~This transaction presents the Authority with a unique and meaningful opportunity to assist a vital institution in Los Angeles County. CHLA serves the most vulnerable children in seven counties surrounding Los Angeles, across California, and around the world. Unfortunately, an extremely high Medi-cal census, a lack of affordable insurers, and the volatile financial market (over the last 24 months) have not made CHLA's access to capital an easy route. Though the Authority has been able to assist CHLA by disbursing more than $100 million in grants funds from the Children's Hospital Programs of 2004 and 2008 (Propositions 61 and 3), CHLA would greatly benefit from refunding out of auction rate securities and reducing the renewal and cost risk associated with obtaining letters of credit on variable rate bonds. Recognizing the essential services CHLA provides to its communities and beyond and the harsh financial impact to most health care facilities as a result of California and the nation's financial crises, staff requests multiple policy exceptions to afford CHLA the flexibility needed in this transaction.~~

~~Summarized more specifically below, here are the exceptions requested by CHLA and recommended by Authority staff:~~

- ~~Allow CHLA to comply with its master indenture requirements of maintaining a debt service coverage ratio of 1.10x, rather than the debt service coverage ratio of 1.25x suggested by Authority guidelines;~~
- ~~Allow CHLA to comply with its master indenture requirement of calculating debt service coverage using an "annual debt service" calculation rather than the "maximum annual debt service" suggested by Authority guidelines;~~
- ~~Allow CHLA to publicly market the bonds rather than the private placement suggested by the Authority guidelines for BBB rated borrowers;~~
- ~~Allow CHLA to market the bonds to all investors, rather than exclusively to "Qualified Institutional Buyers" (QIB) as suggested by Authority guidelines for BBB rated borrowers;~~
- ~~Allow CHLA to market the fixed rate bonds in minimum of $5,000 denominations, rather than the minimum denominations of $100,000 for BBB+ rated borrowers and $250,000 denominations for BBB rated borrowers. The variable rate demand bonds will be sold in denominations of $100,000.~~

~~The Authority adopted bond issuance guidelines in September 2000 which included language retaining discretion for the Authority to adjust the guidelines on a case by case basis. The Authority has since acknowledged on a number of occasions that all financings must be reviewed individually and exceptions to Authority guidelines may be considered if the applicant demonstrates that such exceptions are a necessary part of a cost-effective and prudent borrowing strategy. Staff submits that CHLA has demonstrated each of the above exceptions is an integral part of their cost-effective and prudent borrowing strategy.~~

~~**Debt Service Coverage Ratio**~~

~~Staff requests flexibility concerning the minimum debt service coverage ratio of 1.25x suggested under the bond covenant section of the guidelines. CHLA's Master Indenture dated December 1, 1993, which governs all of its public debt issued since that date, imposes a minimum 1.10x debt service coverage ratio. Staff recommends permitting a minimum debt service coverage ratio of 1.10x to allow CHLA to continue to operate in compliance with its existing Master Indenture covenant[3]. The Authority has granted such exceptions to other borrowers with similar Master Indenture covenants on several previous occasions and most notably within the last 24 months.~~

~~The Authority's guidelines suggest borrowers maintain a 1.25x "maximum annual debt service" whereas CHLA's Master Indenture specifies the appropriate debt service calculation as "annual debt service." The Authority's financial advisor notes the latter form of calculation actually provides a more realistic assessment of a borrower's ability to currently service debt, whereas the former calculation measures the borrower's ability to service debt at such time as the maximum debt service may be required under the debt service schedule – which in some cases may be several years after the closing date. The guidelines contain a more conservative approach to measuring debt repayment capacity, whereas the calculation specified by CHLA's Master Indenture is a more current measurement of CHLA's ability to repay its near-term obligations. Staff recommends granting this exception to the guidelines to permit CHLA to comply with its master indenture which will not in any way minimize the ability of investors or the Authority to accurately measure CHLA's ability to service its debt.~~

~~**Private Placement, QIBs, Minimum Denominations**~~

~~As noted on the cover sheet to this staff report, CHLA currently has two ratings, a BBB+ on negative outlook from S&P and a Baa2 from Moody's. CHLA does not anticipate being downgraded, yet it is balancing the need to fund some remaining capital needs either with cash or incremental new money borrowing and will not have received ratings from either rating agency until after the occurrence of the Authority's board meeting. CHLA nevertheless requests the Authority adopt a resolution permitting their bond issuance with a minimum rating requirement of BBB to give CHLA the flexibility it needs for the most cost effective financing prior to the receipt of actual ratings for the bonds. Both existing ratings trigger different portions of the Authority's guidelines, and consequently, CHLA requests exceptions to those portions of the guidelines which~~

~~[3] Based on the Authority's calculation of CHLA's debt service coverage ratio for the fiscal year ended June 30, 2009 (which calculation is based on operating results and is not calculated in accordance with CHLA's Master Indenture), CHLA's current debt service coverage ratio is an acceptable 1.79x. The Authority has calculated CHLA's proforma debt service coverage ratio for the fiscal year ended June 30, 2009 (using operating results from June 30, 2009 compared to debt service on the 2010 Bonds, assuming that the 2010 Bonds refund a portion of CHLA's 1999 COPs, as well as all of the 2004 and 2008 Bonds to be 1.08x (the decrease is associated with the change from lower auction and variable rates to higher fixed rates and consequently, higher annual debt service payments). The foregoing calculation assumes a par value of $180 million and a fixed rate of 6.0%. Please note, the Authority's calculation of CHLA's proforma debt service coverage for the fiscal year ended June 30, 2009 (including investment results) is an adequate 1.28x.~~

~~suggest private placement, marketing to "Qualified Institutional Buyers" and minimum denominations of $100,000 (at the BBB+ level) and $250,000 (at the BBB level).~~

~~Without these exceptions, CHLA's financing team states that CHLA's cost of capital would be significantly higher and that many supportive potential investors would not have access to CHLA's bonds. CHLA would then be faced with the continued uncertainty of its auction and variable rate securities. CHLA would also be without the funding needed to equip the tower which is near completion.~~

~~CHLA desires to publicly market the bonds in denominations of $5,000 which would allow CHLA to market bonds to a variety of investors with the goal of reducing interest costs by increasing demand. To help guide staff's recommendation on these issues, staff consulted Public Financial Management (PFM), the Authority's financial consultant for bond transactions. According to PFM, research shows that $5,000 denominations have become an industry standard at all rating categories, including bonds rated less than A. PFM notes that the Official Statement provides the disclosure needed for investors to make informed decisions. With proper and intense focus on disclosure, $5,000 denominations permit all investors to support CHLA at smaller dollar amounts. According to PFM, financings rated BBB or higher have historically had minimal default risk and by definition, are considered investment grade bonds. PFM notes that many fiduciaries, trustees and mutual funds managers are required to invest only in the investment grade category, which provides security to investors that this category is of minimal risk. Staff recommends permitting CHLA to publicly market its bonds in $5,000 denominations.~~

~~**II. PURPOSE OF FINANCING:** This refunding will eliminate or reduce exposure of the volatility of auction rate securities and risks associated with maintaining a letter of credit for the variable rate bonds. Additionally, CHLA intends to restructure its variable rate debt exposure with the Series 2010B Bonds to extend the average life of such indebtedness and reduce the debt service requirements associated with this debt.~~

~~*Refunding of various Series of CSCDA bonds $178,000,000*~~

~~***CSCDA Series 1999 Certificates of Participation $7,000,000***~~

~~**CHLA seeks to refund on a current basis a portion of the Certificates of Participation that were used to finance capital expenditures and pay costs of issuance.**~~

~~***CSCDA 2004 Series A & B Insured Revenue Bonds 56,000,000***~~

~~**CHLA seeks to refund on a current basis all or a portion of its outstanding CSCDA 2004 Series A and B Bonds. The 2004 Bonds rate is established for seven-day auction periods. Interest rates on the 2004 Bonds have ranged from 2.25% to 15% per annum. The Bonds were issued to prepay a portion of the 1993 Certificates, finance capital expenditures, and pay costs of issuance.**~~

~~*CSCDA 2008 Series A, B & C Variable Rate Revenue Bonds*~~
~~*115,000,000*~~

~~**Additionally, CHLA seeks to refund on a current basis all or a portion of its outstanding CSCDA Series 2008 A, B and C Bonds. Series A and B bear interest at a variable weekly rate, and Series C bears interest at a daily rate. Daily interest rates on the 2008 Bonds have ranged from 0.08% to 9.15% per annum, and weekly interest rates have ranged from 0.12% to 7.05% per annum. The Bonds are secured with a letter of credit provided by Bank of America, which is set to expire in July 2011. The Bonds were issued to refund all outstanding Series 2002 Bonds, refund a portion of the previously issued Series 2004 B Bonds, and pay the costs of issuance.**~~

~~*Patient Tower Project*~~ ~~*40,000,000*~~

~~**A portion of the bonds proceeds may be used to fund the completion and equipping of 460,000 square foot, 317-bed replacement hospital. The tower project was funded by Children's Hospital Program grant funds, bond funds, a capital campaign, FEMA grants and internal funds, with a total cost of approximately $636 million. The construction is projected to be completed in or before October 2010 with occupancy expected in July 2011.**~~

~~**CHLA is currently in discussions with the County of Los Angeles for the same purpose. Terms for this possible bridge loan have not been finalized. If the bridge loan is approved, CHLA will not issue new money bonds for the patient tower project. CHFFA has agreed to present the completion funding to the Board as a time saving measure as well as to eliminate the possibility of additional financing costs in the future.**~~

~~*Debt Service Reserve Fund*~~ ~~*25,000,000*~~

~~*Insurance Premium (if cost effective)/Letter of Credit*~~
~~*11,870,000*~~

~~*Financing Costs*~~
~~*5,130,000*~~

~~Cost of Issuance~~
~~$2,570,000~~

~~Underwriters Discount~~
~~2,560,000~~

~~*Original Issue Discount*~~
~~*5,000,000*~~

~~Total Uses of Funds~~
~~$265,000,000~~

II. PROPOSED COVENANTS, SECURITY AND DISCLOSURES:

Staff report and recommendations include minimum requirements. Additional or more stringent covenants or disclosures may be added following consultation with Authority staff but without further notification to the Authority's Board. These covenants cannot be diluted or removed without subsequent review. If there have been modifications to the covenant proposal following the preparation of this staff report, staff will report it at the meeting.

- ✓ **Unconditional Promise to Pay.** *Borrower agrees to pay Trustee all amounts required for principal, interest or reserve deposits and other payments and expenses designated in the Loan Agreement. All Revenues[4] and any other amounts held in a designated fund or account under the Bond Indenture are pledged to secure the full payment of the bonds.*

- ✓ **Pledge of Gross Revenues.** *Borrower pledges to deposit all revenues, income, receipts and money received into a Gross Revenues Fund over which the Trustee has a control deposit account agreement.*

- ✓ **Negative Pledge Against Prior Liens.** *Borrower agrees not to create or assume any Lien upon Borrower's Property other than the Permitted Encumbrances.*

- ✓ **Limited Permitted Encumbrances.** *Borrower is subject to a restrictive set of allowable encumbrances it may incur pursuant to the Master Indenture.*

  - CHLA's largest basket is up to 15% of book or fair market value of the Borrower's Property or 7% of unrestricted net assets.

- ✓ **Debt Service Reserve.** *Account established under the Indenture to make principal and interest payments if the Borrower fails to deposit timely payments.*

  - Borrower's Reserve Account will not require an initial deposit from bond proceeds at time of issuance, however a deposit will be required if certain operating conditions arise: if the Ratio of Income Available for Debt Service to Annual Debt Service is less than 1.35:1.0, if the Cushion Ratio (liquid assets/MADS) is less than 1.75 and/or the if Unrestricted Days Cash on Hand is less than 140.

  - Funds in the Reserve Account may be released if: (1) the bond insurer permits it; or (2) if Borrower improves its operations to exceed the springing trigger ratios for two consecutive years.

  - No surety or letter of credit is permitted in lieu of cash in Reserve Account.

[4] Capitalized terms are defined in the Indenture.

- ✓ **Debt Service Coverage Requirement.** *A ratio measuring ability to make interest and principal payments as they become due by assessing the amount of revenue available to meet debt service payments. This ratio can be based either on annual debt service for the next 12-months or maximum annual debt over the life of the bonds.*

  - Borrower must maintain an Annual Debt Service Coverage Ratio of 1.10. A Consultant review is required if the ratio falls below 1.10. An Event of Default occurs if the ratio falls below 1.00 or if the Borrower fails to comply with the Consultant recommendations.

- ✓ **Additional Debt Limitation.** *Borrower agrees not to incur additional Indebtedness unless authorized by the Master Indenture.*

- ✓ **Disposition of Cash and Property Limitations.** *Borrower agrees not to sell, lease or dispose of any property, plant or equipment or liquid assets unless authorized by the Master Indenture.*

- ✓ **Security Interest in Designated Property/Deed of Trust.**

  - *Borrower agrees to grant a deed of trust and security agreement in its primary acute care facilities, including real estate and equipment, occupying approximately 13 acres. The deed may be released upon consent of the bond insurer.*

- ✓ **Comply with SEC Rule 15c2-12.** *The rule prohibits underwriters from underwriting municipal bond deals unless the issuer or borrower contractually agrees to disclose designated financial and operating information to the marketplace during the life of the bonds and to report designated "material events" such as missed debt service payments, any change in bond ratings, defeasance, redemptions, etc.*

Staff has reviewed the entirety of this financing package and finds it to be acceptable.

Not applicable for this transaction as separate and affirmative covenants but both are triggers to fund the reserve account:

- **Cash or Liquidity Requirements.** *Borrower promises to periodically measure the balance of their liquid assets and maintain them at a prescribed level (e.g. 30 days).*

- **Debt to Capitalization Requirement.** *A ratio limiting how much debt can be incurred based on the liquid assets and debt then in place.*

III. *FINANCIAL STATEMENTS AND ANALYSIS:*

Childrens Hospital Los Angeles
Statement of Activities
(in thousands)

	For the Year Ended June 30, 2009	2008	2007
Revenues:			
Net patient service revenue*	$ 399,654	$ 372,489	$ 344,663
Grants, contract, and other	107,917	98,579	83,923
Unrestricted gifts and bequests	28,291	27,072	25,585
Investment income used for operations	16,552	13,027	13,191
Net assets released from restrictions	33,133	32,052	30,292
Total revenue	585,547	543,219	497,654
Expenses:			
Salaries and employee benefits	309,027	285,511	258,084
Professional fees and purchased services	114,910	104,477	106,619
Supplies	73,457	73,758	65,168
Provisions for doubtful accounts	7,117	9,926	11,506
Utilities	9,365	7,567	7,678
Rent	6,689	6,103	6,307
Insurance	3,638	3,464	3,031
Travel, dues, and subscriptions	4,366	4,513	3,531
Equipment	3,669	4,425	1,847
Other	13,347	13,407	14,634
Total program expenses before depreciation, amortization, and interest	545,585	513,151	478,405
Excess of revenues over expenses	39,962	30,068	19,249
Depreciation, amortization and interest:			
Depreciation and amortization	40,655	43,755	40,778
Interest	15,322	16,507	13,119
Total depreciation, amortization and interest	55,977	60,262	53,897
Deficiency of revenue over expenses	(16,015)	(30,194)	(34,648)
Other gains and losses:			
Net realized and unrealized (loss) gain on investments held in trading	(65,647)	28,014	-
Realized gains on investments	-	-	25,013
Other investments loss-net	(7,223)	(3,062)	(4,370)
Interest rate swap market loss	(4,096)	(3,832)	(94)
Other losses-net	(4,410)	(107)	(4)
Total other gains and (losses)	(81,376)	21,013	20,545
Deficiency of revenues over expenses and other gains and losses	(97,391)	(9,181)	(14,103)

(continued)

*Net Patient Service Revenue for FYE June 30, 2009

Payor Source	Percent
Medi-Cal	54.9%
Managed Care	28.8%
DSH	12.0%
Other	4.0%
Medicare	0.3%
Total	100.0%

Childrens Hospital Los Angeles

Statement of Activities

(in thousands)

(continued)

	For the Year Ended June 30, 2009	2008	2007
Deficiency of revenues over expenses	(97,391)	(9,181)	(14,103)
Changes in unrealized gain on unrestricted investments available-for-sale	-	(56,166)	29,927
Proposition 61- construction revenue	-	33,043	20,556
FEMA grant revenue	-	14,016	19,557
Net assets released from restriction used for purchase of property and equipment	72,483	2,443	5,307
transfers and other	(4,096)	(2,381)	2,055
Decrease in unrestricted net assets	(29,004)	(18,226)	63,299
Temporarily restricted net assets			
Restricted grants, gifts, and bequests	33,750	44,431	43,943
Net investment income on restricted gifts and endowments	3,308	5,556	3,898
Net realized (loss) gain on sale of restricted investments	(8,479)	11,161	9,923
Net unrealized loss on unrestricted investments	(24,039)	(17,728)	12,338
Net assets released from restrictions used for operations, research, and education	(33,133)	(32,052)	(30,292)
Net assets released from restriction used for purchase of property and equipment	(72,483)	(2,443)	(5,307)
Change in value of split-interest agreements	(93)	(34)	393
Reclassification of net assets	(107)	277	(32)
(Decrease) increase in temporarily restricted net assets	(101,276)	9,168	34,864
Permanently restricted net assets			
Contributions	3,986	1,621	3,679
Change in value of split-interest agreements	43	113	
Reclassification of net assets	3	(1,301)	(124)
Increase in permanently restricted net assets	4,032	433	3,555
Change in net assets	**(126,248)**	**(8,625)**	**101,718**
Net assets, beginning of year	884,251	892,876	791,158
Net assets, end of year	$ 758,003	$ 884,251	$ 892,876

Childrens Hospital Los Angeles
Financial Position
(in thousands)

	As of June 30, 2009	2008	2007
ASSETS			
Current assets:			
Cash and cash equivalents	$ 11,430	$ 19,458	$ 8,203
Patient accounts receivable, net	74,629	72,225	82,630
Current portion of pledges receivable	26,325	21,530	23,430
Securities lent under securities lending program	18,332	41,549	45,348
Collateral received under securities lending program	18,805	42,365	46,417
Grants receivable	5,495	7,714	10,362
Receivables under government programs	4,841	-	3,216
Current portion of trustee-held funds	8,276	16,936	3,567
Restricted cash- Proposition 61 Funds	-	-	13,755
Other current assets	22,198	21,442	21,083
Total current assets	190,331	243,219	258,011
Assets limited as to use:			
Investments	408,232	560,818	509,367
Unitrust investments	3,826	4,468	5,184
Other restricted board-designated investments	-	-	67,096
Trustee-held funds-net of amount required to meet current obligations	13,205	88,533	193,774
Total assets limited to use-Net of current portion	425,263	653,819	775,421
Pledges receivable-net of current portion	38,532	52,723	50,189
Interest rate swap	-	-	1,716
Other assets	23,602	22,227	23,600
Property, plant and equipment	720,693	580,236	447,492
Total assets	$ 1,398,421	$ 1,552,224	$ 1,556,429

(continued)

Childrens Hospital Los Angeles
Financial Position
(in thousands)
(continued)

	As of June 30, 2009	2008	2007
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable and accrued expenses	$ 42,218	$ 60,790	$ 46,366
Salaries, wages, and related liabilities	32,606	31,490	30,146
Payable under securities lending program	18,805	42,365	46,417
Payable under government and state programs	-	1,371	-
Proposition 61- advance	-	-	13,755
Current portion of long-term debt	10,630	7,035	4,390
Total current liabilities	104,259	143,051	141,074
Long-term debt - net of current portion	487,525	494,853	502,031
Liability under antitrust agreement	2,517	2,651	2,849
Interest rate swaps	6,212	2,116	-
Other noncurrent liabilities	39,905	25,302	17,599
Total liabilities	640,418	667,973	663,553
Net assets:			
Unrestricted:			
Operating	179,526	115,294	112,365
Board-designated	316,369	409,605	430,760
Total unrestricted net assets	495,895	524,899	543,125
Temporarily restricted	121,125	222,401	213,233
Permanently restricted	140,983	136,951	136,518
Total net assets	758,003	884,251	892,876
TOTAL LIABILITIES AND NET ASSETS:	$ 1,398,421	$ 1,552,224	$ 1,556,429

Financial Ratios:	**Proforma (a) FYE June 30, 2009**	2009	2008	2007
Operating debt service coverage (x)	1.08 (b)	1.79	1.44	1.11
Debt/Unrestricted Net Assets (x)	1.15	1.02	0.96	1.00
Operating Margin (%)		(2.74)	(5.56)	(6.96)
Current Ratio (x)		1.83	1.70	1.80

(a) Recalculates FY 2009 audited results to include the impact of this proposed financing.

(b) The proforma debt service coverage decreased to 1.08x as a result of the proposed financing from variable rate to fixed rate bonds. Calculation is "Annual Debt Service" per CHLA's Master Indenture, assumes new bonds will carry a fixed rate of 6% and is net of estimated investment income.

Financial Discussion - Statement of Activities (Income Statement)

CHLA's income statement appears to show operating improvement over the review **period.**

Particular Facts to Note:

- CHLA's income statement reflects improving operations, as exhibited by the deficiency of revenues over expenses of only $16 million for FY 2009 versus $34 million in FY 2007.
- CHLA has seen a steady increase in revenue from $498 million in fiscal year 2007 to $586 million in fiscal year 2009. In fiscal year 2009, 68% total revenue consisted of net patient service revenue.
- Program expenses experienced an increase as a result of a response to the increase in revenue in fiscal years 2007 to 2009 (an increase of nearly 6%). The increase in program expenses was most notably in salaries and employees benefits, an increase of 9%. CHLA's revenue increased while expenses were kept in line.
- CHLA continues to implement both operating and strategic initiatives to improve performance. Additionally, CHLA has implemented a freeze on merit increases for a year, as well as salary reductions for senior management. This is reflected in a slight decrease in salaries and employees benefits.
- CHLA has developed and continues to refine short-term and long-term strategies to address challenges that will better position the hospital in the long-term. Short-term strategies include: cost containment, improving revenue cycle performance and improved payer contracting. Long-term strategies include: increased volume, improved operational efficiency and improved throughput from the new patient tower.
- CHLA debt service coverage is adequate at 1.79x for fiscal year 2009, along with a marginally adequate proforma debt service coverage of 1.08x. Please note, CHLA's management's calculations of debt service exhibit a higher DSC of 1.28x, which includes estimated investment income (an entry the Authority has not typically included within its calculations).

Financial Discussion - Statement of Financial Position (Balance Sheet)

While CHLA's balance sheet appears significantly leveraged, it also appears to exhibit adequate liquidity supported by its current ratio.

Particular Facts to Note:

- CHLA is significantly leveraged with a debt-to-unrestricted net assets ratio of 1.02x. CHLA maintains adequate liquidity, with a current ratio of 1.83x. A relatively small portion of liquid assets are in cash and cash equivalents. CHLA management expects to improve cash flow by utilizing cost containment measures through a combination of short-term and long-term strategies.

- Patient accounts receivables decreased from $83 million in fiscal year 2007 to $74 million in fiscal year 2009, despite higher volumes and utilization. In our review period, CHLA investment in capital expenditures increased property, plant and equipment by approximately $273 million funded by primarily liquidating a sizable portion of its investment portfolio.

- The balance sheet reports a significant decrease in current liabilities of 26% over our review period as a result of gradual withdraw from a securities lending program.

- CHLA is in the final phase of a large capital project that includes a new patient tower. It should be noted that Proposition 3 funds started flowing in December 2009, which should reimburse cash outlays for construction activity that occurred in fiscal year 2009 and earlier.

Interim Financials for Six Months Ended December 31, 2009

Particular Facts to Note:

- The current interim period indicates an increase in total revenues compared to interim numbers for the six months ended December 31, 2008. CHLA indicates the increase for the interim period is the result of strong growth in patient service revenue (7%) as well as increases in unrestricted gifts and bequests (22%). Program expenses increased 5% compared to interim numbers for December 31, 2008. CHLA's income statement shows improvement for the six months ended December 31, 2009.

- Although the interim period shows a positive trend in cash flow, CHLA intends to improve its cash flow further by reducing expenses through cost containment and enhanced revenue cycle performance. CHLA has improved its cash position to approximately $22 million as of December 31, 2009. CHLA total assets increased, including property, plant and equipment.

EXHIBIT 1

UTILIZATION STATISTICS

The following table shows utilization statistics of CHLA for the fiscal years ended June 30, 2009, 2008 and 2007:

	Fiscal Year Ended June 30,		
	2009	**2008**	**2007**
Licensed Beds	286	286	286
Admissions	10,920	10,784	11,115
Patient Days	89,297	90,429	88,367
Average Daily Census	245	247	242
Average Length of Stay (days)	8	8	8
Inpatient Surgery Procedures	6,405	6,339	6,115
Outpatient Surgery Procedures	9,056	7,782	7,176
Emergency Room Visits	66,129	62,058	64,788
Outpatient Visits	221,785	220,714	200,706

EXHIBIT 2

OUTSTANDING DEBT

(in thousands)

Bond Issue Name	**Original Issue Amount**	**Amount Outstanding* As of June 30, 2009**	**Estimated Amount Outstanding after Proposed Financing**
Existing Long-Term Debt:			
CSCDA, Series 2008 A, B, C	$150,000	$150,000	$0
CSCDA, Series 2007	170,000	170,646	170,646
CSCDA, Series 2004 A, B	100,925	56,950	0
CSCDA, Series 1999 Certificates of Participation	109,175	103,549	96,549
CSCDA, Series 1993 Certificates of Participation	103,780	17,010	17,010
CSCDA, Series 2009A**	30,000		30,000
Proposed:			
CHFFA Bonds 2010		N/A	**265,000**
TOTAL DEBT		**$498,155**	**$579,205**

*Includes current-portion of long-term debt.
**CSCDA, Series 2009A closed in December 2009 subsequent to the FY 2009 audit.

EXHIBIT 3

BACKGROUND, GOVERNANCE AND LICENSURE

Background

Childrens Hospital Los Angeles (the "Corporation"), incorporated in 1901, is a California nonprofit public benefit corporation. The Corporation is classified as a 501(c)(3) organization by the Internal Revenue Service. The Corporation operates a 286-bed acute care hospital, approximately 31 hospital-based outpatient clinic programs and related facilities for the care and treatment of sick and injured children ranging in age from newborn through 21 years, with nearly 50% of the inpatient admissions being children under four years of age. The Corporation's facilities serve as a referral resource for critically ill and seriously injured children in the Southwestern United States. Nearly two-thirds of the children admitted to the Corporation's inpatient specialty care units are transferred from other hospitals. The Corporation maintains 46 intensive care beds, composed of 20 pediatric intensive care beds, 15 cardiac intensive care beds and 11 intensive care bone marrow transplantation beds, in addition to 40 neonatal intensive care beds, that attract pediatric patients from throughout the United States. In addition, the Corporation's 24-hour emergency room department has been designated by the County of Los Angeles as one of two Level I pediatric trauma centers and the only one dedicated solely to children.

The Corporation is the sole Member of the Obligated Group.

Governance

The Bylaws of the Corporation state there are two classes of membership on the Board of Trustees: active and honorary. Honorary members are not counted in determining the maximum number of active members and do not have voting privileges. The Bylaws also state there will be no fewer than 60 nor more than 90 active members of the Board of Trustees of the Corporation.

Active members consist of those elected and those who are appointed by virtue of holding designated positions. Elected members hold office for three-year terms and, unless an exception is granted, may hold up to five terms. Members are divided into three nearly equal staggered classes with one class being elected each year. Appointed members are the President and Chief Executive Officer, the Vice President of Surgery, the Vice President of Pediatrics, the Chairman of the Medical Staff, the Chief Nursing Officer, the Chair of the board of directors of Childrens Hospital Los Angeles Medical Group (formerly University Childrens Medical Group), and the Dean of the Keck School of Medicine of the University of Southern California.

Licensure, Certification and Accreditation

The Corporation receives accreditation from The Joint Commission. The Corporation was last surveyed in June 2009 by The Joint Commission and received accreditation for the customary 39 month period. The Corporation is licensed by the State of California Department of Public Health, Licensing and Certification Division, and is a member of, among other organizations, the California Hospital Association, the California Children's Hospital Association, and the Healthcare Association of Southern California.

EXHIBIT 4

FINANCING TEAM

Childrens Hospital Los Angeles Financing Team

Corporation Counsel:	Jones Day
Financial Advisor:	Shattuck Hammond Partners
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP
Underwriters:	Bank of America Merrill Lynch Citigroup
Underwriters' Counsel:	Sidley Austin LLP
Bond and Master Trustee:	The Bank of New York Trust Company, N.A.
Trustee's Counsel:	Davis Wright Tremaine
Bond Insurer:	Assured Guaranty

Exhibit E

[NEW PROPOSED BOND STAFF SUMMARY TEMPLATE]
CHFFA REVENUE BOND FINANCING PROGRAM
EXECUTIVE SUMMARY

Applicant:	Childrens Hospital Los Angeles ("CHLA") 4650 Sunset Boulevard Los Angeles, CA 90027 Los Angeles County	**Amount Requested:** **Requested Loan Term:** **Authority Meeting Date:** **Resolution Number:**	$265,000,000 Up to 40 years[1] February 25, 2010 352

Project Site: 4546, 4551, 4584, 4601, 4650 and 4661 Sunset Boulevard; 4616 DeLongpre Avenue and 4600 Maubert, Los Angeles, California
Facility Type: Acute care Hospital/Children's Hospital
Prior Borrower: Yes (date of last CHFFA issue 1991)

Background: Incorporated in 1901, CHLA is a California nonprofit public benefit corporation operating a 286-bed acute care hospital, various outpatient clinics and related facilities for the care and treatment of sick and injured children. (see Exhibit 2 for more detail).

Use of Proceeds: CHLA is in the process of finalizing the plan of finance, which is subject to market conditions. Bond proceeds may be used to refund, on a current basis, all or a portion of outstanding previously issued California Statewide Communities Development Authority (CSCDA) Certificates of Participation Series 1999, Insured Revenue Bonds 2004 Series A and B and Variable Rate Revenue Bonds 2008 Series A, B and C. Additionally, bond proceeds may be used to finance portions of the construction, improvement and equipping of CHLA's new inpatient tower. (Please see page two for more detail).

Type of Issue:	Negotiated public offering with fixed and variable rate bonds Expected minimum denominations of $5,000 FRB/$100,000 for VRDB
Credit Enhancement:	Possible use of bond insurance for fixed rate bonds (depends on market) Letter of Credit provided by Bank of America, N.A for variable rate bonds
Additional Security:	Real estate mortgage on property (pending CHLA Board approval) and a springing fund debt service reserve fund for fixed rate bonds
Expected Credit Rating:	BBB+/Baa2 S&P/ Moody's Long-Term Underlying Ratings of CHLA A+/A-1 by S&P and Aa3/VMIG by Moody's based on the Bank of America letter of credit
Financing Team:	*Please see Exhibit 4 to identify Conflicts of Interest*

Financial Overview: CHLA's income statement appears to show operating improvement over the review period. CHLA's balance sheet appears substantially leveraged. CHLA exhibits adequate liquidity and marginal debt service coverage. (Please see page seven for more detail).

Estimated Sources of Funds:		**Estimated Uses of Funds:**	
Par amount of CHFFA bonds	$265,000,000	Refunding bonds	$178,000,000
		Patient Tower Project	40,000,000
		Debt service reserve fund	25,000,000
		Insurance and LOC	11,870,000
		Financing costs	5,130,000
		Original discount	5,000,000
Total Sources	$265,000,000	Total Uses	$265,000,000

Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through, Community Service Obligation, Seismic, and CEQA documentation. All documentation satisfies the Authority's requirements.

Staff Recommendation: Staff recommends the Authority approve Resolution Number 352 in an amount not to exceed $265,000,000 for Childrens Hospital Los Angeles subject to a bond rating of at least a "BBB" rating by a nationally recognized rating agency. Macias Gini & O'Connell, LLP., the Authority's financial analyst, concurs with the Authority's staff recommendations. [Public Financial Management, the Authority's pricing advisor, has reviewed the proposed covenants and security features and found them to be appropriate for Board approval.]

[1] The Authority's calculations are based on a 30 year schedule. If the final financing schedule includes 40 year bonds, debt service coverage ratios will likely improve.

I. PURPOSE OF FINANCING:

This transaction presents the Authority with a unique and meaningful opportunity to assist a vital institution in Los Angeles County. CHLA serves the most vulnerable children in seven counties surrounding Los Angeles, across California, and around the world. Unfortunately, an extremely high Medi-cal census, a lack of affordable insurers, and the volatile financial market (over the last 24 months) have not made CHLA's access to capital an easy route. Though the Authority has been able to assist CHLA by disbursing more than $100 million in grants funds from the Children's Hospital Programs of 2004 and 2008 (Propositions 61 and 3), CHLA would greatly benefit from refunding out of auction rate securities and reducing the renewal and cost risk associated with obtaining letters of credit on variable rate bonds. Recognizing the essential services CHLA provides to its communities and beyond and the harsh financial impact to most health care facilities as a result of California and the nation's financial crises, staff requests multiple policy exceptions to afford CHLA the flexibility needed in this transaction.

This refunding will eliminate or reduce exposure of the volatility of auction rate securities and risks associated with maintaining a letter of credit for the variable rate bonds. Additionally, CHLA intends to restructure its variable rate debt exposure with the Series 2010B Bonds to extend the average life of such indebtedness and reduce the debt service requirements associated with this debt.

Refunding of various Series of CSCDA bonds **.................................... $178,000,000**

CSCDA Series 1999 Certificates of Participation *$7,000,000*
CHLA seeks to refund on a current basis a portion of the Certificates of Participation that were used to finance capital expenditures and pay costs of issuance.

CSCDA 2004 Series A & B Insured Revenue Bonds *56,000,000*
CHLA seeks to refund on a current basis all or a portion of its outstanding CSCDA 2004 Series A and B Bonds. The 2004 Bonds rate is established for seven-day auction periods. Interest rates on the 2004 Bonds have ranged from 2.25% to 15% per annum. The Bonds were issued to prepay a portion of the 1993 Certificates, finance capital expenditures, and pay costs of issuance.

CSCDA 2008 Series A, B & C Variable Rate Revenue Bonds...115,000,000
Additionally, CHLA seeks to refund on a current basis all or a portion of its outstanding CSCDA Series 2008 A, B and C Bonds. Series A and B bear interest at a variable weekly rate, and Series C bears interest at a daily rate. Daily interest rates on the 2008 Bonds have ranged from 0.08% to 9.15% per annum, and weekly interest rates have ranged from 0.12% to 7.05% per annum. The Bonds are secured with a letter of credit provided by Bank of America, which is set to expire in July 2011. The Bonds were

issued to refund all outstanding Series 2002 Bonds, refund a portion of the previously issued Series 2004 B Bonds, and pay the costs of issuance.

Patient Tower Project	***40,000,000***

A portion of the bonds proceeds may be used to fund the completion and equipping of 460,000 square-foot, 317-bed replacement hospital. The tower project was funded by Children's Hospital Program grant funds, bond funds, a capital campaign, FEMA grants and internal funds, with a total cost of approximately $636 million. The construction is projected to be completed in or before October 2010 with occupancy expected in July 2011.

CHLA is currently in discussions with the County of Los Angeles for the same purpose. Terms for this possible bridge loan have not been finalized. If the bridge loan is approved, CHLA will not issue new money bonds for the patient tower project. CHFFA has agreed to present the completion funding to the Board as a time saving measure as well as to eliminate the possibility of additional financing costs in the future.

Debt Service Reserve Fund		***25,000,000***
CHLA's Debt Service Reserve Fund was not financed with bond proceeds.[2]		
Insurance Premium (if cost-effective)/Letter of Credit		***11,870,000***
Financing Costs		***5,130,000***
Cost of Issuance	$2,570,000	
Underwriters Discount	2,560,000	
Original Issue Discount		***5,000,000***
Total Uses of Funds		**$265,000,000**

[2] For clarification, the original application suggested a funded debt service reserve fund but market conditions allowed a springing fund instead.

II. PROPOSED COVENANTS, SECURITY AND DISCLOSURES:

Staff report and recommendations include minimum requirements. Additional or more stringent covenants or disclosures may be added following consultation with Authority staff but without further notification to the Authority's Board. These covenants cannot be diluted or removed without subsequent review. If there have been modifications to the covenant proposal following the preparation of this staff report, staff will report it at the meeting.

- ✓ **Unconditional Promise to Pay.** *Borrower agrees to pay Trustee all amounts required for principal, interest or reserve deposits and other payments and expenses designated in the Loan Agreement. All Revenues*[3] *and any other amounts held in a designated fund or account under the Bond Indenture are pledged to secure the full payment of the bonds.*

- ✓ **Pledge of Gross Revenues.** *Borrower pledges to deposit all revenues, income, receipts and money received into a Gross Revenues Fund over which the Trustee has a control deposit account agreement.*

- ✓ **Negative Pledge Against Prior Liens.** *Borrower agrees not to create or assume any Lien upon Borrower's Property other than the Permitted Encumbrances.*

- ✓ **Limited Permitted Encumbrances.** *Borrower is subject to a restrictive set of allowable encumbrances it may incur pursuant to the Master Indenture.*

  - CHLA's largest basket is up to 15% of book or fair market value of the Borrower's Property or 7% of unrestricted net assets.

- ✓ **Debt Service Reserve.** *Account established under the Indenture to make principal and interest payments if the Borrower fails to deposit timely payments.*

  - Borrower's Reserve Account will not require an initial deposit from bond proceeds at time of issuance, however a deposit will be required if certain operating conditions arise: if the Ratio of Income Available for Debt Service to Annual Debt Service is less than 1.35:1.0, if the Cushion Ratio (liquid assets/MADS) is less than 1.75 and/or the if Unrestricted Days Cash on Hand is less than 140.

  - Funds in the Reserve Account may be released if: (1) the bond insurer permits it; or (2) if Borrower improves its operations to exceed the springing trigger ratios for two consecutive years.

  - No surety or letter of credit is permitted in lieu of cash in Reserve Account.

[3]Capitalized terms are defined in the Indenture.

- ✓ **Debt Service Coverage Requirement.** *A ratio measuring ability to make interest and principal payments as they become due by assessing the amount of revenue available to meet debt service payments. This ratio can be based either on annual debt service for the next 12-months or maximum annual debt over the life of the bonds.*

  - Borrower must maintain an Annual Debt Service Coverage Ratio of 1.10. A Consultant review is required if the ratio falls below 1.10. An Event of Default occurs if the ratio falls below 1.00 or if the Borrower fails to comply with the Consultant recommendations.

- ✓ **Additional Debt Limitation.** *Borrower agrees not to incur additional Indebtedness unless authorized by the Master Indenture.*

- ✓ **Disposition of Cash and Property Limitations.** *Borrower agrees not to sell, lease or dispose of any property, plant or equipment or liquid assets unless authorized by the Master Indenture.*

- ✓ **Security Interest in Designated Property/Deed of Trust.**

  - *Borrower agrees to grant a deed of trust and security agreement in its primary acute care facilities, including real estate and equipment, occupying approximately 13 acres. The deed may be released upon consent of the bond insurer.*

- ✓ **Comply with SEC Rule 15c2-12.** *The rule prohibits underwriters from underwriting municipal bond deals unless the issuer or borrower contractually agrees to disclose designated financial and operating information to the marketplace during the life of the bonds and to report designated "material events" such as missed debt service payments, any change in bond ratings, defeasance, redemptions, etc.*

Staff has reviewed the entirety of this financing package and finds it to be acceptable.

Not applicable for this transaction as separate and affirmative covenants but both are triggers to fund the reserve account:

- **Cash or Liquidity Requirements.** *Borrower promises to periodically measure the balance of their liquid assets and maintain them at a prescribed level (e.g. 30 days).*

- **Debt to Capitalization Requirement.** *A ratio limiting how much debt can be incurred based on the liquid assets and debt then in place.*

III. FINANCIAL STATEMENTS AND ANALYSIS:

Childrens Hospital Los Angeles

Statement of Activities

(in thousands)

	For the Year Ended June 30, 2009	2008	2007
Revenues:			
Net patient service revenue*	$ 399,654	$ 372,489	$ 344,663
Grants, contract, and other	107,917	98,579	83,923
Unrestricted gifts and bequests	28,291	27,072	25,585
Investment income used for operations	16,552	13,027	13,191
Net assets released from restrictions	33,133	32,052	30,292
Total revenue	585,547	543,219	497,654
Expenses:			
Salaries and employee benefits	309,027	285,511	258,084
Professional fees and purchased services	114,910	104,477	106,619
Supplies	73,457	73,758	65,168
Provisions for doubtful accounts	7,117	9,926	11,506
Utilities	9,365	7,567	7,678
Rent	6,689	6,103	6,307
Insurance	3,638	3,464	3,031
Travel, dues, and subscriptions	4,366	4,513	3,531
Equipment	3,669	4,425	1,847
Other	13,347	13,407	14,634
Total program expenses before depreciation, amortization, and interest	545,585	513,151	478,405
Excess of revenues over expenses	39,962	30,068	19,249
Depreciation, amortization and interest:			
Depreciation and amortization	40,655	43,755	40,778
Interest	15,322	16,507	13,119
Total depreciation, amortization and interest	55,977	60,262	53,897
Deficiency of revenue over expenses	(16,015)	(30,194)	(34,648)
Other gains and losses:			
Net realized and unrealized (loss) gain on investments held in trading	(65,647)	28,014	-
Realized gains on investments	-	-	25,013
Other investments loss-net	(7,223)	(3,062)	(4,370)
Interest rate swap market loss	(4,096)	(3,832)	(94)
Other losses-net	(4,410)	(107)	(4)
Total other gains and (losses)	(81,376)	21,013	20,545
Deficiency of revenues over expenses and other gains and losses	(97,391)	(9,181)	(14,103)

(continued)

*Net Patient Service Revenue for FYE June 30, 2009

Payor Source	Percent
Medi-Cal	54.9%
Managed Care	28.8%
DSH	12.0%
Other	4.0%
Medicare	0.3%
Total	100.0%

Childrens Hospital Los Angeles

Statement of Activities

(in thousands)

(continued)

	For the Year Ended June 30,		
	2009	2008	2007
Deficiency of revenues over expenses	(97,391)	(9,181)	(14,103)
Changes in unrealized gain on unrestricted investments available-for-sale	-	(56,166)	29,927
Proposition 61- construction revenue	-	33,043	20,556
FEMA grant revenue	-	14,016	19,557
Net assets released from restriction used for purchase of property and equipment	72,483	2,443	5,307
transfers and other	(4,096)	(2,381)	2,055
Decrease in unrestricted net assets	(29,004)	(18,226)	63,299
Temporarily restricted net assets			
Restricted grants, gifts, and bequests	33,750	44,431	43,943
Net investment income on restricted gifts and endowments	3,308	5,556	3,898
Net realized (loss) gain on sale of restricted investments	(8,479)	11,161	9,923
Net unrealized loss on unrestricted investments	(24,039)	(17,728)	12,338
Net assets released from restrictions used for operations, research, and education	(33,133)	(32,052)	(30,292)
Net assets released from restriction used for purchase of property and equipment	(72,483)	(2,443)	(5,307)
Change in value of split-interest agreements	(93)	(34)	393
Reclassification of net assets	(107)	277	(32)
(Decrease) increase in temporarily restricted net assets	(101,276)	9,168	34,864
Permanently restricted net assets			
Contributions	3,986	1,621	3,679
Change in value of split-interest agreements	43	113	
Reclassification of net assets	3	(1,301)	(124)
Increase in permanently restricted net assets	4,032	433	3,555
Change in net assets	**(126,248)**	**(8,625)**	**101,718**
Net assets, beginning of year	884,251	892,876	791,158
Net assets, end of year	$ 758,003	$ 884,251	$ 892,876

Childrens Hospital Los Angeles

Financial Position

(in thousands)

	As of June 30, 2009	2008	2007
ASSETS			
Current assets:			
Cash and cash equivalents	$ 11,430	$ 19,458	$ 8,203
Patient accounts receivable, net	74,629	72,225	82,630
Current portion of pledges receivable	26,325	21,530	23,430
Securities lent under securities lending program	18,332	41,549	45,348
Collateral received under securities lending program	18,805	42,365	46,417
Grants receivable	5,495	7,714	10,362
Receivables under government programs	4,841	-	3,216
Current portion of trustee-held funds	8,276	16,936	3,567
Restricted cash- Proposition 61 Funds	-	-	13,755
Other current assets	22,198	21,442	21,083
Total current assets	190,331	243,219	258,011
Assets limited as to use:			
Investments	408,232	560,818	509,367
Unitrust investments	3,826	4,468	5,184
Other restricted board-designated investments	-	-	67,096
Trustee-held funds-net of amount required to meet current obligations	13,205	88,533	193,774
Total assets limited to use-Net of current portion	425,263	653,819	775,421
Pledges receivable-net of current portion	38,532	52,723	50,189
Interest rate swap	-	-	1,716
Other assets	23,602	22,227	23,600
Property, plant and equipment	720,693	580,236	447,492
Total assets	$ 1,398,421	$ 1,552,224	$ 1,556,429

(continued)

Childrens Hospital Los Angeles
Financial Position
(in thousands)
(continued)

	As of June 30, 2009	2008	2007
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable and accrued expenses	$ 42,218	$ 60,790	$ 46,366
Salaries, wages, and related liabilities	32,606	31,490	30,146
Payable under securities lending program	18,805	42,365	46,417
Payable under government and state programs	-	1,371	-
Proposition 61- advance	-	-	13,755
Current portion of long-term debt	10,630	7,035	4,390
Total current liabilities	104,259	143,051	141,074
Long-term debt - net of current portion	487,525	494,853	502,031
Liability under antitrust agreement	2,517	2,651	2,849
Interest rate swaps	6,212	2,116	-
Other noncurrent liabilities	39,905	25,302	17,599
Total liabilities	640,418	667,973	663,553
Net assets:			
Unrestricted:			
Operating	179,526	115,294	112,365
Board-designated	316,369	409,605	430,760
Total unrestricted net assets	495,895	524,899	543,125
Temporarily restricted	121,125	222,401	213,233
Permanently restricted	140,983	136,951	136,518
Total net assets	758,003	884,251	892,876
TOTAL LIABILITIES AND NET ASSETS:	$ 1,398,421	$ 1,552,224	$ 1,556,429

Financial Ratios:	**Proforma (a) FYE June 30, 2009**	2009	2008	2007
Operating debt service coverage (x)	1.08 (b)	1.79	1.44	1.11
Debt/Unrestricted Net Assets (x)	1.15	1.02	0.96	1.00
Operating Margin (%)		(2.74)	(5.56)	(6.96)
Current Ratio (x)		1.83	1.70	1.80

(a) Recalculates FY 2009 audited results to include the impact of this proposed financing.

(b) The profroma debt service coverage decreased to 1.08x as a result of the proposed financing from variable rate to fixed rate bonds. Calculation is "Annual Debt Service" per CHLA's Master Indenture, assumes new bonds will carry a fixed rate of 6% and is net of estimated investment income.

Financial Discussion - Statement of Activities (Income Statement)

***CHLA's income statement appears to show operating improvement over the review* period.**

Particular Facts to Note:

- CHLA's income statement reflects improving operations, as exhibited by the deficiency of revenues over expenses of only $16 million for FY 2009 versus $34 million in FY 2007.

- CHLA has seen a steady increase in revenue from $498 million in fiscal year 2007 to $586 million in fiscal year 2009. In fiscal year 2009, 68% total revenue consisted of net patient service revenue.

- Program expenses experienced an increase as a result of a response to the increase in revenue in fiscal years 2007 to 2009 (an increase of nearly 6%). The increase in program expenses was most notably in salaries and employees benefits, an increase of 9%. CHLA's revenue increased while expenses were kept in line.

- CHLA continues to implement both operating and strategic initiatives to improve performance. Additionally, CHLA has implemented a freeze on merit increases for a year, as well as salary reductions for senior management. This is reflected in a slight decrease in salaries and employees benefits.

- CHLA has developed and continues to refine short-term and long-term strategies to address challenges that will better position the hospital in the long-term. Short-term strategies include: cost containment, improving revenue cycle performance and improved payer contracting. Long-term strategies include: increased volume, improved operational efficiency and improved throughput from the new patient tower.

- CHLA debt service coverage is adequate at 1.79x for fiscal year 2009, along with a marginally adequate proforma debt service coverage of 1.08x. Please note, CHLA's management's calculations of debt service exhibit a higher DSC of 1.28x, which includes estimated investment income (an entry the Authority has not typically included within its calculations).

Financial Discussion - Statement of Financial Position (Balance Sheet)

While CHLA's balance sheet appears significantly leveraged, it also appears to exhibit adequate liquidity supported by its current ratio.

Particular Facts to Note:

- CHLA is significantly leveraged with a debt-to-unrestricted net assets ratio of 1.02x. CHLA maintains adequate liquidity, with a current ratio of 1.83x. A relatively small portion of liquid assets are in cash and cash equivalents. CHLA management expects to improve cash flow by utilizing cost containment measures through a combination of short-term and long-term strategies.

- Patient accounts receivables decreased from $83 million in fiscal year 2007 to $74 million in fiscal year 2009, despite higher volumes and utilization. In our review period, CHLA investment in capital expenditures increased property, plant and equipment by approximately $273 million funded by primarily liquidating a sizable portion of its investment portfolio.

- The balance sheet reports a significant decrease in current liabilities of 26% over our review period as a result of gradual withdraw from a securities lending program.

- CHLA is in the final phase of a large capital project that includes a new patient tower. It should be noted that Proposition 3 funds started flowing in December 2009, which should reimburse cash outlays for construction activity that occurred in fiscal year 2009 and earlier.

Interim Financials for Six Months Ended December 31, 2009

Particular Facts to Note:

- The current interim period indicates an increase in total revenues compared to interim numbers for the six months ended December 31, 2008. CHLA indicates the increase for the interim period is the result of strong growth in patient service revenue (7%) as well as increases in unrestricted gifts and bequests (22%). Program expenses increased 5% compared to interim numbers for December 31, 2008. CHLA's income statement shows improvement for the six months ended December 31, 2009.

- Although the interim period shows a positive trend in cash flow, CHLA intends to improve its cash flow further by reducing expenses through cost containment and enhanced revenue cycle performance. CHLA has improved its cash position to approximately $22 million as of December 31, 2009. CHLA total assets increased, including property, plant and equipment.

EXHIBIT 1

UTILIZATION STATISTICS

The following table shows utilization statistics of CHLA for the fiscal years ended June 30, 2009, 2008 and 2007:

	Fiscal Year Ended June 30,		
	2009	**2008**	**2007**
Licensed Beds	286	286	286
Admissions	10,920	10,784	11,115
Patient Days	89,297	90,429	88,367
Average Daily Census	245	247	242
Average Length of Stay (days)	8	8	8
Inpatient Surgery Procedures	6,405	6,339	6,115
Outpatient Surgery Procedures	9,056	7,782	7,176
Emergency Room Visits	66,129	62,058	64,788
Outpatient Visits	221,785	220,714	200,706

EXHIBIT 2

OUTSTANDING DEBT

(in thousands)

Bond Issue Name	Original Issue Amount	Amount Outstanding* As of June 30, 2009	Estimated Amount Outstanding after Proposed Financing
Existing Long-Term Debt:			
CSCDA, Series 2008 A, B, C	$150,000	$150,000	$0
CSCDA, Series 2007	170,000	170,646	170,646
CSCDA, Series 2004 A, B	100,925	56,950	0
CSCDA, Series 1999 Certificates of Participation	109,175	103,549	96,549
CSCDA, Series 1993 Certificates of Participation	103,780	17,010	17,010
CSCDA, Series 2009A**	30,000		30,000
Proposed:			
CHFFA Bonds 2010		N/A	**265,000**
TOTAL DEBT		**$498,155**	**$579,205**

*Includes current-portion of long-term debt.
**CSCDA, Series 2009A closed in December 2009 subsequent to the FY 2009 audit.

EXHIBIT 3

BACKGROUND, GOVERNANCE AND LICENSURE

Background

Childrens Hospital Los Angeles (the "Corporation"), incorporated in 1901, is a California nonprofit public benefit corporation. The Corporation is classified as a 501(c)(3) organization by the Internal Revenue Service. The Corporation operates a 286-bed acute care hospital, approximately 31 hospital-based outpatient clinic programs and related facilities for the care and treatment of sick and injured children ranging in age from newborn through 21 years, with nearly 50% of the inpatient admissions being children under four years of age. The Corporation's facilities serve as a referral resource for critically ill and seriously injured children in the Southwestern United States. Nearly two-thirds of the children admitted to the Corporation's inpatient specialty care units are transferred from other hospitals. The Corporation maintains 46 intensive care beds, composed of 20 pediatric intensive care beds, 15 cardiac intensive care beds and 11 intensive care bone marrow transplantation beds, in addition to 40 neonatal intensive care beds, that attract pediatric patients from throughout the United States. In addition, the Corporation's 24-hour emergency room department has been designated by the County of Los Angeles as one of two Level I pediatric trauma centers and the only one dedicated solely to children.

The Corporation is the sole Member of the Obligated Group.

Governance

The Bylaws of the Corporation state there are two classes of membership on the Board of Trustees: active and honorary. Honorary members are not counted in determining the maximum number of active members and do not have voting privileges. The Bylaws also state there will be no fewer than 60 nor more than 90 active members of the Board of Trustees of the Corporation.

Active members consist of those elected and those who are appointed by virtue of holding designated positions. Elected members hold office for three-year terms and, unless an exception is granted, may hold up to five terms. Members are divided into three nearly equal staggered classes with one class being elected each year. Appointed members are the President and Chief Executive Officer, the Vice President of Surgery, the Vice President of Pediatrics, the Chairman of the Medical Staff, the Chief Nursing Officer, the Chair of the board of directors of Childrens Hospital Los Angeles Medical Group (formerly University Childrens Medical Group), and the Dean of the Keck School of Medicine of the University of Southern California.

Licensure, Certification and Accreditation

The Corporation receives accreditation from The Joint Commission. The Corporation was last surveyed in June 2009 by The Joint Commission and received accreditation for the customary 39 month period. The Corporation is licensed by the State of California Department of Public Health, Licensing and Certification Division, and is a member of, among other organizations, the California Hospital Association, the California Children's Hospital Association, and the Healthcare Association of Southern California.

EXHIBIT 4

FINANCING TEAM

Childrens Hospital Los Angeles Financing Team

Corporation Counsel:	Jones Day
Financial Advisor:	Shattuck Hammond Partners
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP
Underwriters:	Bank of America Merrill Lynch Citigroup
Underwriters' Counsel:	Sidley Austin LLP
Bond and Master Trustee:	The Bank of New York Trust Company, N.A.
Trustee's Counsel:	Davis Wright Tremaine
Bond Insurer:	Assured Guaranty