

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

<p>Applicant: Children’s Hospital of Orange County (CHOC) 1201 West La Veta Avenue Orange, CA 92868 Orange County</p> <p>Project Site: 1201 West La Veta Avenue, Orange, California 92868</p> <p>Facility Type: Acute Care Hospital</p> <p>Eligibility: Government Code 15432(d)(1)</p> <p>Prior Borrower: Yes (date of last CHFFA issue, August 2019)</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: \$213,000,000</p> <p>Requested Loan Term: Up to 40 years</p> <p>Authority Meeting Date: June 24, 2021</p> <p>Resolution Number: 445</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 2009 Series BCD and 2011 Series A bonds. Refunding the outstanding aforementioned bonds is expected to provide CHOC with a net present value savings of approximately \$30 million over the life of the bonds.</p>																	
<p>Type of Issue: Negotiated public offering, fixed rate bonds</p> <p>Expected Credit Rating: AA-/AA-; Standard & Poor’s/Fitch Ratings</p> <p>Financing Team: <i>See Exhibit 1 to identify possible conflicts of interest</i></p>																	
<p>Financial Overview: CHOC appears to exhibit a consistent increase in revenues over the review period. CHOC’s financial position appears strong with a pro-forma net debt service coverage ratio of 4.14x.</p>																	
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>Estimated Sources of Funds:</u></th> <th style="width: 15%;"></th> <th style="text-align: left;"><u>Estimated Uses of Funds:</u></th> <th style="width: 15%;"></th> </tr> </thead> <tbody> <tr> <td>Bond proceeds</td> <td style="text-align: right;">\$213,000,000</td> <td>Refunding</td> <td style="text-align: right;">\$ 210,870,000</td> </tr> <tr> <td></td> <td></td> <td>Financing costs</td> <td style="text-align: right;">2,130,000</td> </tr> <tr> <td>Total Estimated Sources</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">\$213,000,000</td> <td>Total Estimated Uses</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">\$ 213,000,000</td> </tr> </tbody> </table>		<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>		Bond proceeds	\$213,000,000	Refunding	\$ 210,870,000			Financing costs	2,130,000	Total Estimated Sources	\$213,000,000	Total Estimated Uses	\$ 213,000,000
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Bond proceeds	\$213,000,000	Refunding	\$ 210,870,000														
		Financing costs	2,130,000														
Total Estimated Sources	\$213,000,000	Total Estimated Uses	\$ 213,000,000														
<p>Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Affiliation Due Diligence, and CEQA documentation, and the certifications for Community Service Obligation, Pass-Through Savings, and the Iran Contracting Act. All documentation satisfies the Authority’s requirements.</p>																	
<p>Staff Recommendation: Staff recommends the Authority approve Resolution Number 445 in an amount not to exceed \$213,000,000 for Children’s Hospital of Orange County, 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>																	

I. PURPOSE OF FINANCING:

CHOC is requesting tax-exempt bond proceeds to refinance some of its prior CHFFA debt to take advantage of current favorable market conditions. CHOC intends to refund its CHFFA 2009 Series BCD bonds and 2011 Series A bonds. The 2009 Series BCD and 2011 Series A bonds are eligible for optional redemption, and under current market conditions, CHOC anticipates a net present value savings of approximately \$30 million over the life of the bonds. Bond proceeds also may be used to fund a bond reserve fund.

In addition to the proposed issuance of tax-exempt bonds through CHFFA, CHOC anticipates issuing an additional amount of approximately \$25 million through either a publicly negotiated taxable corporate bond issue or through a bank loan in order to finance the termination of interest rate swap agreements in connection with the CHFFA 2009 Series BCD bonds (such use is not an eligible use of bond proceeds under the CHFFA Act).

Refunding CHFFA 2009 Series BCD & 2011 Series A Bonds \$210,870,000

CHOC plans to refund all or a portion of its CHFFA 2009 Series BCD and 2011 Series A bonds. The 2009BCD bonds were originally issued in June 2009 in the amount of \$127,800,000 to finance and refinance CHOC’s South Tower Project located on its main campus, which included the construction of a 425,000 square-foot, seven-story building that encompasses an emergency room used to provide surgical services, radiological imaging services, and laboratory services. Additionally, bond proceeds were used to fund a debt service reserve fund and to refund the CHFFA 1991 Series, 1994 Series, and 2004 Series A&B bonds, all of which also originally financed expenditures and renovations at CHOC's main campus. Similarly, the 2011A bonds, which were originally issued in November 2011 in the amount of \$106,735,000, were also used to finance the South Tower Project.

Financing Costs 2,130,000

Estimated underwriter’s discount \$1,065,000
Estimated cost of issuance 1,065,000

Total Estimated Uses of Funds \$213,000,000

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, which is being amended and restated through an amended and restated master trust indenture, expected to be effective as of the date of issuance of the 2021 Bonds (the "Master Indenture") with respect to payments on CHFFA's bonds and other parity debt (including CHFFA Series 2009 bonds, 2011 bonds and 2019 bonds issued for CHOC). CHOC is the borrower under the loan agreements (the "Loan Agreements"). 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 2021 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 Agreements. 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 Agreements and payments by the Obligated Group and CHC) and any other amounts held in funds or accounts under the Bond Indentures (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 1.10x 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 website (EMMA) during the life of the 2021 bonds and to report designated “significant events” such as missed debt service payments, changes in bond ratings, defeasances, redemptions, etc.*

Staff and KNN have reviewed the contents of 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,		
	2020	2019	2018
Operating Revenue:			
Patient service revenue less provision for bad debts	\$ 735,951	\$ 789,153	\$ 654,477
Premium revenue	122,894	60,776	60,128
Other revenue	92,569	75,350	76,118
Net assets released from restrictions used for operations	19,316	12,703	11,443
Total operating revenue	<u>970,730</u>	<u>937,982</u>	<u>802,166</u>
Expenses:			
Salaries and benefits	391,514	348,742	314,449
Purchased services	276,533	229,851	212,284
Supplies	123,974	107,948	100,547
Rent	13,698	11,356	10,567
Depreciation & amortization	34,739	34,936	37,095
Interest expense	12,386	16,593	15,866
Provider program fees	23,717	40,043	16,650
Other	41,733	36,820	21,504
Total operating expenses	<u>918,294</u>	<u>826,289</u>	<u>728,962</u>
Income from operations	<u>52,436</u>	<u>111,693</u>	<u>73,204</u>
Other gains (losses):			
Investment and other nonoperating gains (loss)	(19,878)	(9,126)	8,737
Contributions from CHOC Foundation	1,699	873	1,011
Other gains (losses)	<u>(18,179)</u>	<u>(8,253)</u>	<u>9,748</u>
Excess of revenue and gains over expenses and (losses)	34,257	103,440	82,952
Increase in net assets without donor restrictions:	41,118	11,918	22,554
Net assets without donor restrictions, beginning of year	591,618	579,701	557,146
Net assets without donor restrictions, end of year	<u>\$ 632,736</u>	<u>\$ 591,618</u>	<u>\$ 579,701</u>

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

	As of June 30,		
	2020	2019	2018
Assets:			
Current assets:			
Cash and cash equivalents	\$ 387,369	\$ 267,462	\$ 266,261
Short-term investments	75,553	79,498	66,461
Assets whose use is limited - current	40,312	22,572	11,171
Patient accounts receivable, net	103,358	123,132	119,025
Provider fee program receivable	25,409	19,300	32,964
Inventory	18,032	13,168	12,489
Other receivables	26,715	7,894	8,382
Receivable from related parties	4,197	3,929	5,315
Current portion of beneficial interest	669	1,721	577
Prepaid expenses and other current assets	26,344	24,430	35,937
Total current assets	<u>707,958</u>	<u>563,106</u>	<u>558,582</u>
Assets whose use is limited			
Designated by board	10,034	8,308	7,430
Funds held by trustee	1,723	11,096	10,987
Other	3,534	2,431	2,319
Total assets whose use is limited	<u>15,291</u>	<u>21,835</u>	<u>20,736</u>
Property and equipment, net	626,872	618,294	620,791
Beneficial interest in net assets of CHOC Foundation	16,030	15,104	18,573
Other assets	9,113	10,800	4,885
Goodwill	1,216	1,216	1,216
Total assets	<u>\$ 1,376,480</u>	<u>\$ 1,230,355</u>	<u>\$ 1,224,783</u>
Liabilities and Net Assets:			
Current liabilities:			
Current portion of long-term debt and capital lease obligations	\$ 7,872	\$ 9,159	\$ 9,254
Short-term notes and loans payable	28,500	-	-
Accounts payable and accrued liabilities	84,027	68,044	50,075
Accrued compensation and related liabilities	46,259	41,661	39,359
Provider fee program expenses payable	4,686	3,970	-
Medical claims payable	5,768	2,729	1,904
Deferred income	89,660	56,602	104,698
Payable to third-party payors	15,600	9,055	11,396
Payable to contracting hospitals	-	186	344
Payable to related parties	12	16	573
Total current liabilities	<u>282,384</u>	<u>191,422</u>	<u>217,603</u>

(Continued)

	As of June 30,		
	2020	2019	2018
Long-term debt and capital lease obligations	304,759	317,718	325,696
Estimated liability for self-insured workers' compensation, net of current portion	8,193	7,758	8,302
Postretirement benefit obligation	3,766	3,619	2,687
Derivative financial instruments	63,809	46,016	34,469
Other liabilities	11,369	12,655	6,515
Total liabilities	<u>674,280</u>	<u>579,188</u>	<u>595,272</u>
Net assets:			
Without donor restrictions:			
Undesignated	622,702	583,310	572,271
Board-designated	10,034	8,308	7,430
Total net assets without donor restrictions	<u>632,736</u>	<u>591,618</u>	<u>579,701</u>
With donor restrictions	<u>69,464</u>	<u>59,549</u>	<u>49,810</u>
Total net assets	<u>702,200</u>	<u>651,167</u>	<u>629,511</u>
Total liabilities and net assets	<u>\$ 1,376,480</u>	<u>\$ 1,230,355</u>	<u>\$ 1,224,783</u>

	Proforma			
	FYE June 30, 2020 ^(a)	2020	2019	2018
Debt Service Coverage - Operating (x)	5.07	4.62	6.31	5.14
Debt Service Coverage - Net (x)	4.14	3.78	6.00	5.54
Debt/Net Assets Without Donor Restrictions (x)	0.54	0.54	0.55	0.58
Margin (%)		5.40	11.91	9.13
Current Ratio (x)		2.51	2.94	2.57

^(a) Recalculates FY 2020 audited results to include the impact of this proposed financing.

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Financial Discussion

CHOC appears to exhibit a consistent increase in revenues during the review period. CHOC's financial position appears strong with a pro-forma net debt service coverage ratio of 4.14x.

CHOC's total revenue increased from approximately \$802 million in FY 2018 to approximately \$971 million in FY 2020, an overall increase of 21%. The substantial increase over the review period appears to have been caused by a large, albeit fluctuating, increases in patient service revenues, starting at approximately \$654 million in FY 2018, increasing to approximately \$789 million in FY 2019, and then decreasing to approximately \$736 million in FY 2020. CHOC's management states that the sudden decline in patient service revenues in FY 2020 can be mainly contributed to the onset of the COVID-19 pandemic in March 2020, which resulted in significantly lower volumes of elective procedures and emergency department visits. Another factor that appears to drive the increased revenue growth is the change in premium revenue, which doubled from approximately \$61 million in FY 2019 to nearly \$123 million in FY 2020. CHOC's management states that this sizable increase is primarily due to a change in Medi-Cal's California Children's Services model in July 2019, which incorporates additional qualifying patients and conditions that are newly covered by Medi-Cal under what is deemed the Whole Child Model.

Total expenses increased by 26%, from just under \$729 million in FY 2018 to approximately \$918 million in FY 2020. Much of the increase appears to be related to the change in the salaries and benefits expense, which rose by 25% over the review period. According to CHOC's management, the increase was primarily due to wage inflation driven by a tight, skilled labor market and general inefficiencies when operating during the global COVID-19 pandemic, which may not be indicative of future operating performance. Although CHOC's total expenses increased overall from FY 2018 to FY 2020, its operating margins remained strong over the review period, most recently posting an operating margin of 5.4% in FY 2020.

CHOC's investment and other nonoperating gains and losses experienced losses of approximately \$9 million in FY 2019 and \$20 million in FY 2020. Net unrealized loss on ineffective swap agreements was a significant factor in the overall losses for both years. With CHOC issuing the separate taxable bonds to address the interest rate swap agreement losses, CHOC's management expects to experience a significant positive impact on future financial results.

CHOC has demonstrated a strong ability to service its debt with a net debt service coverage ratio of 3.78x in FY 2020. Considering the refunded debt, CHOC's pro-forma FY 2020 net debt service coverage ratio improves to a solid 4.14x. Net assets without donor restrictions have grown from just under \$580 million in FY 2018 to approximately \$633 million in FY 2020, an overall increase of 9%. CHOC's debt to net assets without donor restrictions ratio has remained relatively steady over the review period, being 0.58x, 0.55x, and 0.54x in fiscal years 2018, 2019, and 2020, respectively. Considering the proposed refunded debt, CHOC's pro-forma FY 2020 debt to net assets without donor restrictions ratio remains unchanged at 0.54x.

CHOC appears to exhibit solid liquidity with strong growth in cash and cash equivalents, which increased from approximately \$266 million in FY 2018 to approximately \$387 million in FY 2020. CHOC's management explains that this increase was primarily due to increased cash generated by operations.

IV. DUE DILIGENCE:

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

- **Section 15438.5(a) of the Act (Pass-Through Savings):** CHOC properly completed and submitted the Pass-Through Savings Certification.
- **Section 15459.1 of the Act (Community Service Obligation 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 2020 Community Benefit Plan regarding community service:

<https://www.choc.org/files/CommunityBenefitPlan.pdf>

- **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 affiliation due diligence requirement.
- **Legal Review:** CHOC properly completed and submitted relevant documentation for the Authority's Legal Status Questionnaire.
- **Iran Contracting Act Certificate:** The underwriter, Morgan Stanley & Co. LLC, properly completed and submitted the Iran Contracting Act Certificate to the Authority.

V. OUTSTANDING DEBT (in thousands):

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding As of June 30, 2020^(a)</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
EXISTING LONG-TERM DEBT:			
CHFFA 2009 Series BCD	\$ 127,800	\$ 105,950	\$ -
CHFFA 2011 Series A	106,735	104,040	-
CHFFA 2019 Series A	107,713	83,820	83,820
PROPOSED NEW DEBT:			
CHFFA 2021 Series A & B		-	213,000
CHOC 2021 Series C		-	25,000
TOTAL DEBT		<u>\$ 293,810</u>	<u>\$ 321,820</u>

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

VI. UTILIZATION STATISTICS:

	<u>As of June 30,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Licensed Beds	334	334	334
Discharges	13,030	13,065	12,334
Patient Days	69,726	70,499	65,577
Average Length of Stay (days)	5.4	5.4	5.3
Occupancy Based on Licensed Beds (%)	57.2	57.8	53.8
Select Outpatient Visits:			
Emergency Room	83,415	91,671	91,787
Specialty Clinic	73,171	75,005	75,562
Outpatient Surgery	7,413	8,039	7,628
Outpatient Infusion Center	7,588	7,520	7,595
Outpatient Observation	2,549	2,559	2,454
Subspecialty Physician Encounters	437,072	433,545	403,928
Primary Care Physician Encounters	237,906	243,212	202,886

VII. BACKGROUND AND LICENSURE:

Background

CHOC was established 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 over the years since its genesis, CHOC moved to a former skilled nursing facility renovated into an acute care pediatric hospital in 1975, including neonatal and pediatric intensive care units and increased its licensed capacity to 190 beds. CHOCO Realty Corporation (Realty), which 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 residency and 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 Neonatal Intensive Care Unit (NICU) 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 NICU with private rooms 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, 2020, CHOC's licensed beds totaled 334.

Licensure and Accreditation

CHOC is appropriately licensed as an acute care hospital by the California Department of Public Health Services to the extent required and is certified to participate in the Medicare and Medi-Cal programs.

EXHIBIT 1

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’s Counsel: Dorsey & Whitney LLP

Master Trustee: Wells Fargo Bank, N.A.

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

Escrow Verification Agent: Causey Demgen & Moore P.C.

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

Auditor: KPMG LLP

RESOLUTION NO. 445

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

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 the California Health Facilities Financing Authority Revenue Bonds (Children's Hospital of Orange County), Series 2011A (the "Prior 2011A Bonds"), in the original aggregate principal amount of \$106,735,000, of which \$103,345,000 is currently outstanding, and loaned the proceeds thereof to the Corporation to finance and refinance the acquisition, construction, equipping, improvement, renovation, rehabilitation and remodeling of certain facilities of the Corporation, as more particularly described under the caption "Prior 2011A Project" in Exhibit A hereto (the "Prior 2011A Project"); and

WHEREAS, the Authority has previously issued California Health Facilities Financing Authority Variable Rate Revenue Bonds (Children's Hospital of Orange County), Series 2009B, Series 2009C and Series 2009D (the "Prior 2009 Bonds," and together with the Prior 2011A Bonds, the "Prior Bonds"), in the original aggregate principal amount of \$127,800,000, of which \$102,500,000 is currently outstanding, and loaned the proceeds thereof to the Corporation to finance the acquisition, construction, equipping and improvement of certain facilities, as more particularly described under the caption "Prior 2009 Project" in Exhibit A hereto (the "Prior 2009 Project," and together with the Prior 2011A Project, 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 \$213,000,000, 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 2021” (the “Bonds”), in a total aggregate principal amount not to exceed \$213,000,000, 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 bond indentures 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) One or more Loan Agreements relating to the Bonds (the “Loan Agreements”), between the Authority and the Corporation,

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

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

(iv) One or more preliminary official statements relating to the Bonds (the “Preliminary Official Statements”),

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 any series of 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 Agreements, the Bond Indentures and the Purchase Contracts and by delivery thereof in the case of the Preliminary Official Statements. 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 Agreements 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 each Bond Indenture, as finally executed.

SECTION 6. The Underwriter is hereby authorized to distribute the Preliminary Official Statements 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 statements (the "Official Statements") 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 Indentures, Loan Agreements, Purchase Contracts and Official Statements. 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. 2021-01 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 2011A Project Description and Prior 2009 Project Description

Finance or refinance costs of the acquisition, construction, improvement, equipping, renovation, rehabilitation, remodeling and other capital projects located on or about the campus of the health facilities located generally at 1201 West LaVeta Avenue, in Orange, California.