CHFFA REVENUE BOND FINANCING PROGRAM
EXECUTIVE SUMMARY

Applicant:	FamiliesFirst, Inc. ("FF") 251 Llewellyn Avenue Campbell, CA 95008 Santa Clara County	**Amount Requested:** **Date Requested:** **Requested Loan Term:** **Resolution Number:**	$15,500,000 Aug 25, 2011 Up to 10 years 367
Facility Types:	Group Home		
Prior Borrower:	Yes (please see attached Exhibit 3)		

Background: Eastfield Ming Quong ("EMQ") originally established in 1867 in San Jose, provided a shelter for local homeless youth and a range of community-based programs to youth and their families in crisis. FamiliesFirst, originally established in 1974 in Davis, began as a small group home for three emotionally disturbed boys. In 2006, EMQ merged with Hollygrove (a 125 year old group home for children, but after the merger focused more on mental health services) and again merged with FamiliesFirst (in 2009) to become FamiliesFirst, Inc ("FF") dba EMQ FamiliesFirst, an organization which provides a wider range of services. Currently, FF is providing care and services for over 18,000 children and their families in 30 counties throughout California.

Use of Proceeds: Bond proceeds will be used to refund California Statewide Communities Development Authority ("CSCDA") Series 1997A Certificates of Participation, CHFFA Series 2000A Bonds and pay for costs of issuance. Refunding will save FF an estimated $3.9 million in savings on a net present value basis. A portion of bond proceeds will also be used for capital improvement projects at various sites.

Type of Issue:	Private Placement
Expected Credit Rating:	N/A (please see Staff Recommendation below and Guidelines Discussion, page 3)
Financing Team:	*Please see Exhibit 1 to identify possible conflicts of interest*

Financial Overview: FF's income statement appears to exhibit positive operating results over the review period with adequate operating margins and continued revenue growth. FF appears to have a solid financial position with a proforma debt service coverage ratio of 2.10x.

Estimated Sources of Funds:			**Estimated Uses of Funds:**		
Par amount of bonds	$	15,500,000	Refunding	$	15,067,005
Transfer of Reserve Funds		2,189,850	Project Fund		2,106,845
			Financing Costs	$	516,000
Total Estimated Sources	$	17,689,850	**Total Estimated Uses**	$	17,689,850

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

Staff Recommendation: Staff recommends the Authority approve Resolution Number 367 for FamiliesFirst, Inc. in an amount not to exceed $15,500,000 as a private placement non-rated bond. Macias Gini & O'Connell, LLP, the Authority's financial analyst, and Public Financial Management ("PFM"), the Authority's financial advisor, concur with the Authority's staff recommendation.

I. PURPOSE OF FINANCING

FamiliesFirst, Inc. ("FF) seeks to refund its CSCDA Series 1997A Certificates of Participation and CHFFA Series 2000A bonds, allocate new money towards new projects and pay for any costs accrued on this transaction. The refinancing will allow FF to eliminate the Cal Mortgage insurance and debt service reserve fund as well as reducing $3.9 million in bond debt service over the next 10 years. In addition, FF seeks to expand it facilities to meet a growing need in mental health.

Refunding.. $15,067,005

The CSCDA Series 1997A Certificates of Participation were issued for EMQ and financed the remodeling, refurbishing and/or replacing of various portions of EMQ's facilities including the expansion of residential treatment centers, the remodeling and refurbishing of several buildings at the Campbell campus and the purchase of computer equipment.

The CHFFA Series 2000A Bonds were originally issued for FamiliesFirst to finance and refinance the acquisition, construction, improvement and equipping of facilities. The proceeds were also used for the advance refunding of certain certificates of participation.

Project Funds... 2,106,845

Proceeds will also be used to finance the acquisition and installation of an electronic health records system, which will be primarily located at FF's Campbell Campus. Proceeds will also be used to finance the construction, remodeling, refurbishing and equipping of various buildings at FF's Davis, Campbell and Los Gatos Campuses.

Collectively the Project and all facilities are or will be owned by FamiliesFirst, Inc. and used in connection with its mobile crisis, in and out-patient mental health, therapeutic behavioral, addiction prevention and crisis nursery services.

Estimated Cost of Issuance.. 516,000

Total Estimated Uses of Funds $17,689,850

II. GUIDELINES DISCUSSION

This proposed transaction fits squarely within the Bond Rating category for Unrated Debt of the Authority's existing guidelines. In this particular transaction, FF is an unrated institution which plans to privately place unrated bonds to refinance its existing rated bonds held with Wells Fargo Bank. Given these facts, unrated guidelines have relevance and serve as the basis of staff's recommendation to proceed with one policy exception that will be further explained.

The Authority's financial advisor, PFM, has been integral to the analysis of this transaction and notes that the Authority is likely to see this type of financing with greater frequency in the near and continuing future.

The Authority's existing guidelines for unrated debt (attached as Exhibit 6) call for a number of loan security provisions, including without limitation: private placement with a Qualified Institutional Buyer ("QIB"), minimum denominations of $250,000, maintenance of a debt service reserve account, and a requirement that bonds not be split by selling participatory shares. All of the foregoing requirements are designed to maximize the likelihood bonds will be placed with more sophisticated investors given the higher risk typically thought to be associated with unrated borrowers. And, in general, these guidelines were formulated working under the assumption that the borrower could not secure an investment grade credit rating.

Staff would like to ask for one exception to the guidelines for unrated, private placement debt. Specifically, staff recommends waiving the debt service reserve account requirement, noting that the QIB, JP Morgan Chase is comfortable proceeding without the debt service reserve account.

Staff recommends (1) accepting each of the proposed covenants, security provisions and disclosures set forth below in section III, (2) requiring that the Bonds be privately placed with one designated bank, (3) proceeding without a debt service reserve account for this particular transaction since the bank does not require one, (4) requiring the Bonds be placed with QIB both in the primary and secondary markets, (5) maintaining appropriate rates and charges to maintain a minimum debt service coverage ratio of at least 1.25x, and (6) requiring a minimum denomination of $250,000.

III. PROPOSED COVENANTS, SECURITY PROVISIONS AND DISCLOSURES:

The Executive summary and recommendations set forth in the beginning of this report 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 by the board. If there have been modifications to the covenant proposal following the preparation of this executive summary, staff will report such changes at the meeting.

<u>The following covenants are applicable to this transaction:</u>

- ✓ **Unconditional Promise to Pay.** *Borrower agrees to pay Trustee all amounts required for principal and interest and other payments and expenses designated in the Loan Agreement. All Revenues*[1] *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.*

- ✓ **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.*

- ✓ **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.*

- ✓ **Comply with SEC Rule 144A.** *Must be privately placed (in both primary and secondary markets), with appropriate disclosure, with a Qualified Institutional Buyer (QIB), promulgated under the Securities Act of 1933.*

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

[1] Capitalized terms are defined in the Indenture.

IV. FINANCIAL STATEMENTS AND ANALYSIS:

FAMILIESFIRST, INC.

Financial Position

	As of June 30,			
	2010 (FF)	2009 (FF)	2008 (EMQ)	2008 (FamiliesFirst)
ASSETS				
Current assets:				
Cash and cash equivalents	$ 17,178,563	$ 16,772,248	$ 13,134,951	$ 2,054,713
Investments	23,503,983	20,835,838	21,544,566	-
Accounts receivable	79,058	993,827	234,825	5,972,043
Grants receivable, net	25,320,983	19,338,709	13,146,600	
Patient accounts receivable, net	24,000	34,729	427,633	-
Prepaid expenses	2,540,295	2,215,550	906,570	451,368
Other receivables				63,220
Total current assets	68,646,882	60,190,901	49,395,145	8,541,344
Fixed assets, net	21,870,598	23,455,858	15,679,652	-
Property & equipment, net	-	-	-	10,197,550
Deposits	122,903	191,801	209,069	58,473
Deposits relating to bonds	2,261,300	2,233,122	652,797	-
Cash value of insurance	66,450	73,453	73,453	-
Pledges & bequests receivable - long term	398,261	175,107	82,203	-
Split interest agreements	3,241,162	2,881,321	3,632,579	-
Beneficial interest in perpetual trusts	1,299,200	1,210,000	1,491,542	-
Investment in time share	7,400	7,400	7,400	-
Intangible assets, net	256,249	276,499	111,805	-
Restricted cash & investments for debt reserves				1,341,327
Deferred bonds issuance cost				185,889
TOTAL ASSETS	$ 98,170,405	$ 90,695,462	$71,335,645	$ 20,324,583
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable	$ 2,073,535	$ 2,942,626	$ 1,956,934	$ 2,061,561
Accrued salaries & vacation	6,529,181	4,803,029	3,266,355	1,720,686
Accrued interest	82,550	80,999	23,812	
Grants payable	14,522,367	9,606,465	5,286,452	
Other accrued liablities	87,661	1,870,075	1,548,427	1,742,700
Defered rent	52,611	101,141	114,057	
Annuity payable, current portion	8,105	8,108	8,108	
Note payable, current portion	162,947	154,137	46,808	603,257
Bonds payable, current portion	770,000	735,000	285,000	
Total current liabilities	24,288,957	20,301,580	12,535,953	6,128,204
Other liabilities:				
Annuity payable, net	25,751	33,853	40,847	-
Note payable, net	716,271	876,256	744,686	11,816,375
Bonds payable, net	14,600,868	15,358,048	4,316,274	-
Total long term liabilities	15,342,890	16,268,157	5,101,807	11,816,375
Total liabilities	39,631,847	36,569,737	17,637,760	17,944,579
Net assets:				
Unrestricted	25,682,005	23,160,465	18,940,905	2,234,412
Unrestricted, board designated	24,027,035	22,144,191	24,393,051	-
Temporarily restricted	7,501,925	7,582,676	8,845,244	144,342
Permanently restricted	1,327,593	1,238,393	1,518,685	1,250
Total net assets	58,538,558	54,125,725	53,697,885	2,380,004
TOTAL LIABILITIES AND NET ASSETS	$ 98,170,405	$ 90,695,462	$ 71,335,645	$ 20,324,583

Financial Ratios:	Proforma (a) FYE June, 2010	2010 (FF)	2009 (FF)	2008 (EMQ)	2008 (FamiliesFirst)
Debt Service Coverage (x)	**2.10**	**3.40**	**2.19**	**9.78**	**1.18**
Debt/Unrestricted Net Assets (x)	**0.33**	**0.33**	**0.38**	**0.13**	**4.96**
Margin (%)		**3.96**	**(0.25)**	**9.72**	**0.52**
Current Ratio (x)		**2.83**	**2.96**	**3.94**	**1.39**

(a) Recalculates FY 2010 results to include the impact of this proposed financing

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FAMILIESFIRST, INC.

Statement of Activities

(Unrestricted)

	As of June 30,			
	2010 (FF)	2009 (FF)	2008 (EMQ)	2008 (FamiliesFirst)
Revenues and other support:				
Government grants & fees	$ 104,247,874	$ 105,244,954	$ 60,492,999	$ 39,251,362
Contributions	2,483,108	1,582,537	2,213,959	14,391
Investment (loss) income	1,607,101	(2,987,899)	(2,131,194)	104,453
Sales to the public, net	756,977	676,933	728,034	(7,346)
Interest & dividend income	547,133	845,913	1,371,452	-
Rental income	375,118	305,591	260,000	-
Fees for service	287,995	187,138	68,479	-
United Way	91,865	8,035	14,143	-
Other income	71,131	381,816	5,258	652,621
(Loss) on disposal of assets	(1,799)	(1,142,962)	(2,076)	-
(Loss) on extinguishment of bond payable	-	-	(28,172)	-
Special event revenues	-	-	-	154,944
(Less) costs of direct benefits to donors				(91,334)
Total revenue	110,466,503	105,102,056	62,992,882	40,079,091
Net assets released from restrictions	880,621	1,157,385	295,452	406,428
Total revenues & support	$111,347,124	$106,259,441	$63,288,334	40,485,519
Expenses:				
Salaries and benefits	75,515,029	73,357,236	42,327,477	23,201,603
Foster parent fees	7,278,620	7,895,059	1,959,380	7,572,354
Professional fees	4,125,259	4,084,079	2,671,855	1,288,938
Travel & auto	3,379,346	3,489,348	2,107,681	934,370
Telephone & utilities	2,549,870	2,598,463	1,284,919	733,855
Leases & rentals	2,368,049	2,479,163	721,151	379,510
Clothing & flexible funds	2,253,281	1,774,556	1,038,313	-
Repairs & maintenance	2,013,865	2,225,950	1,718,739	444,410
Depreciation & amortization	1,975,782	2,689,972	1,896,367	862,916
Interest & bank charges	1,383,098	1,413,977	570,237	817,504
Supplies & postage	1,207,730	1,333,331	845,590	399,383
Insurance	1,204,160	1,090,435	735,966	570,427
Staff development & training	711,138	809,563	215,108	-
Food	360,594	324,166	98,249	-
Membership dues & subscriptions	243,007	206,682	124,972	50,452
Taxes, licenses & permits	205,130	117,519	80,032	94,491
Recruiting & advertising	168,782	343,827	379,995	277,906
Occupancy	-	-	-	1,480,082
Direct care	-	-	-	775,175
Other	-	289,827	548,483	374,317
Total expenses	106,942,740	106,523,153	59,324,514	40,257,693
Change in net assets before extraordinary items	4,404,384	(263,712)	3,963,820	209,103
Prior year modifications	-	-	2,186,975	-
Change in net assets	4,404,384	(263,712)	6,150,795	209,103
Net assets at beginning of year	45,304,656	45,568,368	37,183,161	2,170,901
Net assets at end of year	$ 49,709,040	$ 45,304,656	$ 43,333,956	$ 2,380,004

Payor Source*	Percent
MediCal	49.97%
Social Services	22.85%
Private/Insurance/Grants	7.35%
Fundraising	3.21%
Interest Income	0.49%
Other	16.10%
Total	100%

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The audited, combined financial statements of entities operating under FamiliesFirst, Inc. were analyzed in this section for FY 2009 and FY 2010. Note financials from FY 2008 are before the EMQ and FamiliesFirst merger. These financials were analyzed separately and do not pertain to the financial discussion.

Financial Discussion – Statement of Activities (Income Statement)

FF's income statement appears to exhibit positive operating results over the review period with sound operating margins and continued revenue growth.

FF's total revenues appear to have grown approximately 5% over the two-year review period from $106.3 million in FY 2009 to $111.3 million in FY 2010. According to FF, the increase in revenues can be largely attributed to increases in fees for service, contributions and favorable unrealized investment returns that amounted to positive gains of approximately $5 million from FY 2009.

Particular Facts to Note:

- As noted above, EMQ and FamiliesFirst merged in 2009 to combine entities and become FF. Facilitating the merger reduced overhead by $3 million annually and provided FamiliesFirst with EMQ's strong infrastructure and access to quality improvement, business development, electronic health records and program evaluation departments. The merger had a positive impact on financial stability and enabled FF to increase productivity.

- As a non-profit entity, FF is required to present assets held for investment at current market value. In FY 2010, this amounted to approximately $1.6 million in unrealized gains compared to an unrealized loss of approximately $2.9 million in FY 2009.

- Government grants and fees declined in FY 2010 by $997,080 in part due to reduced referrals from County agencies which experienced staff layoffs in departments that identify children in need for referral.

- Total expenses remained fairly stable over the two-year review period, at approximately $106.9 million and $106.5 million in FY 2010 and FY 2009, respectively. Although revenues had a minimal increase of 5%, expenses remained steady resulting in an upswing in profits.

- FF's total margins appear to have fluctuated in prior years but have stabilized in FY 2010 at 3.96%. According to FF, the apparent setback in FY 2009 can be mainly attributed to an approximate $4.1 million loss in assets held for investment, as well as a loss in disposable assets. As noted above, FF is a non-profit entity and adjusts its investments to fair market value each month. These assets are invested for long-term principal protection, growth and to mitigate inflation risk.

Financial Discussion – Statement of Financial Position (Balance Sheet)

FF appears to have a solid financial position with a proforma debt service coverage ratio of 2.10x.

FF's balance sheet appears to continue to grow over the review period. Total net assets increased from $54.1 million in FY 2009 to $58.5 million in FY 2010, an 8% increase. The operating debt service coverage appears to be a solid 3.40x for FY 2010 and the proforma debt service coverage ratio is 2.10x, indicating FF can likely manage additional debt.

Particular Facts to Note:

- FF experienced significant percentage increases in assets during the two-year review period. Total current assets grew from approximately $60.2 million in FY 2009 to $68.9 million in FY 2010, a 14% increase. Grants receivable increased approximately 31% from $19.3 million to $25.3 million and prepaid expenses increased approximately 15% from $2.2 million to $2.5 million, in FY 2009 and FY 2010 respectively.

- FF's cash and cash equivalents remained at a steady increase by approximately 3% from $16.8 million in FY 2009 to $17.2 million in FY 2010.

- Total liabilities increased from $36.5 million in FY 2009 to $39.6 million in FY 2010 and according to FF, can be primarily attributed to a correlative increase in grants payable. The refunding will allow the borrower to reduce approximately $3.9 million in bond debt service over the next 10 years.

FF has anticipated and prepared for the budget cuts (mainly in Medi-Cal) that have been proposed in California. According to FF, at the most recent FF board meeting planning for the 2012 budget, FF included worst case scenarios and new information regarding County and State budget cuts. Below are a few of the issues recently addressed and discussed:

- There is an overall $950 million State budget cut to First 5 reserves[2]. FF currently has two small annual First 5 programs: Solano at $384,000 and Los Angeles at $77,000. According to FF, if the renewal of these First 5 programs was to cease, such an act would unlikely have a material impact on FF's financial performance and attainment of their financial goals. Nevertheless, FF plans to expand prevention and early prevention services to this population to mitigate costly social services down the road.

- State mental health programs will see $133 million in cuts for special education students. FF provides mental health services in Santa Clara County (currently providing revenues of $3.4 million) which is currently federally funded through the Individuals with Disabilities Education Act (IDEA) along with related state matching funds. FF is working closely with mental health and education departments to facilitate the transfer of this funding to education which may enable continued services in some cases.

[2] First 5 California - also known as the California Children and Families Commission. First 5 California is dedicated to improving the lives of California's young children and their families through a comprehensive system of education, health services, childcare, and other crucial programs since 1998.

V. DUE DILIGENCE:

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

- **Section 15438.5(a) of the Act (Savings Pass Through)**: FamiliesFirst, Inc. 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)**: FamiliesFirst, Inc. properly completed and submitted this certification and indicated that Medi-Cal and Medicare patients are accepted.
- **Compliance with Section 15455(b) of the Act (California Environmental Quality Act)**: FamiliesFirst, Inc. properly submitted documentation to the Authority, where applicable, demonstrating that each 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

FINANCING TEAM

Trustees:	Bank of New York Mellon Trust Co.
Issuer's Counsel:	Office of the Attorney General
Issuer's Financial Advisor:	Public Financial Management, Inc.
Issuer's Financial Analyst:	Macias Gini & O'Connell, LLP
Bond Counsel:	Quint & Thimming LLP
Private Co-Placement Agent:	Wuff, Hansen & Co.
Private Co-Placement Agent:	Gates Capital
Purchaser Counsel:	Squire, Sanders & Dempsey LLP
Purchaser:	J.P. Morgan Chase Bank
Auditor:	Nichols Rick & Company

EXHIBIT 2

UTILIZATION STATISTICS

Year ended June 30,			
	2008	2009	2010
Total Number of Youth Served	10,222	15,830	19,965

EXHIBIT 3

OUTSTANDING DEBT FOR FF:

Date Issued	Original Amount	Amount Outstanding As of June 30, 2010*	Estimated Amount Outstanding after Proposed Financing
Existing Long-Term Debt			
Bonds:			
CHFFA, Series 2000A (FamiliesFirst)	17,600,000	11,346,530	-
CSCDA, Cert of Participation Series 1997A (EMQ)		4,024,400	-
Notes:			
CHFFA, HELP II 2007 (EMQ)	844,753	695,626	695,626
U.S. Bank, 2007 (FamiliesFirst)	425,000	162,742	162,742
Other:			
State of California Insurance Commission Committee, March 2004	75,000	27,933	27,933
State of California Insurance Commission Committee, July 2005	10,000	5,923	5,923
Proposed New Debt:			
CHFFA, Series 2011			**$15,500,000**
TOTAL DEBT		**$16,263,154**	**$16,392,224**

* Includes current portion of long-term debt.

EXHIBIT 4

BACKGROUND, GOVERNANCE AND LICENSURE

Background

Since 1867, EMQ has grown from a single building in San Jose providing a shelter for local homeless youth to a statewide agency offering a range of community-based programs to children and their families in crisis.

The name EMQ or Eastfield Ming Quong represents the merging of two children and family services agencies; Eastfield Home of Benevolence (founded in San Jose in 1867) and Ming Quong Presbyterian Mission Home (founded in San Francisco in 1874). Eastfield began as an orphanage providing shelter, care, and education for local homeless youth. Ming Quong rescued Chinese girls from slavery and prostitution in the alleys of San Francisco. Mirroring the history of the child welfare system, these agencies evolved from orphanages to residential treatment center agencies, in the 1950s. The two agencies merged in 1987 and were later called EMQ Children & Family Services.

In 2006, EMQ merged with Hollygrove (originally Los Angeles Orphans Home Society founded in 1880). Hollygrove has over 125-year history of service to children in Los Angeles, including a young resident called Norma Jean Baker, later to become Marilyn Monroe. Today, Hollygrove concentrates on in-home, community-based mental health services.

In an effort to provide broader geographic reach with complementary strengths and services, EMQ Children & Family Services merged with FamiliesFirst in 2009. FamiliesFirst began in Davis in 1974 as the Praul Center, a small group home for three emotionally disturbed boys. In recognition of the central importance of the family in children's lives, the agency's name was retained as the surviving entity. For over three decades, FamiliesFirst has provided comprehensive treatment programs for troubled youth in Northern and Central California. FamiliesFirst primary programs include Residential Treatment, Community Based Services and School Programs.

Over the past 142 years, these blended agencies (now named FamiliesFirst, Inc. dba EMQ FamiliesFirst) have transformed its system of care for California's children and families. Today, FamiliesFirst, Inc. is one of the largest, most comprehensive, innovative, family-centered treatment programs and is proud to provide services to over 18,000 children and their families annually throughout 30 counties in California.

Corporate Governance

The articles of incorporation and bylaws of the Corporation provide that its business and affairs shall be managed by its Board of Directors (the "Board"). Directors are elected by the Board. The Board currently consists of 31 members who are drawn from the communities in which FF provides services and who meet the qualifications set forth in the Bylaws.

Each Director's term is for three (3) years or until a successor is elected. A Director can be elected for two (2) successive terms. Under the current bylaws, the Board will be composed of no more than fifty (50) Directors, all of which are voting members.

Licensure and Memberships

Each of FF’s California facilities is appropriately licensed by the Department of Social Services and is certified to participate in the Medicare and Medi-Cal programs.

EXHIBIT 5

CHFFA BOND ISSUANCE GUIDELINES
Less than BBB+/BBB+/Baa1 or Unrated Debt

While all projects must demonstrate financial feasibility, these guidelines describe what CHFFA would expect to see given a transaction (or borrower) with a particular rating (or no rating). The Authority would reserve the right to use its discretion as necessary and appropriate. The Authority acknowledges that each financing must be reviewed individually and exceptions to these guidelines may be considered if the applicant demonstrates that such exception is a necessary part of a cost-effective and prudent borrowing strategy. Conversely, the Authority retains the flexibility to request additional provisions as circumstances warrant.

BOND RATING [(1)]	LOAN SECURITY PROVISIONS	BOND COVENANTS
Less than BBB+/BBB+/Baa1 or Unrated Debt	• Must be privately placed (in both primary and secondary markets), with appropriate disclosure, with a "Qualified Institutional Buyer" as defined by SEC Rule 144A, promulgated under the Securities Act of 1933 • Minimum denomination of $250,000 ——— • Unconditional Promise to Pay • Gross Revenue Pledge • Debt Service Reserve Account (must be funded at all times with internal cash, bond proceeds, letter of credit or surety bond) • Bonds cannot be split by selling participatory shares	Legal Covenant: ♦ Must comply with Section 15438.5 (c) of the Government Code Reporting Covenants: • Annual submission of Certificate of Compliance with CHFFA Statute, Continuing Disclosure (if applicable), financial and other covenants of bond documents • Submission of required Arbitrage Reports to Authority • Annual Audited Financial Statements • Submit quarterly unaudited financials, if requested Financial Covenants: • Maintain appropriate rates and charges to maintain a minimum coverage ratio of at least 1.25 times maximum annual debt service • Must submit annual reports that show that the coverage is being met, per certification of the financial officer • If the coverage falls below the minimum ratio, must engage a management consultant which shall report its recommendations for corrective actions • Must maintain minimum 1.25 coverage to take on additional debt Other Covenants: • Other covenants as appropriate

(1) Refers to rating categories used by Standard & Poor's/Fitch/Moody's.

Version: 9/28/2000