

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (“CHFFA”)
REVENUE BOND FINANCING PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Children’s Hospital of Orange County dba CHOC Children’s (“CHOC”) 1201 W. La Veta Avenue Orange, California 92868 Orange County</p> <p>Project Sites: <i>See Exhibit 1</i></p> <p>Facility Types: Acute Care Hospital</p> <p>Eligibility: Government Code 15432(d)(1)</p> <p>Prior Borrower: Yes (date of last CHFFA issue, September 2011)</p> <p>Obligated Group: CHOC is the sole Member of the Obligated Group</p> <p>Guarantor Member: Children’s HealthCare of California (“CHC”)</p>	<p>Amount Requested: \$117,000,000</p> <p>Requested Loan Term: Up to 40 years</p> <p>Authority Meeting Date: June 27, 2019</p> <p>Resolution Number: 436</p>																
<p>Background: CHOC was established in 1964 as a California nonprofit benefit corporation. CHOC’s hospital facility is a regional tertiary/quaternary referral center and is the largest single provider of pediatric hospital services in Orange County. CHOC also provides a wide variety of outpatient services through its ambulatory care centers. CHOC’s mission is “to nurture, advance, and protect the health and well-being of children”. In 1986, CHC was incorporated as the "parent" company and sole corporate member of CHOC.</p>																	
<p>Use of Proceeds: CHOC intends to use bond proceeds to refund all or a portion of the outstanding CHFFA Series 2009A Bonds. Refunding the outstanding 2009A bonds is expected to provide CHOC with a net present value savings of approximately \$30 million over the life of the bonds. In addition, bond proceeds will be used to pay costs of issuance and, at the sole option of CHOC, provide a bond reserve fund.</p>																	
<p style="text-align: center;">Type of Issue: Negotiated public offering of fixed rate bonds</p> <p style="text-align: center;">Expected Credit Rating: A+/ AA-; Standard & Poor’s/Fitch Ratings</p> <p style="text-align: center;">Financing Team: <i>See Exhibit 2 to identify possible conflicts of interest</i></p>																	
<p>Financial Overview: CHOC’s income statement continues to post positive operating results during the review period from FY 2016 to FY 2018. CHOC appears to have a solid financial position with a proforma operating debt service coverage ratio of 5.06x.</p>																	
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Total Estimated Sources	<u>\$119,955,000</u>	Total Estimated Uses	<u>\$ 119,955,000</u>														
<p>Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Affiliation Due Diligence, Seismic, and CEQA documentation, and the certifications for Community Service Obligation, Savings Pass Through, and the Iran Contracting Act. All documentation satisfies the Authority’s requirements.</p>																	
<p>Staff Recommendation: Staff recommends the Authority approve Resolution Number 436 in an amount not to exceed \$117,000,000 subject to the conditions in the resolution, including a bond rating of at least investment grade by a nationally recognized rating agency. TAP International, Inc., the Authority’s financial analyst, and KNN Public Finance LLC, the Authority’s municipal advisor, concur with the Authority’s staff recommendation.</p>																	

STAFF SUMMARY AND RECOMMENDATION

Children’s Hospital of Orange County

June 27, 2019

Resolution No. 436

I. PURPOSE OF FINANCING:

CHOC is embarking on a plan to refinance its debt and take advantage of current favorable market conditions. CHOC intends to use bond proceeds to refund its CHFFA Series 2009A bonds. The Series 2009A Bonds are eligible for a current refunding (with a redemption date of November 1, 2019) in August 2019, which is when the 2019A Bonds are scheduled to close. Under current market conditions, CHOC anticipates a net present value savings of approximately \$30 million over the life of the refunding bonds.

***Refunding CHFFA 2009A Bonds*..... \$118,200,000**

CHOC plans to refund all or a portion of its CHFFA Series 2009A Bonds, of which approximately \$114,530,000 remains outstanding. The 2009A Bonds were originally issued in June 2009 in the amount of \$139,565,000 to finance the construction of a new eight-story patient tower, known as the Bill Holmes Tower, on the hospital’s main campus. Additionally, bond proceeds were used to finance the purchase of new equipment, costs of issuance and a debt service reserve fund. The 2009A Bonds were also used to refund the CHFFA Series 1991 Bonds, Series 1994 Bonds, Series 2004A Bonds and Series 2004B Bonds, which themselves financed expenditures and renovations at CHOC's main campus.

***Financing Costs* 1,755,000**

Estimated Underwriter’s discount	\$877,500
Estimated cost of issuance	<u>877,500</u>

***Total Estimated Uses of Funds* \$119,955,000**

II. PROPOSED COVENANTS, SECURITY PROVISIONS AND DISCLOSURES:

This executive summary 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 and disclosures cannot be diluted or removed without subsequent review. If there have been modifications to the proposed covenants and disclosures following the preparation of this executive summary, staff will report it at the meeting.

After reviewing the Obligated Group's (defined below) credit profile, including its current financial profile, prior bond transactions, and considering what the market will support, CHOC, KNN Public Finance LLC ("KNN"), the Authority's municipal advisor, and the underwriter have concluded the covenants listed below should be applicable to this transaction, are consistent with covenants that have applied to the Obligated Group's prior bond transactions, and that the Obligated Group's current financial situation does not suggest additional covenants should be required.

Obligated Group. CHOC is the sole Member of the Obligated Group. CHOCO Realty Corporation was previously a Member of the Obligated Group, but CHOCO Realty Corporation subsequently merged into CHOC. Any future member of the Obligated Group is jointly and severally obligated under a master trust indenture (the "Master Indenture") with respect to payments on CHFFA's bonds and other parity debt (including CHFFA's 2009 Bonds and 2011 Bonds issued for CHOC). CHOC is the borrower under the loan agreement (the "Loan Agreement"). All covenants below are applicable to each Member of the Obligated Group. There are also protective tests under the Master Indenture limiting Members from being added to or withdrawing from the Obligated Group if the change would result in a significant reduction of the financial strength of the Obligated Group.

Parent as Guarantor. CHOC's parent entity, Children's Healthcare of California (also a California nonprofit public benefit corporation ("CHC")), is a guarantor of debt under the Master Indenture, including the proposed 2019 Bonds, but only if the Obligated Group has failed to make payments. CHC is not bound by the various operational and financial covenants applicable to the Obligated Group Members.

The following covenants are applicable for this transaction:

Unconditional Promise to Pay. *CHOC agrees to pay the Bond Trustee all amounts required for principal, interest or redemption premium, if applicable, and other payments and expenses designated in the Loan Agreement. The Obligated Group guarantees all such payments under a master indenture obligation and CHC further guarantees such payments if the Obligated Group fails to make them. All Revenues (which will include payments by CHOC under the Loan Agreement and payments by the Obligated Group and CHC) and any other amounts held in funds or accounts under the Bond Indenture (other than the Rebate Fund) are pledged to secure the full payment of the Bonds.*

Pledge of Gross Revenues. *Each Member of the Obligated Group pledges to deposit all Gross Revenues (which generally consist of revenues, income, moneys, fees, rates, receipts, rentals, charges, issues and income received) into a Gross Revenue Fund for which there is a deposit account control agreement for the benefit of the Master Trustee.*

Negative Pledge Against Prior Liens. *Each Obligated Group Member agrees not to create, assume or permit any Lien upon the Gross Revenues or their respective Property other than Permitted Liens.*

Limited Permitted Liens and Encumbrances. *Each Obligated Group Member is subject to a restrictive set of allowable liens or encumbrances it may incur pursuant to the Master Indenture.*

Debt Service Coverage Requirement. *The Master Indenture contains a debt service coverage requirement based on 1.20 times Annual Required Debt Service. A debt service coverage requirement is 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.*

Additional Debt Limitation. *Each Obligated Group Member agrees not to incur additional Indebtedness unless authorized by various financial performance or projection measures set out in the Master Indenture.*

Limitations on Mergers, Consolidation, Sales or Conveyances. *Each Obligated Group Member agrees not to merge, consolidate with any other entity or sell or convey all or substantially all of its assets to any Person outside of the Obligated Group unless authorized by various limiting measures set out in the Master Indenture.*

Disposition of Cash and Property Limitations. *Each Obligated Group Member agrees not to sell, lease or dispose of any property, plant or equipment or liquid assets unless authorized by various limiting measures set out in the Master Indenture.*

Comply with SEC Rule 15c2-12. *CHOC, on behalf of the Obligated Group, will take such action as is necessary to assist the underwriter in complying with SEC Rule 15c2-12. CHOC will contractually agree to disclose designated financial and operating information to the SEC web site (EMMA) during the life of the 2019 bonds and to report designated “material events” such as missed debt service payments, any change in bond ratings, defeasance, redemptions, etc.*

Staff has completed its due diligence, and KNN has reviewed the Loan Agreement, Bond Indenture, and prior CHOC offering documents associated with this financing package and found these documents and proposed covenants to be acceptable.

III. FINANCIAL STATEMENTS AND ANALYSIS:

Children's Hospital of Orange County
Statement of Activities
Income Statement
(in Thousands)

	As of June 30,		
	2018	2017	2016
Operating Revenue:			
Patient service revenue less provision for bad debts	\$ 654,477	\$ 572,927	\$ 523,171
Premium revenue	60,128	62,377	55,855
Other revenue	76,118	67,621	61,619
Net assets released from restrictions used for operations	11,443	29,695	9,011
Total operating revenue	<u>802,166</u>	<u>732,620</u>	<u>649,656</u>
Expenses:			
Salaries and benefits	314,449	290,927	276,510
Purchased services	212,284	200,998	169,568
Supplies	100,547	83,667	74,782
Rent	10,567	9,869	7,972
Depreciation & amortization	37,095	37,701	40,116
Interest expense	15,866	15,935	15,570
Provider program fees	16,650	17,987	12,966
Other	21,504	18,315	15,825
Total operating expenses	<u>728,962</u>	<u>675,399</u>	<u>613,309</u>
Income from operations	<u>73,204</u>	<u>57,221</u>	<u>36,347</u>
Other gains:			
Investment and other nonoperating income (loss)	8,737	15,671	(26,406)
Contributions from CHOC Foundation	1,011	156	577
Other gains (losses)	<u>9,748</u>	<u>15,827</u>	<u>(25,829)</u>
Excess of revenue and gains over expenses and losses	82,952	73,048	10,518

(Continued)

	As of June 30,		
	2018	2017	2016
Net assets released from restrictions used for capital expenditures	12,956	5,802	452
Contributions for purchase of capital equipment	15	50	389
Amortization of frozen balance related to formally hedged derivatives	1,631	1,631	1,628
Contributions (to) from Affiliates	(75,000)	-	(35,000)
Increase (decrease) unrestricted net assets:	22,554	80,531	(22,013)
Unrestricted net assets, beginning of year	557,147	476,616	498,629
Unrestricted net assets, end of year	<u>\$ 579,701</u>	<u>\$ 557,147</u>	<u>\$ 476,616</u>

For fiscal year end June 30,

Payor Source	% Patient Service Revenue		Patient Days			
	2018	2017	2018		2017	
			Total	%	Total	%
Commercial Insurance	36.5	35.2	22,921	35.4	22,034	35.1
Medi-Cal / CalOptima ⁽¹⁾	22.7	23.9	11,179	17.3	10,774	17.2
California Children's Services	38.7	39.0	29,185	45.1	28,653	45.7
Other Third Party	0.9	1.0	491	0.8	375	0.6
All Other Governmental / Other	1.2	0.9	982	1.5	903	1.4
Total	100	100	64,758	100	62,739	100

⁽¹⁾ CalOptima is a county organized health system that administers health insurance programs for low-income families, children, seniors and persons with disabilities in Orange County.

Children's Hospital of Orange County
Statement of Financial Position
Balance Sheet
(in Thousands)

	As of June 30,		
	2018	2017	2016
Assets:			
Current assets:			
Cash and cash equivalents	\$ 266,261	\$ 195,769	\$ 101,196
Short-term investments	66,461	52,379	49,885
Assets whose use is limited - current	11,171	29,705	41,962
Patient account receivables, net	119,025	104,125	105,573
Provider fee program receivable	32,964	16,855	24,141
Inventory	12,489	12,103	10,593
Other receivables	8,382	8,449	9,721
Receivable from related parties	5,315	3,255	2,328
Current portion of beneficial interest in net assets of CHOC Foundation	577	155	709
Prepaid expenses and other current assets	35,937	23,161	22,495
Total current assets	558,582	445,956	368,603
Assets whose use is limited			
Designated by board	7,430	6,415	6,314
Funds held by trustee	10,987	10,913	10,879
Other	2,319	2,237	2,033
Total assets whose use is limited	20,736	19,565	19,226
Property and equipment, net	620,791	632,946	636,725
Beneficial interest in net assets of CHOC Foundation	18,573	12,393	26,963
Other assets	4,885	4,610	5,001
Goodwill	1,216	1,216	1,216
Total assets	\$ 1,224,783	\$ 1,116,686	\$ 1,057,734
Liabilities and Net Assets:			
Current liabilities:			
Current portion of long-term debt and capital lease obligations	\$ 9,254	\$ 8,882	\$ 8,534
Accounts payable and accrued liabilities	50,075	55,364	41,228
Accrued compensation and related liabilities	39,359	35,757	33,526
Provider fee program expenses payable	-	-	3,925
Medical claims payable	1,904	1,795	2,453
Deferred income	104,698	11,125	292
Payable to third-party payors	11,396	3,749	3,197
Payable to contracting hospitals	344	149	436
Payable to related parties	573	-	5
Total current liabilities	217,603	116,821	93,596

(Continued)

	As of June 30,		
	2018	2017	2016
Long-term debt and capital lease obligations	325,696	334,650	343,227
Estimated liability for workers' compensation, net of current portion	8,302	7,036	6,857
Postretirement benefit obligation	2,687	2,729	2,771
Derivative financial instruments	34,469	46,955	67,916
Long-term medical malpractice reserves	6,515	5,865	6,273
Total liabilities	<u>595,272</u>	<u>514,056</u>	<u>520,640</u>
Net assets:			
Unrestricted:			
Undesignated	572,271	550,732	470,302
Board-designated	7,430	6,415	6,314
Total unrestricted	<u>579,701</u>	<u>557,147</u>	<u>476,616</u>
Temporarily restricted	49,124	44,797	59,792
Permanently restricted	686	686	686
Total net assets	<u>629,511</u>	<u>602,630</u>	<u>537,094</u>
Total liabilities and net assets	<u>\$ 1,224,783</u>	<u>\$ 1,116,686</u>	<u>\$ 1,057,734</u>

	Proforma			
	FYE June 30, 2018 ^(a)	2018	2017	2016
Debt Service Coverage - Operating (x)	5.06	5.01	4.46	3.81
Debt Service Coverage - Net (x)	5.45	5.39	5.10	2.74
Debt/Unrestricted Net Assets (x)	0.58	0.58	0.62	0.74
Margin (%)		9.13	7.81	5.59
Current Ratio (x)		2.57	3.82	3.94

^(a) Recalculates FY 2018 audited results to include the impact of this proposed financing.

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Financial Discussion – Statement of Activities (Income Statement)

CHOC’s income statement continues to post positive operating results during the review period from FY 2016 to FY 2018.

CHOC’s income from operations increased from approximately \$36.3 million in FY 2016 to approximately \$73.2 million in FY 2018 as operating revenues outpaced operating expenses in each fiscal year. Overall, total operating revenue grew 23.5% and was driven by increases in patient service revenue, premium revenue, and other revenue. Patient service revenue grew from approximately \$523.2 million in FY 2016 to approximately \$654.5 million in FY 2018. According to CHOC’s management, the increase in patient service revenue is mainly due to increased patient volumes as well as operational improvements to reduce wait times and improve patient care in the most impactful clinical settings including the Emergency and Surgical departments.

In alignment with total operating revenue, total operating expenses increased by 18.8% from approximately \$613.3 million in FY 2016 to approximately \$729.0 million in FY 2018. The increase in total operating expenses was primarily driven by labor costs associated with salaries and benefits, purchased services, and supply costs.

Financial Discussion – Statement of Financial Position (Balance Sheet)

CHOC appears to have a solid financial position with a proforma operating debt service coverage ratio of 5.06x.

CHOC appears to demonstrate a continued strong ability to repay debt as its debt service coverage ratio (“DSCR”) from operations increases from 3.81x in FY 2016 to 5.01x in FY 2018. With expected savings from the proposed refunding bonds, the pro-forma FY 2018 DSCR from operations further increases to 5.06x. CHOC demonstrates additional strength with a pro-forma FY 2018 DSCR from net income of 5.45x. CHOC appears to be decreasing its debt load with long-term debt and capital lease obligations reducing from approximately \$343.2 million in FY 2016 to approximately \$325.7 million in FY 2018. Accordingly, CHOC’s debt to unrestricted net assets ratio declined from 0.74x in FY 2016 to 0.58x in FY 2018. With the issuance of the Series 2019 bonds, CHOC’s pro-forma FY 2018 debt to unrestricted net assets ratio will remain at 0.58x.

CHOC exhibits strong liquidity although its current ratio has decreased from 3.94x in FY 2016 to 2.57x in FY 2018 as total current liabilities have grown at a faster pace than total current assets. Deferred income liability, which increased from \$292,000 in FY 2016 to approximately \$104.7 million in FY 2018, was the most significant contributor to the increase in total current liabilities. According to CHOC’s management, CHOC recognizes Provider Fee revenues and expenses in the period in which the Centers for Medicare and Medicaid Services (“CMS”) approve such programs. Certain portions of the Provider Fee program are paid prior to CMS approval in order to comply with federal matching time limits. CHOC recognizes these funds as deferred income on the balance sheet until the programs are approved.

IV. DUE DILIGENCE:

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

- **Section 15438.5(a) of the Act (Savings Pass Through):** CHOC properly completed and submitted the Pass-Through Savings Certification.
- **Section 15459.1 of the Act (Community Service Requirement):** CHOC properly completed and submitted the Community Service Obligation certification and indicated that Medi-Cal and Medicare patients are accepted. Below is a link to CHOC's 2018 Annual Report regarding community service:

<https://www.choc.org/about/2018-annual-report/>

- **Compliance with Seismic Regulations:** CHOC properly submitted a description of how it is complying with OSHPD seismic evaluation regulations.
- **Compliance with Section 15455(b) of the Act (California Environmental Quality Act):** CHOC properly submitted relevant documentation addressing the California Environmental Quality Act.
- **Religious Affiliation Due Diligence:** CHOC properly completed and submitted relevant documentation to meet the religious due diligence requirement
- **Legal Review:** CHOC properly completed and submitted relevant documentation for the Authority's Legal Status Questionnaire.
- **Iran Contracting Act Certification:** CHOC and the underwriter have properly completed and submitted the Iran Contracting Act Certification.

V. OUTSTANDING DEBT (in thousands):

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding As of June, 2018^(a)</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
EXISTING LONG-TERM DEBT:			
CHFFA Series 2009A	\$ 139,565	\$ 116,940	\$ -
CHFFA Series 2009BCD	127,800	112,775	112,775
CHFFA Series 2011A	106,735	103,900	103,900
PROPOSED NEW DEBT:			
CHFFA Series 2019A		-	117,000
TOTAL DEBT		\$ 333,615	\$ 333,675

^(a) Includes current portion of long-term debt.

VI. UTILIZATION STATISTICS:

	As of June 30,		
	2018	2017	2016
Licensed Beds	334	279	279
Discharges	12,334	12,891	11,999
Patient Days	65,577	61,704	66,021
Average Length of Stay (days)	5.3	4.8	5.5
Occupancy Based on Licensed Beds (%)	53.8	60.6	64.7
Select Outpatient Visits:			
Emergency Room	91,787	89,791	81,257
Specialty Clinic	75,562	74,034	71,663
Outpatient Surgery	7,628	7,887	7,384
Outpatient Infusion Center	7,595	6,498	6,846
Outpatient Observation	2,454	1,958	1,688
Subspecialty Physician Encounters ⁽¹⁾	403,928	350,307	312,090
Primary Care Physician Encounters ⁽²⁾	202,886	188,395	72,691

⁽¹⁾ On January 1, 2017, CHOC added the division of Radiology

⁽²⁾ On June 1, 2016, CHOC added eight primary care office locations, followed by one additional location on November 1, 2016, and one additional on May 1, 2018.

VII. BACKGROUND AND LICENSURE:

Background

CHOC was incorporated and began operating in 1964. CHOC's original 62-bed facility was located in a leased wing of St. Joseph Hospital of Orange, with which CHOC shared hospital services such as surgery, laboratory, radiology, pharmacy and dietary, among others. With a growth in demand, in 1975 CHOC moved to a former skilled nursing facility renovated into an acute care pediatric hospital, including neonatal and pediatric intensive care units and increased its licensed capacity to 190 beds. CHOCO Realty Corporation ("Realty"), which (prior to its merger into CHOC) held title to all of CHOC's land and buildings, purchased a two-story building adjacent to CHOC's acute care pediatric hospital and renovated the building to house ambulatory care services, including an outpatient clinic, outpatient pharmacy, psychology services, medical records, computer services, pediatric subspecialty medical offices and several administrative departments. In 1990, Realty constructed a six-story research building and an expanded clinic facility adjacent to CHOC's acute care pediatric hospital, and, in 1991, Realty constructed a 192 licensed bed replacement facility for all inpatient services ("CHOC North"). During the summer of 2002, because of increased demand, CHOC added ten new intensive care beds. This brought the current Newborn Intensive Care ("NICU") unit bed complement to 42, and CHOC's total beds to 202.

In the spring of 2013, CHOC opened the newly constructed Bill Holmes Tower, creating the first comprehensive pediatric care hospital in Orange County. Ancillary services previously purchased from St. Joseph Hospital including surgery, laboratory, emergency department, radiology, etc. were replaced with services provided by CHOC's pediatric-trained experts. On the 5th floor of the Bill Holmes Tower, CHOC opened a 28-bed private room Hematology/Oncology unit. CHOC also opened a 13-bed private room NICU located within St. Joseph Hospital in 2013. On June 30, 2013, CHOC's licensed beds totaled 279.

In the summer of 2017, CHOC opened a 37-bed private-room NICU on the 4th floor of the Bill Holmes Tower, and in the spring of 2018, CHOC opened an 18-bed pediatric mental health inpatient center. As of June 30, 2018, CHOC's licensed beds totaled 334.

Accreditation, Licensure and Memberships

CHOC is accredited, licensed and/or certified by the following organizations:

- The Joint Commission
- California Department of Public Health Licensing and Certifications
- California Children's Services - a statewide program for California children with physically disabling conditions
- American College of Surgeons
- American Psychological Association
- Accreditation Council for Graduate Medical Education
- American Dental Association Commission on Dental Accreditation
- United Network Organ Sharing
- National Marrow Donor Program
- American Association of Blood Banks
- Children's Oncology Group
- Commission on Cancer
- Foundation for the Accreditation of Cellular Therapy
- College of American Pathologists
- Food and Drug Administration
- City of Orange Emergency Receiving Center
- American Academy of Sleep Medicine

EXHIBIT 1
PROJECT SITES

- 455, 525, 557, & 571 South Main Street, Orange, CA 92868
- 1201 West La Veta Avenue, Orange, CA 92868

EXHIBIT 2

FINANCING TEAM

Borrower: Children's Hospital of Orange County

Agent for Sale: California State Treasurer

Issuer's Counsel: Office of the Attorney General

Issuer's Municipal Advisor: KNN Public Finance, LLC

Issuer's Financial Analyst: TAP International, Inc.

Borrower's Counsel: McCann Law PLLC

Bond Counsel: Orrick, Herrington & Sutcliffe LLP

Underwriter: Morgan Stanley & Co. LLC

Underwriter's Counsel: Norton Rose Fulbright US LLP

Trustee: U.S. Bank National Association

Trustee Counsel: Dorsey & Whitney LLP

Master Trustee: Wells Fargo Bank, N.A.

Master Trustee Counsel: Wells Fargo Bank, N.A.

Auditor: KPMG LLP

Rating Agencies: Standard & Poor's Financial Services, LLC
Fitch Ratings, Inc.

RESOLUTION NO. 436

**RESOLUTION OF THE CALIFORNIA HEALTH FACILITIES FINANCING
AUTHORITY AUTHORIZING THE ISSUANCE OF
REVENUE BONDS TO FINANCE AND/OR REFINANCE
PROJECTS AT THE HEALTH FACILITIES OF CHILDREN'S HOSPITAL OF
ORANGE COUNTY (AS DESCRIBED BELOW)**

WHEREAS, the California Health Facilities Financing Authority (the "Authority"), a public instrumentality of the State of California, is authorized and empowered by the provisions of the California Health Facilities Financing Authority Act (the "Act") to issue revenue bonds and loan proceeds thereof to any participating health institution to finance the construction, expansion, remodeling, renovation, furnishing, equipping and acquisition of health facilities (including by reimbursing expenditures made for such purposes), to refinance indebtedness of a participating health institution in connection therewith and to refund any outstanding bonds or any outstanding series or issue of bonds of the Authority; and

WHEREAS, Children's Hospital of Orange County (the "Corporation") is a nonprofit public benefit corporation duly organized and existing under the laws of the State of California, which owns and operates health care facilities in the State of California; and

WHEREAS, the Authority has previously issued California Health Facilities Financing Authority Revenue Bonds (Children's Hospital of Orange County), Series 2009A (the "Prior Bonds"), in the original aggregate principal amount of \$139,565,000, of which \$114,530,000 is currently outstanding, and loaned the proceeds thereof to the Corporation to refinance certain indebtedness and finance the acquisition, construction, equipping and improvement of certain health facilities, as more particularly described under the caption "Prior Project" in Exhibit A hereto (the "Prior Project"); and

WHEREAS, the Corporation has requested that the Authority issue one or more series of its revenue bonds in an aggregate principal amount not to exceed \$117,000,000, and make one or more loans of the proceeds thereof to the Corporation to (i) refund all or a portion of the Prior Bonds, (ii) pay costs of issuance of the Bonds (as defined below) and (iii) at the sole option of the Corporation, provide a bond reserve fund for the Bonds; and

WHEREAS, to the extent required by subdivision (b) of Section 15455 of the Government Code, the Corporation has provided documentation to the Authority demonstrating, to the extent applicable, that the Prior Project has complied with Division 13 (commencing with Section 21000) of the Public Resources Code or is not a "project" under such division; and

WHEREAS, approval of the terms of issuance and sale of such revenue bonds and various related matters is now sought;

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

SECTION 1. Pursuant to the Act, revenue bonds of the Authority designated as the “California Health Facilities Financing Authority Revenue Bonds (Children’s Hospital of Orange County), Series 2019A” (the “Bonds”), in a total aggregate principal amount not to exceed \$117,000,000, are hereby authorized to be issued from time to time, in one or more series, with such other name or names of the Bonds or series thereof as designated in the indenture pursuant to which the Bonds will be issued. The proceeds of the Bonds shall be used for any or all of the purposes set forth in the fourth recital above.

SECTION 2. The Treasurer of the State of California (the “Treasurer”) is hereby authorized to enter into agreements to sell the Bonds in one or more series, on one or more sale dates, at any time prior to the first anniversary of the date of this Resolution, at public or private sale, in such aggregate principal amounts (not to exceed the aggregate principal amount set forth in Section 1) and in such series, at such prices (so long as the discount on the Bonds sold shall not exceed 6 percent of the par value thereof) and at such interest rate or rates and upon such other terms and conditions as the Treasurer, with the advice and consent of the Corporation, may determine. The Bonds shall, at issuance, be rated at investment grade by an active nationally recognized rating agency. The Bonds or any series of them may, at the sole option of the Corporation, be secured by deeds of trust, a reserve fund, bond insurance, credit facilities and other security arrangements and/or supported by one or more liquidity facilities.

SECTION 3. The proposed forms of the following documents:

(i) A Loan Agreement relating to the Bonds (the “Loan Agreement”), between the Authority and the Corporation,

(ii) A Bond Indenture relating to the Bonds (the “Bond Indenture”), between the Authority and U.S. Bank National Association, as bond trustee (the “Bond Trustee”),

(iii) A Bond Purchase Contract, including the exhibits thereto, relating to the Bonds (the “Purchase Contract”), among Morgan Stanley & Co. LLC, on behalf of the underwriters named in the Purchase Contract as finally executed (the “Underwriter”), the Treasurer and the Authority, and approved by the Corporation, and

(iv) A preliminary official statement relating to the Bonds (the “Preliminary Official Statement”),

are hereby approved in substantially the forms on file with the Authority prior to this meeting, with such insertions, deletions or changes therein (including, without limitation, insertions, deletions or changes therein appropriate to reflect provisions relating to a deed of trust, a bond reserve fund, bond insurance, any other credit and/or liquidity facility and/or another security arrangement, at the sole option of the Corporation, for the Bonds) as the officer executing the same may require or approve, such approval to be conclusively evidenced by execution and delivery thereof in the case of the Loan Agreement, the Bond Indenture and the Purchase Contract and by delivery thereof in the case of the Preliminary Official Statement. The Executive Director shall seek the advice of bond counsel and counsel to the Authority with respect to any such insertions, deletions or changes therein.

SECTION 4. The Authority hereby specifically finds and declares that the findings of the Authority set forth in the Loan Agreement are true and correct.

SECTION 5. The dated dates, maturity dates (not exceeding 40 years from the respective date of issue), interest rates, interest payment dates, denominations, forms, registration privileges or requirements, place or places of payment, terms of tender or purchase, terms of redemption, provisions governing transfer and other terms of the Bonds, including provisions for a credit facility and/or a liquidity facility from time to time, shall be as provided in the Bond Indenture, as finally executed.

SECTION 6. The Underwriter is hereby authorized to distribute a Preliminary Official Statement for the Bonds to persons who may be interested in the purchase of such Bonds offered in such issuance, it being understood that, at the discretion of the Underwriter (in consultation with the Corporation), a preliminary official statement may not be used with respect to the Bonds. The Underwriter is hereby directed to deliver the final official statement (the "Official Statement") to all actual purchasers of such Bonds.

SECTION 7. The Bonds, when executed, shall be delivered to the Bond Trustee for authentication by the Bond Trustee. The Bond Trustee is hereby requested and directed to authenticate the Bonds by executing the Bond Trustee's Certificate of Authentication appearing thereon, and to deliver the Bonds, when duly executed and authenticated, to or upon direction of the Underwriter thereof in accordance with written instructions executed on behalf of the Authority, which instructions are hereby approved. Said instructions shall provide for the delivery of the Bonds to or upon direction of the Underwriter, as determined and confirmed by the Treasurer, upon payment of the purchase price thereof.

SECTION 8. Each officer of the Authority is hereby authorized and directed, for and in the name of and on behalf of the Authority, to do any and all things which they may deem necessary or advisable in order to consummate the issuance, sale, and delivery of the Bonds and otherwise to effectuate the purposes of this Resolution and the Bond Indenture, Loan Agreement, Purchase Contract and Official Statement. The Authority hereby approves any and all documents to be delivered in furtherance of the foregoing purposes, including without limitation: (a) a tax certificate and agreement and other certifications; and (b) any agreement or commitment letter with respect to the provisions of bond insurance, a letter of credit, a surety bond, a credit facility and/or a liquidity facility for the Bonds.

SECTION 9. The provisions of the Authority's Resolution No. 2018-09 apply to the documents and actions approved in this Resolution.

SECTION 10. The Authority hereby approves and ratifies each and every action taken by its officers, agents and employees prior to the date hereof in furtherance of the purposes of this Resolution.

SECTION 11. This Resolution shall take effect from and after the date of adoption.

Date of Adoption: _____

EXHIBIT A

Prior Project Description

To finance and/or refinance (including refinance bonds previously issued by the Authority for the benefit of the Corporation) the costs of acquisition, construction, expansion, remodeling, renovation, furnishing and equipping of certain health facilities located on or about the campus located generally at 525 South Main Street, 571 South Main Street; 557 South Main Street; 455 South Main Street, 1201 West La Veta; and a pedestrian walkway over La Veta Avenue connecting the Main Street parking garage with the Corporation's hospital campus, all located in Orange, California 92868.