

**CHFFA REVENUE BOND FINANCING PROGRAM  
EXECUTIVE SUMMARY**

| <p><b>Applicant:</b> Memorial Health Services (“MHS”)<br/>17360 Brookhurst Street<br/>Fountain Valley, CA 92708<br/>Orange County</p>   | <p><b>Amount Requested:</b> \$100,000,000<br/><b>Requested Loan Term:</b> Up to 40 years<br/><b>Authority Meeting Date:</b> October 31, 2013<br/><b>Resolution Number:</b> 394</p> |   |                       |  |  |               |                |              |                |                |           |                 |           |                                |                       |                             |                       |
|---|--|---|-----------------------|--|--|---------------|----------------|--------------|----------------|----------------|-----------|-----------------|-----------|--------------------------------|-----------------------|-----------------------------|-----------------------|
| <p><b>Project Sites:</b> Please see Exhibit 1<br/><b>Facility Type:</b> General Acute Care Hospital<br/><b>Eligibility:</b> Government Code 15432(d)1<br/><b>Prior Borrower:</b> Yes (date of last bond issuance – April 2012)<br/><b>Obligated Group:</b> Please see Exhibit 5</p>   |  |   |                       |  |  |               |                |              |                |                |           |                 |           |                                |                       |                             |                       |
| <p><b>Background:</b> Memorial Health Services, a California not-for-profit public benefit corporation, was organized in 1937 to provide community hospital services in Southern California. The health care activities of its affiliates date back as far as 1907. MHS is the parent corporation of a multi-hospital, multi-discipline health care system headquartered in Fountain Valley, California, and provides coordinated management for the delivery of health care. In FY 2013, MHS had 70,373 patient admissions and 307,480 patient days.</p>   |  |   |                       |  |  |               |                |              |                |                |           |                 |           |                                |                       |                             |                       |
| <p><b>Use of Proceeds:</b> Bond proceeds will be used to reimburse MHS for spending that has occurred or will occur for building and land acquisitions, a parking structure, tenant improvements, and exterior upgrades at the Fountain Valley City Center site. MHS will also apply bond proceeds towards land and parking lot improvements at the facility located on Slater Avenue, and purchase hospital equipment for use at various facilities at MHS.</p>  |  |   |                       |  |  |               |                |              |                |                |           |                 |           |                                |                       |                             |                       |
| <p style="text-align: center;"><b>Type of Issue:</b> Negotiated public offering of variable rate bonds<br/>(Minimum \$5,000 denominations)</p> <p><b>Expected Credit Ratings:</b> Long Term: AA-/AA-; Standard &amp; Poor’s/ Fitch<br/>Short Term: A-1+/F1+; Standard &amp; Poor’s/ Fitch</p> <p style="text-align: center;"><b>Financing Team:</b> <i>Please see Exhibit 2 to identify possible conflicts of interest</i></p>  |  |   |                       |  |  |               |                |              |                |                |           |                 |           |                                |                       |                             |                       |
| <p><b>Financial Overview:</b> MHS’ income statement appears to demonstrate steady revenues over the last three fiscal years. Additionally, MHS appears to exhibit a solid financial position with an operating proforma debt service coverage ratio of 4.33x.</p>   |  |   |                       |  |  |               |                |              |                |                |           |                 |           |                                |                       |                             |                       |
| <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: left;"><u><b>Estimated Sources of Funds:</b></u></th> <th colspan="2" style="text-align: right;"><u><b>Estimated Uses of Funds:</b></u></th> </tr> </thead> <tbody> <tr> <td style="width: 30%;">Bond Proceeds</td> <td style="width: 20%; text-align: right;">\$ 100,000,000</td> <td style="width: 30%;">Project Fund</td> <td style="width: 20%; text-align: right;">\$ 100,000,000</td> </tr> <tr> <td>Borrower Funds</td> <td style="text-align: right;">1,500,000</td> <td>Financing Costs</td> <td style="text-align: right;">1,500,000</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>\$ 101,500,000</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>\$ 101,500,000</b></td> </tr> </tbody> </table> |  | <u><b>Estimated Sources of Funds:</b></u> |                       | <u><b>Estimated Uses of Funds:</b></u> |  | Bond Proceeds | \$ 100,000,000 | Project Fund | \$ 100,000,000 | Borrower Funds | 1,500,000 | Financing Costs | 1,500,000 | <b>Total Estimated Sources</b> | <b>\$ 101,500,000</b> | <b>Total Estimated Uses</b> | <b>\$ 101,500,000</b> |
| <u><b>Estimated Sources of Funds:</b></u>   |  | <u><b>Estimated Uses of Funds:</b></u>    |                       |  |  |               |                |              |                |                |           |                 |           |                                |                       |                             |                       |
| Bond Proceeds   | \$ 100,000,000   | Project Fund                              | \$ 100,000,000        |  |  |               |                |              |                |                |           |                 |           |                                |                       |                             |                       |
| Borrower Funds  | 1,500,000  | Financing Costs                           | 1,500,000             |  |  |               |                |              |                |                |           |                 |           |                                |                       |                             |                       |
| <b>Total Estimated Sources</b>  | <b>\$ 101,500,000</b>  | <b>Total Estimated Uses</b>               | <b>\$ 101,500,000</b> |  |  |               |                |              |                |                |           |                 |           |                                |                       |                             |                       |
| <p><b>Due Diligence:</b> Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through, Seismic, CEQA, 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 394 in an amount not to exceed \$100,000,000 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 Fieldman, Rolapp &amp; Associates, Inc., the Authority’s financial advisor, concur with the Authority’s staff recommendation.</p>  |  |   |                       |  |  |               |                |              |                |                |           |                 |           |                                |                       |                             |                       |

**I. PURPOSE OF FINANCING:**

MHS’ overall strategic plan is to prepare for a future expansion of the system by consolidating additional MHS support services and administration headquarters into a single campus. Bond proceeds will be used to complete the tenant improvements and exterior upgrades to the recently purchased Fountain Valley City Center, improve a parking lot on the Slater Avenue site and purchase equipment. The Fountain Valley City Center site is already home to MHS and its shared services.

***Project Fund*..... \$100,000,000**

MHS plans to use the bond proceeds for improvements and upgrades at the Fountain Valley City Center site, the purchase of hospital equipment for the health system, and land and parking lot improvements at an MHS facility on Slater Avenue in Fountain Valley. In addition, bond proceeds will be used to reimburse approximately \$53 million to MHS for eligible costs related to the Fountain Valley City Center and Slater Avenue acquisitions.

- *Fountain Valley City Center* ..... 63,900,000

MHS plans to use approximately \$16 million of the bond proceeds to complete the tenant improvements and exterior upgrades at the Fountain Valley City Center site. MHS completed the purchase of the Fountain Valley City Center site in FY 2014 and will use approximately \$48 million of the bond proceeds to reimburse itself for eligible costs.

- *MHS on Slater Avenue* ..... 9,000,000

MHS plans to use approximately \$4 million of the bond proceeds for land and parking lot improvements at a MHS facility located at 10101 Slater Avenue Fountain Valley, CA 92708. MHS completed the purchase of the site in FY 2014 and will use approximately \$5 million of the bond proceeds to reimburse itself for eligible costs.

- *Equipment* ..... 27,100,000

MHS plans to use bond proceeds to purchase various hospital equipment for use across the health system at one or potentially all of the MHS medical centers listed in Exhibit 1. MHS intends to replace outdated equipment with equipment that will lead to better overall efficiency.

***Estimated Financing Costs* ..... 1,500,000**

*Underwriter’s discount* ..... \$750,000

*Cost of Issuance* ..... 750,000

***Total Estimated Uses of Funds*..... \$101,500,000**

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

### **OBLIGATED GROUP**

Memorial Health Services (“MHS”) and its affiliates – Long Beach Memorial Medical Center, Saddleback Memorial Medical Center and Orange Coast Memorial Medical Center (collectively, with MHS, the “Obligated Group”) are each California nonprofit public benefit corporations obligated under an Amended and Restated Master Trust Indenture, dated as of April 1, 2012, Amending and Restating the Master Trust Indenture, dated as of March 1, 1984 , and as further amended to date (the “Master Indenture”). Under the Master Indenture, the Obligated Group will be obligated with respect to payments on the Series 2013 Bonds (the “Bonds”) proposed to be issued by the Authority, as well as on other parity debt secured by the Master Indenture. MHS is the borrower under the loan agreement and is bound, along with the other members of the Obligated Group, by the Master Indenture covenants described on page 5.

In connection with the issuance of the Bonds, there will be a Bond Indenture for each series of Bonds, executed by the Authority and the bond trustee, and a Loan Agreement for each series of Bonds, executed by the Authority and MHS. MHS will also deliver an Obligation (like a promissory note) for each series of Bonds, pursuant to the Master Indenture, to the bond trustee to secure under the Master Indenture the repayment of the Bonds required by each loan agreement. The members of the Obligated Group are jointly obligated on Obligations delivered pursuant to the Master Indenture. The covenants of the Master Indenture will be enforceable by the Master Trustee, and the bond trustee, as the holder of the Obligations related to each series of Bonds, has certain rights to direct the enforcement of remedies on behalf of the holders of the Bonds.

The Master Indenture sets forth certain conditions that allow for members to be added to, or withdraw from, the Obligated Group. For example, such addition/ withdrawal shall not cause any Obligated Group defaults under the Master Indenture or adversely affect the tax-exempt status of the Obligated Group’s outstanding bonds. Any new members would need to agree to comply with all Master Indenture covenants, including payment of all Obligations then, or to be in the future, outstanding.

After reviewing the Obligated Group’s credit profile, including its current financial profile, prior bond transactions and considering what the market will support, MHS, Fieldman, Rolapp & Associates, Inc. (FRA), and the underwriter have concluded the covenants listed below align the interests of the Obligated Group, CHFFA, and the investors and therefore are appropriate for this transaction. MHS, FRA, and the underwriter note these covenants 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.

**The following covenants are applicable to this transaction:**

**Unconditional Obligation to Pay.** *Under the Loan Agreement, MHS agrees to pay the bond trustee all amounts required to be paid for principal, interest, purchase price or redemption premium, if any, on the Bonds, and for other payments and expenses designated in the Loan Agreement. The Obligation issued under the Master Indenture guarantees such payments by the Obligated Group. All Revenues (which will include loan repayments under the Loan Agreement and payments by the Obligated Group on each Obligation) 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 issued under the Bond Indenture.*

**Pledge of Gross Revenues.** *Each member of the Obligated Group pledges to deposit all of its revenues, income, receipts and money received (with certain limited exceptions) into a Gross Revenue Fund in which the master trustee under the Master Indenture will be granted a security interest. If a payment delinquency occurs on an Obligation issued under the Master Indenture, the Gross Revenue Fund will be transferred to the master trustee who will then make payments therefrom for the benefit of Obligation holders, including the bond trustee for the Bonds.*

**Limitation on Creation of Liens.** *Each member of the Obligated Group agrees that it will not create or suffer to be created or exist any Lien upon Property (which includes Gross Revenues) other than Permitted Liens. As defined in the Master Indenture, Permitted Liens consist of a restrictive set of allowable liens and encumbrances that may be incurred under the Master Indenture.*

**No Debt Service Reserve.** *There will not be a debt service reserve fund established under the Bond Indenture for each series of Bonds.*

**Limitations on Indebtedness.** *The Master Indenture sets forth specific financial tests for the amount of Indebtedness that may be incurred by the Obligated Group, but accepts therefrom certain indebtedness such as Non-Recourse Indebtedness. Additionally, the Loan Agreement for each series of Bonds sets forth additional specific financial tests for the amount of Indebtedness that may be incurred by the Obligated Group.*

**Rates and Charges.** *The Loan Agreement for each series of Bonds sets forth a requirement that the Obligated Group charge rates at its health facilities sufficient to produce a certain level of income available for debt service.*

**Limitations on Sale, Lease or Other Disposition of Property.** *Each member of the Obligated Group agrees not to sell, lease or otherwise dispose of Property (real, personal, tangible or intangible) in any fiscal year unless certain financial tests are met, although there are a list of exceptions set forth.*

**Limitations on Consolidation, Sale, Merger or Conveyance.** *The Master Indenture sets forth specific measures under which the Obligated Group may merge/ consolidate with, or sell/convey to, another entity. Specifically, the payment of Obligations and compliance with Master Indenture covenants must not be adversely affected by any such occurrence.*

**Compliance with Rule 15c2-12.** *Pursuant to the Loan Agreement for each Series of Bonds, MHS, on behalf of the Obligated Group, will undertake such action as is necessary to assist the Underwriters in complying with SEC Rule 15c2-12. Specifically, MHS will agree to file with the Municipal Securities Rulemaking Board certain financial and operating information during the life of the Bonds, and to report certain “material events” such as payment delinquencies, ratings downgrades, redemptions, etc.*

**Staff and FRA have reviewed the entirety of this financing package and find it to be acceptable.**

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### III. FINANCIAL STATEMENTS AND ANALYSIS:

**Memorial Health Services Obligated Group**  
**Statement of Activities**  
(In thousands)

|   | As of June 30,      |                     |                     |
|---|---------------------|---------------------|---------------------|
|   | 2013                | 2012                | 2011                |
| <b>Unrestricted operating revenues and other support</b>                            |                     |                     |                     |
| Net patient service revenues  | \$ 1,596,700        | \$ 1,488,241        | \$ 1,485,970        |
| Provision for bad debts   | (107,137)           | (112,105)           | (99,691)            |
| Capitation premium revenues   | 122,496             | 124,463             | 144,517             |
| Other operating revenues  | 104,126             | 112,245             | 92,638              |
| Net assets released from restrictions   | 345                 | -                   | 55                  |
| Total unrestricted operating revenues and other support                             | <u>1,716,530</u>    | <u>1,612,844</u>    | <u>1,623,489</u>    |
| <b>Operating expenses:</b>  |                     |                     |                     |
| Salaries, wages and benefits  | 802,161             | 772,822             | 728,605             |
| Medical and other supplies  | 239,480             | 240,874             | 234,490             |
| Purchased services and other  | 389,172             | 381,154             | 353,499             |
| Capitation claims expense   | 60,933              | 54,719              | 56,730              |
| Depreciation and amortization   | 67,790              | 64,016              | 65,523              |
| Total operating expenses  | <u>1,559,536</u>    | <u>1,513,585</u>    | <u>1,438,847</u>    |
| Excess of operating revenues over operating expenses                                | 156,994             | 99,259              | 184,642             |
| <b>Nonoperating revenues and expenses</b>   |                     |                     |                     |
| Investment income   | 49,155              | 16,229              | 27,144              |
| Interest expense  | (12,256)            | (9,275)             | (7,216)             |
| Loss on early extinguishment of debt  | -                   | (10,339)            | -                   |
| Change in fair value of derivatives   | 2,708               | 2,467               | 149                 |
| Gain or (loss) on sale of assets  | 16                  | (453)               | (109)               |
| Other nonoperating revenues   | -                   | -                   | 9,130               |
| Excess of revenues over expenses  | <u>196,617</u>      | <u>97,888</u>       | <u>213,740</u>      |
| Unrealized gains on investments   | 32,080              | (22,096)            | 66,609              |
| Transfers   | 13,014              | (1,465)             | 10,858              |
| Change in postretirement benefit liability  | 1,629               | (3,252)             | -                   |
| Net assets released from restrictions for the acquisition of property and equipment | 2,963               | 8,067               | 3,457               |
| Other changes in unrestricted net assets  | 6,476               | 69                  | (1,178)             |
| <b>Increase in unrestricted net assets</b>  | <u>252,779</u>      | <u>79,211</u>       | <u>293,486</u>      |
| Unrestricted net assets at beginning of year  | 1,287,401           | 1,208,190           | 914,704             |
| Unrestricted net assets at end of year  | <u>\$ 1,540,180</u> | <u>\$ 1,287,401</u> | <u>\$ 1,208,190</u> |

| <b>Net Patient Service Revenues</b> | <b>Percent</b> |
|-------------------------------------|----------------|
| Medicare                            | 22.8           |
| Medi-Cal                            | 12.8           |
| Capitated Manged Care               | 6.3            |
| Non-Capitated Managed Care          | 51.7           |
| All Other Payors                    | 6.4            |
| Total                               | <u>100</u>     |

**Memorial Health Services Obligated Group**  
**Statement of Financial Position**  
(In thousands)

|  | <b>As of June 30,</b> |                    |                    |
|--|-----------------------|--------------------|--------------------|
|  | <b>2013</b>           | <b>2012</b>        | <b>2011</b>        |
| <b>Assets:</b>   |                       |                    |                    |
| Current assets:  |                       |                    |                    |
| Cash and cash equivalents  | \$ 97,081             | \$ 77,563          | \$ 140,021         |
| Investments  | -                     | 129,197            | 100,985            |
| Patient accounts receivable, net                                 | 315,810               | 337,579            | 219,698            |
| Other receivables  | 11,274                | 16,825             | 23,912             |
| Due from affiliates  | (12,926)              | 13,388             | 1,782              |
| Other current assets limited as to use                           | 399                   | 2,718              | 6,347              |
| Assets available for sale  | 34,358                |                    |                    |
| Other current assets   | 33,128                | 32,089             | 26,635             |
| Total current assets   | <u>479,124</u>        | <u>609,359</u>     | <u>519,380</u>     |
| Long-term investments  | 1,086,363             | 846,235            | 647,502            |
| Assets limited as to use   | -                     | -                  | 18,027             |
| Property and equipment, net                                      | 606,156               | 566,838            | 558,230            |
| Intangibles and goodwill   | 7,457                 | 7,598              | 7,827              |
| Other assets   | 244,233               | 219,504            | 123,746            |
| Total assets   | <u>\$ 2,423,333</u>   | <u>\$2,249,534</u> | <u>\$1,874,712</u> |
| <b>Liabilities and Net Assets:</b>                               |                       |                    |                    |
| Current liabilities:   |                       |                    |                    |
| Accounts payable   | \$ 106,188            | \$ 150,394         | \$ 57,922          |
| Accrued payroll and employee benefits                            | 109,002               | 110,475            | 89,295             |
| Due to affiliates  | -                     | 30,215             | 20,387             |
| Estimated third-party payor settlements                          | 5,920                 | 5,637              | 5,201              |
| Current maturities of long-term debt                             | 135,716               | 140,035            | 146,336            |
| Other accrued liabilities  | 71,022                | 60,758             | 58,875             |
| Total current liabilities  | <u>427,848</u>        | <u>497,514</u>     | <u>378,016</u>     |
| Long-term debt, less current maturities                          | 370,401               | 382,296            | 200,812            |
| Split-interest agreement trust liabilities, less current portion | 79                    | 35                 | 397                |
| Other long-term liabilities                                      | 81,615                | 76,270             | 65,738             |
| Total liabilities  | <u>879,943</u>        | <u>956,115</u>     | <u>644,963</u>     |
| <b>Net assets:</b>   |                       |                    |                    |
| Unrestricted   | 1,537,873             | 1,287,401          | 1,208,190          |
| Unrestricted - non-controlling interests                         | 2,307                 | -                  | -                  |
| Temporarily restricted   | 3,210                 | 6,018              | 21,559             |
| Total net assets   | <u>1,543,390</u>      | <u>1,293,419</u>   | <u>1,229,749</u>   |
| Total Liabilities and Net Assets                                 | <u>\$ 2,423,333</u>   | <u>\$2,249,534</u> | <u>\$1,874,712</u> |

**Financial Ratios:**

|  | <b>Proforma <sup>(a)</sup></b> |      |      |       |
|--|--------------------------------|------|------|-------|
|  | <b>FYE June 30, 2013</b>       |      |      |       |
| Debt service coverage (x) operating <sup>(b)</sup> | 4.33                           | 4.98 | 3.74 | 7.87  |
| Debt service coverage (x) net <sup>(b)</sup>       | 6.42                           | 7.38 | 3.49 | 10.06 |
| Debt/Unrestricted Net Assets (x)                   | 0.20                           | 0.38 | 0.46 | 0.34  |
| Operating Margin (%)                               |                                | 9.15 | 6.15 | 11.37 |
| Current Ratio (x)                                  |                                | 1.12 | 1.22 | 1.37  |

<sup>(a)</sup> Recalculates FY 2013 audited results to include the impact of this proposed financing.

<sup>(b)</sup> Debt service coverage ratios calculated using Maximum Annual Debt Service.

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

**MHS' income statement appears to demonstrate steady revenues over the last three fiscal years.**

MHS' total operating revenues appear to have grown by approximately 6% over the review period from approximately \$1.62 billion in FY 2011 to \$1.72 billion in FY 2013, which MHS primarily attributes to increases in net patient service revenues. Net patient service revenues appear to have increased by approximately 7% from \$1.48 billion in FY 2011 to \$1.59 billion in FY 2013, which MHS credits to the growth and an expansion of the system's services. In FY 2014, MHS completed the purchase of the Fountain Valley City Center facility.

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

- Total operating expenses remained relatively in line with total operating revenues in FY 2013, with an approximate 8% increase in operating expenses compared to an approximate 7% increase in operating revenues. MHS reports it has engaged in stronger cost control measures, which have improved operational efficiency.
- MHS appears to have experienced increases in purchased services from approximately \$353 million in FY 2011 to approximately \$389 million in FY 2013, a 10% increase. MHS states purchased services are non-medical expenditures, which include MHS' continued investments in routine capital and information technology expenditures.
- MHS experienced a loss of approximately \$22 million in unrealized gains on investments in FY 2012, but FY 2013 exhibits an improvement of approximately \$32 million. MHS attributes the loss in FY 2012 to general movements in the financial markets.
- The provisions for bad debts appear to have risen from approximately \$99.7 million in FY 2011 to \$107.1 million in FY 2013, a 7% increase, which MHS reports arose as part of regular business practices and the on-going economic environment. MHS believes these provisions for bad debt will be addressed with the new health reform initiatives since these costs will be covered by increased coverage.

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

### **MHS appears to exhibit a solid financial position with an operating proforma debt service coverage ratio of 4.33x.**

MHS' balance sheet appears to exhibit continued growth over the review period. Total unrestricted net assets increased from approximately \$1.2 billion in FY 2011 to \$1.53 billion in FY 2013, an approximate 27% increase. The operating debt service coverage ratio appears to be a strong 4.98x for FY 2013 and the operating proforma debt service coverage ratio is a solid 4.33x, indicating MHS can likely manage the proposed additional debt.

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

- MHS' cash and cash equivalents appear to have decreased over the review period by approximately 30% from approximately \$140 million in FY 2011 to \$97 million in FY 2013, which MHS attributes to continued self-funding of capital expenditures. According to MHS management, its liquid, unrestricted investments include cash and cash equivalents, investments (short-term), and long-term investments. As combined, MHS' total unrestricted investments appear to have increased approximately 11.6% between FY 2012 and FY 2013.
- According to MHS, long-term investments experienced a significant increase of 64% from approximately \$647 million in FY 2011 to \$1.06 billion in FY 2013 due to favorable financial market conditions.
- In an attempt to address health reform and deliver more high quality comprehensive care, MHS opened Seaside Health Plan in FY 2014 to serve those enrolled in Medicare, Medi-Cal, Dual Eligible and Commercial health plans. MHS continues to integrate its continuum of care, which includes hospitals, physicians, ambulatory services, and a health plan.

#### IV. DUE DILIGENCE:

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

- **Section 15438.5(a) of the Act (Savings Pass Through):** MHS 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):** MHS properly completed and submitted this certification and indicated that Medi-Cal and Medicare patients are accepted.
- **Compliance with Seismic Regulations:** MHS properly submitted a description of how it is complying with OSHPD seismic evaluation regulations.
- **Compliance with Section 15455(b) of the Act (California Environmental Quality Act):** MHS properly submitted relevant documentation addressing CEQA.
- **Religious Affiliation Due Diligence:** MHS properly completed and submitted relevant documentation to meet the religious due diligence requirement.
- **Legal Review:** MHS properly completed and submitted relevant documentation for the Authority’s Legal Questionnaire.
- **Iran Contracting Act Certificate:** MHS and the underwriter properly submitted the certificate to the Authority.

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**EXHIBIT 1**  
**PROJECT SITES**

MHS's Series 2013A and Series 2013B Bonds may finance projects at the following addresses:

**Fountain Valley City Center:**

- 17360 Brookhurst Street, Fountain Valley

**Memorial Health Services:**

- 10101 Slater Avenue, Fountain Valley

**Long Beach Memorial Medical Center:**

- 2801 Atlantic Avenue, Long Beach

**Orange Coast Memorial Medical Center:**

- 18111 Brookhurst Street, Fountain Valley

**Saddleback Memorial Medical Center:**

- 24451 Health Center Drive, Laguna Hills
- 654 Camino de los Mares, San Clemente

**EXHIBIT 2**  
**FINANCING TEAM**

**Trustee:** U.S. Bank

**Agent for Sale:** California State Treasurer

**Issuer's Counsel:** Office of the Attorney General

**Issuer's Financial Advisor:** Fieldman, Rolapp & Associates, Inc.

**Issuer's Financial Analyst:** Macias Gini & O'Connell, LLP

**Bond Counsel:** Sidley Austin LLP

**Trustee's Counsel:** Dorsey & Whitney

**Borrower's Financial Advisor:** Ponder & Co.

**Borrower's Counsel:** O'Melveny & Myers LLP

**Underwriter:** Morgan Stanley

**Underwriters' Counsel:** Orrick, Herrington & Sutcliffe LLP

**Auditor:** PricewaterhouseCoopers LLP

### EXHIBIT 3

#### UTILIZATION STATISTICS

|                                    | <b>Fiscal Year Ended June 30,</b> |             |             |
|------------------------------------|-----------------------------------|-------------|-------------|
|                                    | <b>2013</b>                       | <b>2012</b> | <b>2011</b> |
| Licensed and Available Beds        | 1,494                             | 1,546       | 1,487       |
| Patient Admissions                 | 70,373                            | 69,565      | 67,828      |
| Patient Days                       | 307,480                           | 312,305     | 302,699     |
| Average Length of Stay             | 4.37                              | 4.49        | 4.46        |
| Occupancy % Based on Licensed Beds | 56%                               | 55%         | 56%         |
| Emergency Room Visits              | 151,697                           | 144,858     | 169,376     |

**EXHIBIT 4**  
**OUTSTANDING DEBT**  
**MEMORIAL HEALTH SERVICES**

(000's)

| <u>Date Issued</u>                  | <u>Original<br/>Amount</u> | <u>Amount<br/>Outstanding<br/>As of<br/>June 30, 2013<sup>(a)</sup></u> | <u>Estimated<br/>Amount<br/>Outstanding<br/>after Proposed<br/>Financing</u> |
|-------------------------------------|----------------------------|---|--|
| <b>- EXISTING LONG-TERM DEBT:</b>   |                            |   |  |
| CLBC <sup>(b)</sup> , Series 1991   | \$65,000                   | \$65,000  | \$65,000   |
| CHFFA, Series 1994                  | 90,000                     | 60,500  | 60,500   |
| CHFFA, Series 2012 A                | 184,093                    | 176,851   | 176,851  |
| MHS Taxable Bonds Series 2012       | 100,000                    | 100,000   | 100,000  |
| MHS Taxable Bank Loan 2012          | 100,000                    | 100,000   | 100,000  |
| Other                               | 11,323                     | 5,791   | 5,791  |
| <b>- PROPOSED NEW DEBT:</b>         |                            |   |  |
| <b>CHFFA, Series 2013 A &amp; B</b> |                            |   | <b>\$100,000</b>   |
| <b>- TOTAL DEBT</b>                 |                            | <b>\$508,142</b>  | <b>\$608,142</b>   |

<sup>(a)</sup> Includes current portion of long-term debt.

<sup>(b)</sup> City of Long Beach ("CLBC")

## EXHIBIT 5

### BACKGROUND, GOVERNANCE AND LICENSURE

#### **Background**

Memorial Health Services (MHS), a not-for-profit California public benefit corporation, was organized in 1937 to provide community hospital services in Southern California. MHS is the parent corporation of a multi-hospital, multi-discipline health care system headquartered in Fountain Valley, California, and provides coordinated management for the delivery of health care. MHS has the following significant affiliates and subsidiary organizations:

Long Beach Memorial Medical Center (LBMMC), a not-for-profit, tax-exempt corporation, which includes Earl and Loraine Miller Children's Hospital (MCH) and the Community Hospital of Long Beach (CHLB) as operating divisions, and Memorial Medical Center Foundation (MMCF), a not-for-profit, tax-exempt corporation, are located in Long Beach, California. The LBMMC adult facility is licensed as a 462-bed acute care hospital, MCH has 324 licensed beds, and CHLB, which was purchased April 29, 2011, has 208 licensed beds. LBMMC is the sole corporate member of MMCF. MMCF's purpose is to raise funds for the support of LBMMC. MMCF provides funds to LBMMC for research, education and the purchase of equipment.

Saddleback Memorial Medical Center (SMMC) and Saddleback Memorial Foundation (SMF) are not-for-profit, tax-exempt corporations. SMMC is licensed as a 325-bed acute care hospital with campuses located in Laguna Hills, California, and San Clemente, California. SMMC is the sole corporate member of SMF. SMF's purpose is to raise funds for the support of SMMC. SMF provides funds to SMMC for education and the purchase of equipment.

Orange Coast Memorial Medical Center (OCMMC) is a not-for-profit, tax-exempt corporation. OCMMC is licensed as a 218-bed acute care hospital located in Fountain Valley, California.

#### **Obligated Group**

The Obligated Group is the central financing vehicle and credit for MHS and its operating divisions. The Obligated Group facilities are listed below:

- Memorial Health Services
- Long Beach Memorial Medical Center
- Saddleback Memorial Medical Center
- Orange Coast Memorial Medical Center

#### **Corporate Governance:**

The bylaws of the Corporation provide that the Corporation's board of directors shall consist of not fewer than 10 no more than 17 directors, six of whom serve ex officio as voting members of the board of directors.

#### **Licensure and Memberships:**

Each of MHS' hospital facilities is appropriately licensed by the California Department of Public Health to the extent required by law for the level of care it delivers and is certified to participate in the Medicare and Medi-Cal programs.

**RESOLUTION NO. 394**

**RESOLUTION OF THE  
CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY  
AUTHORIZING THE ISSUANCE OF REVENUE BONDS  
TO FINANCE PROJECTS AT THE HEALTH FACILITIES OF  
MEMORIAL HEALTH SERVICES AND CERTAIN AFFILIATED CORPORATIONS**

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

WHEREAS, Memorial Health Services is a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the “Borrower”), and is affiliated with Long Beach Memorial Medical Center, Saddleback Memorial Medical Center and Orange Coast Memorial Medical Center (each, together with the Borrower, a “Member” of the “Obligated Group”), each of which is a nonprofit public benefit corporation duly organized and existing under the laws of the State of California and each of which, together with the Corporation, owns and operates health care facilities in the State of California; and

WHEREAS, the Borrower has requested that the Authority issue one or more series of its revenue bonds in an aggregate principal amount not to exceed \$100,000,000, and make one or more loans of the proceeds thereof to the Borrower to finance, including through reimbursement of previous expenditures, (i) the acquisition, construction, expansion, remodeling, renovation, furnishing and equipping of the corporate headquarters owned and operated by the Borrower and (ii) the acquisition of equipment for various Members of the Obligated Group, all as more particularly described under the caption “The Project” in Exhibit A hereto (the “Project”);

WHEREAS, to the extent required by subdivision (b) of Section 15455 of the Government Code, the Borrower 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 Variable Rate Revenue Bonds (Memorial Health Services)” in a total aggregate principal amount not to exceed \$100,000,000, 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 any of the 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 third 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 within one year of the adoption 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 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 Borrower, 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 Borrower, be secured by deeds of trust, a reserve fund, bond insurance, credit facility and other security arrangements and/or supported by one or more liquidity facilities.

SECTION 3. The following documents:

(i) one or more Loan Agreements relating to the Bonds (the “Loan Agreements”), between the Authority and the Borrower,

(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 “Trustee”),

(iii) one or more Bond Purchase Contracts, including the exhibits thereto, relating to the Bonds (the “Purchase Contracts”), among Morgan Stanley & Co. LLC (the “Underwriter”), the Treasurer and the Authority, and approved by the Borrower, and

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

are hereby approved in substantially the forms on file with the Authority prior to this meeting, with such insertions, deletions or changes therein (including, without limitation, insertions, deletions or changes therein appropriate to reflect provisions relating to a deed of trust, a bond reserve fund, bond insurance, any other credit and/or liquidity facility and/or another security arrangement, at the sole option of the Borrower, for any series of 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 Statement. The Executive Director shall seek the advice of bond counsel and counsel to the Authority with respect to any such insertions, deletions or changes therein.

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

SECTION 5. The dated dates, maturity dates (not exceeding 40 years from the respective date of issue), interest rates, manner of determining 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 a Preliminary Official Statement for the Bonds to persons who may be interested in the purchase of such Bonds offered in such issuance, it being understood that, at the discretion of the Underwriter (in consultation with the Borrower), a preliminary official statement may not be used with respect to any series of Bonds. The Underwriter is hereby directed to deliver the final official statement (the “Official Statement”) to all actual purchasers of such Bonds.

SECTION 7. The Bonds, when executed, shall be delivered to the 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 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, Bond Purchase Contracts and Official Statement. The Authority hereby approves any and all documents to be delivered in furtherance of the foregoing purposes, including without limitation: (a) a tax certificate and agreement and other certifications; and (b) any agreement or commitment letter with respect to the provisions of bond insurance, a letter of credit, a surety bond, a credit facility and/or a liquidity facility for the Bonds.

SECTION 9. The provisions of the Authority’s Resolution No. 2013-02 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

### **The Project:**

The proceeds of the Bonds will be used by the Borrower, or certain of its affiliates (as described herein), to (A) finance a portion of the cost of acquisition, construction, expansion, remodeling, renovation, furnishing and equipping of three three-story buildings comprising a total of approximately 300,000 square feet, together with adjacent land and a parking structure, constituting the Borrower's new corporate headquarters, located at Fountain Valley City Centre, 17330-17390 Brookhurst Street, Fountain Valley, California, which is owned and operated by the Borrower, (B) finance the cost of acquisition, construction, furnishing and equipping of land and surface parking at 10101 Slater Avenue, Fountain Valley, California, which is owned and operated by the Borrower, and (C) finance the cost of acquisition of equipment for the following hospital facilities: (i) Long Beach Memorial Medical Center and Miller Children's Hospital Long Beach, a 835-licensed-bed acute care hospital facility located at 2801 Atlantic Avenue, Long Beach, California, which is owned and operated by Long Beach Memorial Medical Center, (ii) Orange Coast Memorial Medical Center, a 218-licensed-bed acute care hospital facility located at 18111 Brookhurst Street, Fountain Valley, California, which is owned and operated by Orange Coast Memorial Medical Center, and (iii) Saddleback Memorial Medical Center – Laguna Hills, located at 24451 Health Center Drive, Laguna Hills, California, and Saddleback Memorial Medical Center – San Clemente, located at 654 Camino De Los Mares, San Clemente, California, which together comprise a 325-licensed-bed acute care hospital facility which is owned and operated by Saddleback Memorial Medical Center.