

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (AUTHORITY)

BOND FINANCING PROGRAM

Stanford Health Care

Amendment to Resolution No. 439

February 25, 2021

PURPOSE OF THE AMENDMENT:

The resolution authorizing the Treasurer of the State of California to sell bonds for the benefit of Stanford Health Care (SHC) expires on February 27, 2021. To provide the necessary time to complete the sale of additional bonds, SHC is requesting a six-month extension of the resolution. Additionally, SHC is requesting a change to the resolution to allow any of the underwriter(s) on the State Treasurer's eligible list of underwriters to serve as underwriter(s).

BACKGROUND:

On February 27, 2020, the Authority approved Resolution No. 439, authorizing the issuance of bonds for SHC in an amount not to exceed \$515,000,000. Resolution No. 439 authorized bond proceeds to be used for the reimbursement of expenditures incurred from the new Stanford Hospital project and the refunding of the CHFFA 2012 Series C Bonds, CHFFA 2012 Series D and CHFFA 2015 Series B bonds.

In April 2020, the CHFFA 2020 Series A bonds were issued in the amount of \$170,120,000 for SHC for the reimbursement and the refunding of the CHFFA 2012 Series C bonds. However, volatile market conditions caused by COVID-19 led SHC to reevaluate and postpone the issuance of bonds for the refunding of the CHFFA 2012 Series D and CHFFA 2015 Series B bonds (together, the Bonds).

Approximately \$345,000,000 of bond authorization remains available to issue bonds for SHC under Resolution No. 439, which will expire on February 27, 2021. Current market conditions have stabilized with favorable interest rates, and SHC would like to capitalize on these conditions to issue the remaining bond authorization amount. Extending the resolution's expiration date by six months will allow SHC to issue bonds for refunding of the Bonds.

Further, Resolution No. 439 identified Morgan Stanley & Co. LLC; RBC Capital Markets, LLC; Goldman Sachs & Co.; LLC, and Barclays Capital, Inc. as entities that will serve as underwriters. SHC requested that the Authority amend the resolution to allow any of the underwriter(s) on the State Treasurer's eligible list of underwriters to serve as underwriter(s).

FINANCIAL STATUS:

In order to perform its due diligence, CHFFA staff, in consultation with TAP International, Inc., the Authority's financial analyst, reviewed SHC's FY 2020 audited financial statements. A review of SHC's most recent audited financial statement appears to display an operating debt service coverage ratio of 4.22x in FY 2020. According to SHC management, this ratio is lower than it was in fiscal years 2018 and 2019 primarily due to the combination of a decrease in funds available for debt service and the inclusion of debt from bonds issued in 2020. However, SHC appears to retain a solid financial position, reinforcing staff's recommendation to authorize the issuance of additional bonds.

RECOMMENDATION:

Staff recommends the Authority approve an amendment to Resolution No. 439 for Stanford Health Care to extend the date to sell bonds on or before August 27, 2021 in a total amount not to exceed \$515 million, as well as to enter into a bond purchase contract with any underwriter(s) on the State Treasurer's eligible list of underwriters.

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I. FINANCIAL STATEMENTS AND RATIOS:

**Stanford Health Care
Consolidated Statements of Operations and
Changes in Net Assets
(\$ in thousands)**

	Year ended August 31,		
	2020	2019	2018
Operating revenues:			
Net patient service revenue less provision for doubtful accounts*	\$ 5,140,938	\$ 5,113,052	\$ 4,677,929
Premium revenue	116,971	106,130	92,654
Grants - COVID-19	124,551	-	-
Other revenue	174,293	157,757	135,597
Net assets released from restrictions used for operations	10,823	13,063	4,366
Total operating revenues	<u>5,567,576</u>	<u>5,390,002</u>	<u>4,910,546</u>
Operating expenses:			
Salaries and benefits	2,548,259	2,302,399	2,091,260
Professional services	38,463	41,300	46,146
Supplies	820,403	727,136	667,379
Purchased services	1,458,959	1,350,708	1,216,992
Depreciation and amortization	257,725	190,283	176,742
Interest	68,019	42,431	35,434
Other	460,483	483,258	477,661
Expense recoveries from related parties	(105,779)	(130,800)	(121,727)
Total operating expenses	<u>5,546,532</u>	<u>5,006,715</u>	<u>4,589,887</u>
Income from operations	21,044	383,287	320,659
Interest and investment income	43,973	42,904	31,122
Earnings on equity method investments	19,592	8,315	7,048
Increase in value of University managed pools	161,720	76,748	110,984
Swap interest and change in value of swap agreements	(53,722)	(146,794)	48,043
Other components of net periodic benefit costs	(2,070)		
Loss on extinguishment of debt	-	-	(47,613)
Excess of revenues over expenses	<u>190,537</u>	<u>364,460</u>	<u>470,243</u>
Other changes in net assets without donor restrictions:			
Transfer to Stanford University	(98,367)	(120,090)	(98,183)
Transfer from Lucile Salter Packard Children's Hospital	-	-	2,068
Change in net unrealized gains on investments	(1,249)	22,825	9,438
Net assets released from restrictions used for:			
Purchase of property and equipment	3,248	977	309
Purchase of property and equipment - New Stanford Hospital	555,219	-	-
Change in pension and postretirement liability	1,042	(26,422)	28,277
Noncontrolling capital distribution	(2,400)	-	(1,200)
Increase in net assets without donor restrictions	<u>648,030</u>	<u>241,750</u>	<u>410,952</u>

(Continued)

	Year ended August 31,		
	2020	2019	2018
Changes in net assets with donor restrictions:			
Transfer (to) from Stanford University	162	(316)	2,177
Contributions and other	22,084	31,079	44,983
Investment income	929	815	712
Gains on University managed pools	2,885	2,176	2,467
Net assets released from restrictions used for:			
Operations	(10,823)	(13,063)	(4,366)
Purchase of property and equipment	(3,248)	(977)	(309)
Purchase of property and equipment - New Stanford Hospital	(555,219)	-	-
Increase in net assets with donor restrictions	(543,230)	19,714	45,664
Increase in net assets	104,800	261,464	456,616
Net assets, beginning of year	4,222,648	3,961,184	3,504,568
Net assets, end of year	<u>\$ 4,327,448</u>	<u>\$ 4,222,648</u>	<u>\$ 3,961,184</u>

Stanford Health Care
Consolidated Balance Sheets
(\$ in thousands)

	Year ended August 31,		
	2020	2019	2018
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,642,912	\$ 505,509	\$ 652,256
Assets limited as to use, held by trustee	92	11	-
Short-term investments	-	399,639	391,314
Patient accounts receivables	654,342	685,425	623,077
Other receivables	165,737	93,529	79,036
Inventories	125,082	69,831	58,884
Prepaid expenses and other	108,587	84,524	52,886
Total current assets	<u>2,696,752</u>	<u>1,838,468</u>	<u>1,857,453</u>
Investments	689,110	657,554	509,781
Investments at equity	116,975	97,963	80,989
Investments in University managed pools	1,610,737	1,478,554	1,400,839
Property and equipment, net	3,646,012	3,691,015	3,279,048
Right of use lease assets	58,533	-	-
Other assets	341,580	78,360	86,739
Total assets	<u>\$ 9,159,699</u>	<u>\$ 7,841,914</u>	<u>\$ 7,214,849</u>
Liabilities and net assets			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 908,249	\$ 557,284	\$ 449,192
Accrued salaries and related benefits	287,411	275,099	209,490
Due to related parties	52,128	103,779	98,942
Third-party payor settlements	55,112	29,918	34,474
Current portion of long-term debt	116,045	114,235	14,505
Debt subject to remarketing arrangements	168,200	228,200	228,200
Operating lease liabilities, current	76,066	-	-
Self-insurance reserves and other	58,186	59,424	54,933
Total current liabilities	<u>1,721,397</u>	<u>1,367,939</u>	<u>1,089,736</u>
Self-insurance reserves and other, net of current portion	224,858	174,040	139,841
Swap liabilities	353,292	316,796	182,527
Operating lease liabilities, non-current	287,053	-	-
Other long-term liabilities	180,333	150,464	122,944
Pension liability	8,655	17,048	6,650
Long-term debt, net of current portion	<u>2,056,663</u>	<u>1,592,979</u>	<u>1,711,967</u>
Total liabilities	4,832,251	3,619,266	3,253,665

(Continued)

	Year ended August 31,		
	2020	2019	2018
Net assets:			
Without donor restrictions:			
Stanford Health Care	4,169,459	3,518,964	3,285,398
Noncontrolling interests	24,446	26,911	18,727
Total without donor restrictions	4,193,905	3,545,875	3,304,125
With donor restrictions	133,543	676,773	657,059
Total net assets	4,327,448	4,222,648	3,961,184
Total liabilities and net assets	<u>\$ 9,159,699</u>	<u>\$ 7,841,914</u>	<u>\$ 7,214,849</u>

Financial Ratios:

Debt Service Coverage (x) -- Operating	4.22	10.82	10.83
Debt Service Coverage (x) -- Net	4.52	11.35	11.15
Debt/Unrestricted Net Assets (x)	0.56	0.55	0.59
Operating Margin (%)	0.38	7.11	6.53
Current Ratio (x)	1.57	1.34	1.70

EXHIBIT 1
FINANCING TEAM

Borrower: Stanford Health Care

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.

Bond Counsel: Orrick, Herrington & Sutcliffe LLP

Borrower's Counsel: Ropes and Gray LLP

Borrower's Financial Advisor: Ponder & Co.

Underwriters: To be determined

Underwriters' Counsel: To be determined

Master Trustee, Trustee: The Bank of New York Mellon Trust
Company, N.A.

Master Trustee & Trustee's Counsel: The Bank of New York Mellon Trust
Company, N.A.

Auditor: PricewaterhouseCoopers LLP

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

AMENDMENT TO RESOLUTION NO. 439

AMENDMENT TO THE RESOLUTION OF THE CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY AUTHORIZING THE ISSUANCE OF REVENUE BONDS TO FINANCE AND REFINANCE A PROJECT AT THE HEALTH FACILITIES OF STANFORD HEALTH CARE

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;

WHEREAS, Stanford Health Care is a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the “Borrower”) which owns and operates health care facilities in the State of California;

WHEREAS, on February 27, 2020, the Authority adopted Resolution No. 439 (the “Original Resolution”) authorizing the issuance of one or more series of its revenue bonds in an aggregate principal amount not to exceed \$515,000,000 (the “Bonds”) to make one or more loans of the proceeds thereof to the Borrower for the purposes described in the Original Resolution, and further authorized the Treasurer of the State of California (the “Treasurer”) to enter into agreements to sell the Bonds at any time prior to the first anniversary of the date of the adoption of the Original Resolution;

WHEREAS, the first anniversary of the date of the adoption of the Original Resolution will be February 27, 2021 and an extension of the Original Resolution is now sought;

WHEREAS, the underwriters specified in the Original Resolution may change and it is desirable to authorize one or more underwriters listed in the State Treasurer’s eligible underwriter list to act as underwriter or underwriters in connection with the Bonds and for the Authority to enter into any bond purchase contracts related to the Bonds with such underwriter or underwriters;

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

Section 1. An extension of time is hereby authorized for the Treasurer to enter into agreements to sell the Bonds, at any time until the six month anniversary of the adoption of this amendment to the Original Resolution.

Section 2. Any underwriter or underwriters listed in the State Treasurer’s eligible list of underwriters are hereby authorized to act as the “Underwriters” under the Original Resolution and the Authority may enter into “Purchase Contracts” under the Original Resolution with such underwriter or underwriters.

Section 3. The provisions of the Authority's Resolution No. 2021-01 apply to the documents and actions approved in the Original Resolution and this amendment to the Original Resolution.

Section 4. Except as provided in Sections 1, 2 and 3 hereof, all provisions and conditions of the Original Resolution shall remain unchanged and in full effect.

Section 5. 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 amendment to the Original Resolution.

Section 6. This amendment to the Original Resolution shall take effect from and after the date of adoption.

Date of Adoption: _____