

**CHFFA REVENUE BOND FINANCING PROGRAM  
EXECUTIVE SUMMARY**

<p><b>Applicant:</b> City of Hope and certain of its Affiliates "COH" 1500 E. Duarte Road Duarte, California 91010 (Los Angeles County)</p> <p><b>Project Site:</b> <i>Please see Exhibit 2</i></p> <p><b>Facility Type:</b> Acute Care Hospital - Government Code 15432(d)(1)</p> <p><b>Prior Borrower:</b> Yes, April 1, 2000 (Beckman Research Institute, an affiliate of the City of Hope)</p>	<p><b>Amount Requested:</b> \$351,000,000</p> <p><b>Requested Loan Term:</b> Up to 30 years</p> <p><b>Authority Meeting Date:</b> October 25, 2012</p> <p><b>Resolution Number:</b> 384</p>																				
<p><b>Background:</b> Established in 1913, COH is a nationally recognized nonprofit enterprise that provides innovative biomedical research, treatment and education. COH is dedicated to the prevention and cure of cancer and other life-threatening diseases. An affiliate of COH is COH National Medical Center (the "Medical Center"), a California nonprofit public benefit corporation that owns and operates a 185-bed acute care hospital with a licensed capacity of 217 beds. The Medical Center had more than 150,000 outpatient visits and more than 6,000 patient discharges in FY 2011. <i>(Please see Exhibit 4 for more detail).</i></p>																					
<p><b>Use of Proceeds:</b> Bond proceeds will be used to refund the City of Duarte's Certificates of Participation, Series 1999A, ABAG Finance Authority for Nonprofit Corporations, Series 2006A, B and C Bonds, and the California Enterprise Development Authority, 2007 Promissory Note. In addition, COH plans to use \$110 million of bond proceeds in new money of which approximately \$54 million is reimbursement for prior expenditures and approximately \$56 million will be used to fund capital projects over the next year. <i>(Please see page two for more detail).</i></p>																					
<p style="text-align: center;"><b>Type of Issue:</b> Negotiated public offering with fixed rate bonds (Expected minimum denominations of \$5,000) and Variable Rate Demand Bonds (VRDN) (expected minimum denominations of \$100,000)</p> <p><b>Expected Credit Rating:</b> A1/A+/AA- (Moody's/Standard &amp; Poor's/Fitch)</p> <p><b>Financing Team:</b> <i>Please see Exhibit 1 to identify possible conflicts of interest</i></p>																					
<p><b>Financial Overview:</b> COH continues to experience increases over the review period. COH's balance sheet remains strong and highly liquid with a positive proforma debt service coverage ratio of 4.93x.</p>																					
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: left;"><u>Estimated Sources of Funds:</u></th> <th colspan="2" style="text-align: right;"><u>Estimated Uses of Funds:</u></th> </tr> </thead> <tbody> <tr> <td style="width: 30%;">Bond proceeds</td> <td style="width: 20%; text-align: right;">\$ 351,000,000</td> <td style="width: 30%;">Refunding</td> <td style="width: 20%; text-align: right;">\$ 249,886,963</td> </tr> <tr> <td>Debt service fund</td> <td style="text-align: right;">12,319,863</td> <td>Project fund</td> <td style="text-align: right;">110,000,000</td> </tr> <tr> <td></td> <td></td> <td>Financing costs</td> <td style="text-align: right;">3,432,900</td> </tr> <tr> <td><b>Total Estimated Sources</b></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;"><b>\$ 363,319,863</b></td> <td><b>Total Estimated Uses</b></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;"><b>\$ 363,319,863</b></td> </tr> </tbody> </table>		<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>		Bond proceeds	\$ 351,000,000	Refunding	\$ 249,886,963	Debt service fund	12,319,863	Project fund	110,000,000			Financing costs	3,432,900	<b>Total Estimated Sources</b>	<b>\$ 363,319,863</b>	<b>Total Estimated Uses</b>	<b>\$ 363,319,863</b>
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<p><b>Due Diligence:</b> Staff has received and reviewed the applicant's eligibility, and the Pass Through Savings Certificate, Community Service Obligation Certificate, Seismic Upgrade efforts, final CEQA documentation, Religious Affiliation Due Diligence, Legal Status Questionnaire, and the Iran Contracting Act Certificate. All documentation satisfies the Authority's requirements.</p>																					
<p><b>Staff Recommendation:</b> Staff recommends the Authority approve Resolution Number 384 in an amount not to exceed \$351,000,000 subject to the conditions in the resolution, including a bond rating of at least investment grade by a nationally recognized rating agency. Macias Gini &amp; O'Connell, LLP, the Authority's financial analyst, and Public Financial Management ("PFM"), Inc., the Authority's financial advisor, concur with the Authority's staff recommendations.</p>																					

**I. PURPOSE OF FINANCING:**

COH plans to refund the City of Duarte’s Certificate of Participation (COPs), Series 1999A (the 1999A COPs), ABAG Finance Authority For Nonprofit Corporations, Series 2006 A, B and C Bonds (the “2006 Bonds”), and the California Enterprise Development Authority, 2007 Promissory Note (the “2007 Note”) to take advantage of the current market’s low level of tax-exempt interest rates, which is expected to result in a savings of \$11,709,133 over the life of the bonds. The expected net present value savings is approximately \$29,084,212.

***Refunding*..... \$249,886,963**

As of September 30, 2011, the outstanding balance of the 2006 Bonds was approximately \$47.4 million. The 2006 Bonds mature on June 1, 2031. The 2006 Bonds were private placement revenue bonds. Proceeds were used to complete funding of the Helford Clinical Research Hospital and to provide funding for other building construction and renovations. The 2006 Bonds were issued on parity with the 1999A COPs. As of September 30, 2011, the outstanding balance on the 1999A COPs was approximately \$150.4 million. The 1999A COPs have varying maturities, annually on April 2006 through April 1, 2031. Proceeds were used to finance the purchase of certain equipment, construct the first phase of a new main hospital building, renovate certain existing buildings, advance-refund the outstanding 1993 Certificates of Participation, provide a portion of the monies needed to fund a debt service reserve account and finance certain issuance costs. The 2007 Note has a balance of approximately \$59.1 million and matures on July 1, 2016, proceeds of the 2007 Note were used primarily to finance the construction of the Arnold and Mabel Beckman Center for Cancer Immunotherapeutic and Tumor Immunology.

***Project Fund*..... 110,000,000**

COH plans to use up to \$54 million of the new money portion of the 2012 Bonds to reimburse itself approximately for prior expenditures for renovation, construction and equipping of healthcare and research facilities, and up to \$56 million will be used to fund capital projects for renovation construction and equipping of healthcare, research and support facilities including information technology equipment over the next year.

COH is currently operating at high capacity for inpatient volumes and outpatient volumes given current clinic capacity on the main campus. Consistent with COH’s focus on its Hematology and HCT program, COH is exploring the development of an inpatient/outpatient unit. One of COH’s priorities is to start planning for two new facilities. The first facility is a new outpatient facility on the main campus that will support continued improvement of patient experience and allow for growth. The second facility is an expanded animal research facility to support research priorities. COH also expects to explore opportunities for new community practices. COH will be reviewing its needs on an ongoing basis and may change its plans in response to a changing environment.

<b><i>Financing Costs</i></b> .....		<b><u>3,432,900</u></b>
Cost of Issuance.....	\$1,332,370	
Underwriter's Discount .....	2,110,530	
<b>Total Uses of Funds</b> .....		<b><u>\$363,319,863</u></b>

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## II. PROPOSED COVENANTS, SECURITY PROVISIONS AND DISCLOSURES:

**Pledge of Gross Receivables.** Each Member of the Obligated Group has in the Master Indenture granted to the Master Trustee a security interest in the Gross Receivables of the Obligated Group Members.

**Limitation on Liens; Permitted Encumbrances.** Each Member of the Obligated Group has agreed not to create, assume or suffer to exist any Lien upon its Property except for Permitted Liens. Each Member of the Obligated Group has further agreed that if a Lien other than a Permitted Lien is created by someone other than a Credit Group and is assumed by any Credit Group Member, then they will cause a provision to be made effective whereby all Obligations will be secured prior to any indebtedness or other obligations secured by the Lien.

**Debt Service Coverage Requirement.** The Master Indenture requires that the Credit Group maintain a Debt Service Coverage Ratio of 1.20.

**Limitations on Indebtedness and Restrictions on Guaranties.** Each Member of the Obligated Group has agreed not to incur Indebtedness or enter into any Guaranty unless authorized by various provisions set out in the Master Indenture.

**Limitations on Disposition of Assets.** Each Member of the Obligated Group has covenanted not to voluntarily sell, lease or otherwise dispose of Property in any Fiscal Year other than as authorized by various provisions set out in the Master Indenture.

**Limitations on Merger, Consolidation, Sale or Conveyance.** Each Member of the Obligated Group has agreed not to merge or consolidate with any entity which is not a Member of the Obligated Group or sell or convey all or substantially all of its assets to an entity not a Member of the Obligated Group other than as authorized by the various provisions set out in the Master Indenture.

**Limitations on Withdrawal from the Obligated Group and Entrance into the Obligated Group.** The Master Indenture sets forth certain requirements, including certain financial tests, which must be met for withdrawal from, or entry into, the Obligated Group.

**Compliance with Rule 15c2-12.** COH will take such action as is necessary to assist the underwriters of the proposed bonds to comply with Securities and Exchange Commission Rule 15c2-12 ("Rule 15c2-12). COH will contractually agree to disclose designated financial and operating information to the designated website (EMMA) during the life of the proposed bonds and to report designated "listed events" as specified in Rule 15c2-12.

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

### III. FINANCIAL STATEMENTS AND ANALYSIS:

**City of Hope and Affiliates**  
**Consolidated Statements of Activities**  
**(Unrestricted)**  
*(In Thousands)*

	As of September 30,		
	2011	2010	2009
<b>Revenues:</b>			
Contributions	\$ 50,088	\$ 56,430	\$ 53,724
Special event participation revenue	4,305	4,340	3,259
Less: Cost of direct benefits to donors	(5,869)	(4,416)	(4,820)
Contributions and net revenues from special events	48,524	56,354	52,163
*Net patient service revenues	601,095	521,343	468,509
Research grants	77,829	66,431	61,565
Investment income/ (loss)	26,452	33,548	(9,862)
Net unrealized gain/ (loss) on investments	(43,501)	16,590	44,550
Royalty income	200,391	202,564	195,638
Royalty judgement	-	-	65,500
Other	13,366	11,202	13,763
Total revenues	924,156	908,032	891,826
Net assets released from restrictions	32,121	37,232	53,836
Total revenues and other increases	956,277	945,264	945,662
<b>Functional Expenses:</b>			
Salaries, wages and employee benefits	377,225	351,823	325,100
Purchased services	96,769	77,978	71,923
Professional fees	76,002	48,420	43,725
Supplies	162,140	152,179	136,499
Equipment rental and maintenance	15,959	16,970	17,251
Interest	12,542	12,765	12,910
Change in fair value of swap agreement	428	2,778	-
Depreciation and amortization	49,064	43,634	36,931
Occupancy	18,963	17,292	15,866
Patent	61,973	62,611	69,913
Hospital provider fee	12,018	-	-
Bad debt	1,783	-	-
Other	14,681	13,582	9,537
Total functional expenses	899,547	800,032	739,655
Excess of revenues and other increases over expenses	56,730	145,232	206,007
Gain/ (loss) on interest rate swap	208	(385)	(761)
<b>Changes in net assets</b>	<b>56,938</b>	<b>144,847</b>	<b>205,246</b>
Unrestricted net assets, beginning of year	1,148,484	1,003,637	798,391
Unrestricted net assets, end of year	<u>\$ 1,205,422</u>	<u>\$ 1,148,484</u>	<u>\$ 1,003,637</u>

**\*Net Patient Service Revenues**

**Sept. 30, 2011**

<b><u>Payor Source</u></b>	<b><u>Percent</u></b>
Medicare	30.3
**Medi-Cal	19.8
Managed care and insurance	48.6
Other third-party payors and patients	1.3
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	100

\*\*Excluding Hospital Provider Fee Revenues.

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**City of Hope and Affiliates**  
**Consolidated Statement of Financial Position**  
*(In Thousands)*

	<b>As of September 30,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 80,585	\$ 227,537	\$ 139,477
Investments	372,169	202,945	178,492
Self-insurance trust fund investments	3,848	3,603	3,710
Bond trust fund investments	6,494	6,499	6,803
Patient accounts receivable, net	113,265	99,182	105,079
Grants and other receivables	11,836	19,092	18,970
Donor-restricted unconditional promises to give, net	14,716	16,569	14,109
Due from third-party payors	2,208	1,387	-
Prepaid and other	18,766	11,704	11,735
Total current assets	623,887	588,518	478,375
Property, plant and equipment, net	580,747	542,815	507,901
Other assets:			
Investments	6,422	6,037	12,083
Board-designated investments	445,215	467,886	434,257
Bond trust fund investments	12,320	12,320	28,799
Donor-restricted investments	136,979	125,991	116,946
Donor-restricted unconditional promises to give, net	25,421	36,000	29,511
Donor-restricted contributions receivable from agreements, net	12,766	13,334	15,383
Donor-restricted other	578	578	40
Intangible assets	9,022	-	-
Goodwill	30,137	-	-
Other long-term assets	16,658	15,189	14,134
Total other assets	695,518	677,335	651,153
Total assets	\$ 1,900,152	\$ 1,808,668	\$ 1,637,429
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 75,237	\$ 56,394	\$ 59,157
Accrued salaries, wages and employee benefits	49,396	50,053	40,217
Long-term debt, current portion	8,661	8,368	7,481
Deferred revenue	37,407	16,476	13,875
Due to third party payors	-	-	2,724
Other	524	634	974
Total current liabilities	171,225	131,925	124,428
Long-term debt, net of current portion	246,843	255,374	263,614
Annuity and split-interest agreement obligations	18,339	19,223	19,698
Other	29,492	25,001	18,056
Total liabilities	465,899	431,523	425,796

**City of Hope and Affiliates**  
**Combined Statement of Financial Position**  
*(In Thousands)*

	As of September 30,		
	2011	2010	2009
Net assets:			
Unrestricted	1,205,422	1,148,484	1,003,637
Temporarily restricted	97,783	109,411	115,916
Permanently restricted	131,048	119,250	92,080
Total net assets	1,434,253	1,377,145	1,211,633
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,900,152</b>	<b>\$ 1,808,668</b>	<b>\$ 1,637,429</b>

Financial Ratios:	<b>Proforma <sup>(a)</sup></b>			
	<b>FYE <u>September</u>, 2011</b>			
Debt service coverage - Operating (x)	4.93	5.68	10.96	12.68
Debt service coverage - Unrestricted Net Assets (x) <sup>(b)</sup>	5.67	5.67	9.94	12.51
Debt service coverage - Appendix A	8.50			
Debt-to-Unrestricted Net Assets		0.21	0.23	0.27
Margin (%)		5.93	15.36	21.78
Current Ratio (x)		3.64	4.46	3.84

(a) Recalculates FY 2011 audited results to include the impact of this proposed financing.



## **Financial Discussion - Statement of Activities (Income Statement)**

**COH's total revenues continue to remain stable over the review period.**

### **Particular Facts to Note:**

- Overall, total revenues increased slightly by 4% from approximately \$891.8 million in FY 2009 to \$924.1 million in FY 2011, while expenses increased considerably more by 22% from \$739.6 million in FY 2009 to \$899.5 million in FY 2011.
- Change in net assets for FY 2011, FY 2010 and FY 2009, amounted to \$56.9 million, \$144.8 million and \$205.2 million, respectively. According to COH, the major contributors to the decrease were due to unrealized investment losses and contribution revenues lagging behind.
- Net patient service revenue over the review period was \$468.5 million in FY 2009 to \$601.1 million in FY 2011. According to COH, this increase is attributed to the creation of the Medical Foundation on June 1, 2011, which contributed approximately \$21.3 million. The California Provider Fee Program<sup>1</sup> was established in FY 2011, which contributed approximately \$46.4 million and the volume and service increases in patient care, mainly outpatient services and surgery, contributed approximately 64.9 million. This increase represents approximately 13.8% of volume growth.
- Contributions and net special event revenues for the FY 2011, FY 2010 and FY 2009, amounted to \$54.3 million, \$60.7 million and \$56.9 million, respectively. According to COH, contributions decreased as a direct result of on-going negative economic factors affecting charitable giving.
- According to COH, royalty revenue over the review period remained consistent primarily from sales of drugs by Genentech and other licensees of the Cabilly patents, including Avastin, Rituxan, Herceptin, Erbitux and others.
- On a consolidated basis total functional expenses for FY 2011 was \$899.5 million compared to \$800.0 million for FY 2010, excluding Provider Fee Payments and expenses of the Medical Foundation because it only began operations on June 1, 2011. The change between the two fiscal periods represented an 8.4% increase in expenses, primarily related to salaries and wages and professional fees incurred by the Medical Center associated with the creation and establishment of the Medical Foundation.
- Consolidated unrestricted days cash on hand were 365 and 411 for FY 2011 and FY 2010, respectively. According to COH, day's cash on hand were negatively impacted by the medical group asset acquisitions during FY 2011 totaling \$49.1 million and significant declines in investment market values during the fourth quarter of FY 2011.
- According to COH, the impact of state budget cuts or health care reform on COH is unpredictable. However, COH has adopted a strategic plan that COH's management

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<sup>1</sup> California Provider Fee Program - The program uses fees assessed by the state on hospitals to draw down federal matching funds, which are then issued as supplemental payments to hospitals. The hospital provider fee is an integral element to improving access to health care for some of California's most vulnerable residents.

believes well positions COH, both in the short-term and the long-term. The plan focuses on areas for targeted growth across COH. This strategic plan will be reviewed at least annually to consider economic legislative and market changes that affect the plan's assumptions.

### **Financial Discussion - Statement of Financial Position (Balance Sheet)**

**COH's balance sheet remains strong and highly liquid with a positive proforma debt service coverage ratio of 4.93x.**

COH's balance sheet appears to exhibit stable debt-to-unrestricted net assets of 0.21x and strong financial strength which grew with total net assets increasing from \$1.211 billion in FY 2009 to \$1.434 billion in FY 2011, an increase of nearly 18%. With this proposed refunding and new money, COH appears to be in solid position to repay the new debt with a proforma debt service coverage ratio of 4.93x.

#### **Particular Facts to Note:**

- Cash and cash equivalent decreased from \$139.4 million in FY 2009 to \$80.5 million in FY 2011 due to an investment decision to move cash into higher earning potential investment vehicles, according to COH. Overall cash and cash equivalents along with investments grew between FY 2009 and FY 2011 by 15.6%
- COH witnessed a significant rise in investments from approximately \$178.4 million in FY 2009 to \$372.1 million in FY 2011. According to COH, the increase is primarily due to provider fee receipts of approximately \$46.4 million in FY 2011, COH's investment decision to move cash into higher yielding investment vehicles and increased patient volumes resulting in higher cash collections.
- Grants and other receivables witnessed a 38% loss over the review period. The reduction was in donor request receivables with is part of fundraising efforts, according to COH.

#### IV. DUE DILIGENCE:

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

- **Section 15438.5(a) of the Act (Savings Pass Through):** COH properly completed and submitted the “Pass-Through Savings Certification” in addition to a narrative explaining how it intends to pass along savings.
- **Section 15491.1 of the Act (Community Service Requirement):** COH properly completed and submitted Community Service Obligation Certificate and indicated that Medi-Cal and Medicare patients are accepted.
- **Compliance with Seismic Regulations:** COH properly submitted a description of its organization’s progress toward complying with OSHPD seismic evaluation regulations.
- **Compliance with Section 15455(b) of the Act (California Environmental Quality Act):** COH 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 Affiliation Due Diligence.** COH properly completed and submitted related documentation to meet the religious due diligence requirement.
- **Legal Status Review.** COH properly completed and submitted the Authority’s Legal Status Questionnaire regarding pending material litigation.
- **Iran Contracting Act Certificate:** COH properly submitted the certificate to the Authority.

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**EXHIBIT 1**  
**FINANCING TEAM**

**City of Hope**

**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:** Orrick, Herrington & Sutcliffe, LLP

**Bond Trustee:** Union Bank, N.A.

**Borrower's Counsel** Jones Day

**Underwriters:** J.P. Morgan  
Barclays  
Wells Fargo

**Underwriter's Counsel:** Hawkins, Delafield & Wood, LLP

**Auditor:** Ernst & Young

**Rating Agencies:** Standard & Poor's Ratings Services  
Moody's Investor Service  
Fitch Ratings

**EXHIBIT 2**  
**PROJECT SITES**

1. 1450 E. Duarte Road, Duarte, California
2. 1500 E. Duarte Road, Duarte, California
3. 1710 Flower Street, Duarte, California
4. 2144 Buena Vista Street, Duarte, California
5. 2240 Buena Vista Street, Irwindale, California
6. 2250 Buena Vista Street, Irwindale, California
7. 4910 Rivergrade Road, Irwindale, California
8. 1055 Wilshire Boulevard, Los Angeles, California
9. 800 Royal Oaks Drive, Monrovia, California

**EXHIBIT 3  
UTILIZATION STATISTICS**

The following table shows utilization statistics of COH for the fiscal years ended September 30, 2009, 2010 and 2011:

**City of Hope**

<u>Medical Center</u>	<u>As of September 30,</u>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Discharges	6,382	6,265	6,014
Adjustment patient days	103,079	103,523	103,771
Occupancy	84.7%	83.5%	80.8%
Bone marrow transplant cases	568	560	487
Bone marrow transplant length of stay	33.7	34.2	34.4
Non-Bone marrow transplant length of stay	6.6	6.5	6.8
Sugery cases	6,546	7,086	6,847
Outpatient visits and infusions	136,561	148,381	150,023

**EXHIBIT 3**

**OUTSTANDING DEBT**

**City of Hope**

*(In thousands)*

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding <sup>(a)</sup> As of Sept 30, 2011</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
<b>-EXISTING LONG-TERM DEBT:</b>			
City of Duarte, Series 1999A	\$ 169,930	\$ 150,355	\$ -
California Enterprise Development Authority	50,000	48,801	-
CHFFA, Series 2000 Note, 2004	12,650	2,037	-
	10,000	8,217	-
*ABAG Finance Authority, Series 2006A	25,000	21,895	-
ABAG Finance Authority, Series 2006B	25,000	18,265	-
ABAG Finance Authority, Series 2006C	10,000	7,240	-
			-
<b>- PROPOSED NEW DEBT:</b>			
<i>CHFFA 2012 Series A</i>			<b>351,000</b>
<b>- TOTAL DEBT</b>		<b>\$ 256,810</b>	<b>\$ 351,000</b>

\*ABAG - Association of Bay Area Governments

## EXHIBIT 4

### BACKGROUND, GOVERNANCE AND LICENSURE

#### Background

City of Hope (“COH”), a California nonprofit public benefit corporation (the “Corporation”), with its affiliates COH National Medical Center (the “Medical Center”), COH Medical Foundation (the “Medical Foundation”), the Beckman Research Institute of the COH (the “Beckman Institute” and, together with the Corporation, the Medical Center and the Medical Foundation, “City of Hope”), operates a clinical and research enterprise focused on transforming scientific discoveries into better prevention strategies and better treatments for patients with cancer, diabetes and other life threatening diseases. COH’s research enterprise, encompassing from bench research in the laboratory, clinical trials in patients, and genetic cancer risk assessment and cancer survivorship research and its clinical enterprise, from the Medical Center’s hospital in Duarte, California to the Medical Foundation’s community practices, are the foundation for COH’s National Cancer Institute (“NCI”)-designated Comprehensive Cancer Center.

COH’s main campus is in Duarte, California, approximately 20 miles northeast of down town Los Angeles. The main campus includes an acute care tertiary hospital and facilities for research and outpatient treatment located on more than 100 landscaped acres. In this setting, physicians and scientists collaborate to discover, develop and implement strategies for the prevention and treatment of cancer and other catastrophic diseases. In addition, the Medical Foundation operates clinics in South Pasadena, Santa Clarita and Lancaster (Antelope Valley), taking the results of COH’s scientific and clinical expertise into local communities.

The Medical Center dates back to 1913, when it was founded as a tuberculosis sanitarium on its present site in Duarte, California. The Medical Center expanded its research and treatment programs to other chronic diseases in the late 1940s, as tuberculosis ceased to be a major health threat. It was during this period that the Medical Center was incorporated and began to focus on specialized cancer research and treatment. In 1979, a medical research organization, which later became the Beckman Institute, was organized as a California nonprofit public benefit corporation to conduct basic scientific research activities. In 1980, fundraising activities were moved from the Medical Center into the newly-formed Corporation.

Historically, and prior to the development of the Medical Foundation, the Medical Center contracted with medical group, for the provision of substantially all of the teaching, administrative and research services provided by physicians at the Medical Center, as well as for patient coverage services needed by the Medical Center for its operations. During the last decade, the medical group was called California Cancer Specialists Medical Group, Inc. (“CCSMG”). During that time, CCSMG employed substantially all of the physicians [with admitting privileges] on the Medical Center’s medical staff. Seeking a greater degree of alignment and collaboration with the physicians providing care to the Medical Center’s patients, in 2009 the Medical Center began formally exploring a way to move COH to a more integrated healthcare delivery system and to continue to enhance both the quality of care provided to its patients and the research conducted. In 2009, the Medical Center began



discussions with CCSMG. Negotiations faltered in the spring of 2010 and in May 2010, CCSMG filed a lawsuit against the Corporation and the Medical Center challenging their plan to form a medical foundation on a number of grounds. Oncology Specialists of COH, P.C. (“OSCOH”), a competing 15-person medical group formed in spring 2010, was also sued by CCSMG. In November 2010, after the court denied CCSMG’s motion for preliminary injunction and after an unsuccessful appeal, the Medical Center, CCSMG and OSCOH began negotiations to resolve their disputes and began working together to create the Medical Foundation.

On May 31, 2011, the Corporation and the Medical Foundation acquired substantially all of the assets of CCSMG, and the Medical Foundation acquired substantially all of the assets of OSCOH, and the Medical Foundation began operations on June 1, 2011. The purposes of the Medical Foundation include: integrating physicians into COH leadership; forming an integrated delivery network to position for health reform; providing outreach into existing and new communities; creating a platform for joint recruitment of top physicians; aligning incentives to promote quality outcomes and business growth; and enhancing quality outcomes through coordination of medical services. Upon closing of the asset purchase transactions, approximately 93% of physicians employed by CCSMG and OSCOH when the asset purchase agreements were signed joined COH Medical Group, Inc., (“COHMG”) which signed an exclusive five-year professional services agreement with the Medical Foundation to provide teaching, administrative, research and clinical services. COHMG is a for-profit professional corporation and is not an affiliate of the Corporation, the Medical Center, the Medical Foundation or the Beckman Institute and is not a member of the Obligated Group.

### **Corporate Governance**

Each of the Corporation, the Medical Center, the Medical Foundation and the Beckman Institute has a separate board of directors which governs it. The bylaws of the Corporation provide for participation in its governance by members (“Members”) who have the right to vote for the election of certain Corporation directors, the disposition of all or substantially all of the Corporation’s assets, on any merger and its principal terms and any amendment of those terms, and on any election to dissolve the Corporation. The Corporation is the sole corporate member of each of the Medical Center, the Medical Foundation and the Beckman Institute, and as the sole corporate member, it retains reserve powers over those organizations’ ability to borrow money, pledge property as security, transfer or release debts, dispose of property, enter into real estate transactions, lend or sell property not in the ordinary course of business and establish or change capital and operating budgets.

### **Licensure, Certification and Accreditation**

The Medical Center is accredited by The Joint Commission and the College of American Pathologists. The Medical Center’s hospital, Helford Clinical Research Hospital, is licensed by the California Department of Public Health. The Medical Center also operates a Hematopoietic Cell Transplantation Program that is accredited by the Foundation for the Accreditation of Cellular Therapy. The Irell & Manella Graduate School of Biological Sciences, which awards the degree of Doctor of Philosophy in biological sciences, is accredited by the Western Association of Schools and Colleges (WASC).

## **RESOLUTION NO. 384**

### **RESOLUTION OF THE CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY AUTHORIZING THE ISSUANCE OF REVENUE BONDS FOR CITY OF HOPE AND CERTAIN OF ITS AFFILIATES**

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 incur indebtedness to finance and refinance the construction, expansion, remodeling, renovation, furnishing, equipping and acquisition of health facilities operated by participating health institutions, including by reimbursing expenditures made or refinancing indebtedness incurred for such purposes;

WHEREAS, City of Hope (the “Corporation”) is a nonprofit public benefit corporation duly organized and existing under the laws of the State of California, has applied to the Authority for the issuance of one or more series of revenue bonds of the Authority on behalf of the Corporation, in an aggregate principal amount not to exceed \$351,000,000 for the purposes of (1) making one or more loans to the Corporation to finance the acquisition, construction, expansion, remodeling, renovation, furnishing and equipping of certain facilities owned or leased and operated by the Corporation, Beckman Research Institute of the City of Hope (“Beckman”) and/or the City of Hope National Medical Center (“Medical Center”) located in and around the cities of Duarte, Irwindale, Los Angeles and Monrovia, California (as further specified in Exhibit A attached hereto and incorporated herein) and reimbursing the Corporation or its affiliates for expenditures made in anticipation thereof (collectively, the “Project”); (2) to refinance all or any portion of the following indebtedness of the Corporation or its affiliates (A) (i) Certificates of Participation Evidencing Proportionate Interests of the Holders Thereof in Installment Payments to be Paid by the City of Duarte from Purchase Payments to be Received from the Medical Center, Series 1999A (the “1999 Certificates”), (ii) the ABAG Finance Authority for Nonprofit Corporations Fixed Rate Revenue Bonds (City of Hope National Medical Center Project), Series 2006A (the “Series 2006A Bonds”), its Variable Rate Revenue Bonds (City of Hope National Medical Center Project), Series 2006B (the “Series 2006B Bonds”) and its Fixed Rate Revenue Bonds (City of Hope National Medical Center Project), Series 2006C (the “Series 2006C Bonds” and collectively with the Series 2006A Bonds and the Series 2006B Bonds, the “Series 2006 Bonds”) and (iii) the California Enterprise Development Authority 2007 Loan to Beckman (the “2007 Loan” and together with the 1999 Certificates and the Series 2006 Bonds, the “Prior Obligations”) and (B) proceeds of such Prior Obligations which were incurred in connection with projects (as defined in the Act) undertaken for health facilities (as defined in the Act) acquired or for working capital (as defined in the Act) and refinance all or any portion of the Prior Obligations on a current basis; (3) paying costs of issuance for the Bonds (defined below), if desired by the Corporation; and (4) funding a debt service reserve fund for the Bonds, if desired by the Corporation;

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 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 (City of Hope), Series 2012” (the “Bonds”), in a total aggregate principal amount not to exceed \$351,000,000, 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 indenture or bond indentures pursuant to which each series of the Bonds will be issued. The proceeds of the Bonds shall be used for any or all of the purposes set forth in the second WHEREAS paragraph 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 adoption of this Resolution, at private sale, in such aggregate amount and in such series, at such prices and at such fixed and/or variable interest rate or rates 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 option of the Corporation, be secured or supported by a debt service reserve fund, by bond insurance, one or more credit facilities or supported by one or more liquidity facilities meeting the terms of the bond indenture pursuant to which such Bonds will be issued.

SECTION 3. The following documents:

(a) a Loan Agreement relating to the Bonds bearing interest at fixed rates (the “Fixed Rate Bonds”), (the “Fixed Rate Loan Agreement”), between the Authority and the Corporation,

(b) a Bond Indenture relating to the Fixed Rate Bonds (the “Fixed Rate Bond Indenture”), between the Authority and Union Bank, N.A., as bond trustee (the “Trustee”),

(c) a Bond Purchase Contract, including the exhibits thereto, relating to the Fixed Rate Bonds (the “Fixed Rate Purchase Contract”), among the Treasurer, the Authority and J.P. Morgan Securities LLC., as representative of the underwriters named therein (the “Fixed Rate Underwriters”), and approved by the Corporation, and

(d) a preliminary official statement relating to the Fixed Rate Bonds (the “Fixed Rate Preliminary Official Statement”),

(e) a Loan Agreement relating to one or more series of the Bonds bearing interest at variable rates (the “Variable Rate Bonds”), (the “Variable Rate Loan Agreement,” and together with the Fixed Rate Loan Agreement, the “Loan Agreements”), between the Authority and the Corporation,

(f) a Bond Indenture relating to one or more series of the Variable Rate Bonds (the “Variable Rate Bond Indenture,” and together with the Fixed Rate Bond Indenture, the “Bond Indentures”), between the Authority and the Trustee,

(g) a Bond Purchase Contract, including the exhibits thereto, relating to one or more series of the Variable Rate Bonds (the “Variable Rate Purchase Contract,” and together with the Fixed Rate Purchase Contract, the “Purchase Contracts”), among the Treasurer, the Authority and J.P. Morgan Securities LLC., Wells Fargo Securities, LLC and/or Barclays Capital Inc. and/or such other underwriters named in each (collectively, the “Variable Rate Underwriters” and together with the Fixed Rate Underwriters, the “Underwriters”), and approved by the Corporation, and

(h) a preliminary official statement, if deemed necessary by the Corporation and the Underwriters, relating to the Variable Rate Bonds (the “Variable Rate Preliminary Official Statement,” and together with the Fixed Rate Preliminary Official Statement, 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 the terms of a debt service reserve fund, bond insurance, credit facility or liquidity facility, if any, for any series of Bonds) as the officer(s) executing and/or delivering the same, with the advice of the Attorney General of the State of California or such other counsel as the Authority shall select (“Authority Counsel”), 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.

SECTION 4. The Authority 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, methods of determining the interest rate from time to time, interest payment dates, denominations, forms, registration privileges or requirements, place or places of payment, terms of tender or purchase, terms of redemption, and other terms of the Bonds, including provisions for a debt service reserve fund, bond insurance, credit facility or liquidity facility, as applicable, from time to time, shall be as provided in the respective Bond Indentures, as finally executed.

SECTION 6. The Underwriters are hereby authorized to distribute the Preliminary Official Statements for each issue or series of the Bonds to be marketed to persons who may be interested in the purchase of such Bonds offered in such issuance. The Underwriters are hereby directed to deliver copies of appropriate final official statements (the “Official Statements”) to all actual purchasers of the Bonds.

SECTION 7. The Bonds, when executed, shall be delivered to the Trustee for authentication by the Trustee. The Trustee is hereby requested and directed to authenticate the Bonds by executing the Trustee’s Certificate of Authentication appearing thereon, and to deliver

the Bonds, when duly executed and authenticated, to or upon direction of the Underwriters 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 such Underwriters, 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, the Loan Agreements, the Purchase Contracts and the Official Statements. The Authority hereby approves any and all documents to be delivered in furtherance of the foregoing purposes, including, without limitation: (a) certifications; (b) tax certificates and agreements; and (c) any agreement or commitment letter with respect to the provisions of bond insurance, a letter of credit, a credit facility a liquidity facility and/or a surety bond, if applicable, for the Bonds.

SECTION 9. The provisions of the Authority's Resolution No. 2011-15 apply to the documents and actions approved in this Resolution.

SECTION 10. Orrick, Herrington & Sutcliffe, LLP, bond counsel to the Authority, and the trustee for the Prior Obligations, are each hereby authorized, on behalf of the Authority, to subscribe for United States Treasury Securities – State and Local Government Series or to solicit bids for debt securities, which may be used to defease or redeem any or all of such Prior Obligations.

SECTION 11. 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 12. This Resolution shall take effect from and after the date of adoption.

**Date of Adoption:** \_\_\_\_\_

## **EXHIBIT A**

“Project” means the financing or refinancing of the acquisition, construction, expansion, remodeling, renovation, furnishing and equipping of certain facilities owned or leased and operated by the Corporation, Beckman and/or the Medical Center located generally at 1450 and 1500 E. Duarte Road, Duarte, California, 1710 Flower Street, Duarte, California, 2144 Buena Vista Street, Duarte, California, 2240 Buena Vista Street, Irwindale, California, 2250 Buena Vista Street, Irwindale, California, 4910 Rivergrade Road, Irwindale, California, 1055 Wilshire Boulevard, Los Angeles, California, and 800 Royal Oaks Drive, Monrovia, California.