CHFFA REVENUE BOND FINANCING PROGRAM
EXECUTIVE SUMMARY

Applicant:	Sutter Health ("Sutter") 2200 River Plaza Drive Sacramento, CA 95833 Sacramento County	**Amount Requested:** **Date Requested:** **Requested Loan Term:** **Resolution Number:**	$550,000,000 January 5, 2016 Up to 40 years 409
Project Sites:	See Exhibit 1		
Facility Types:	General acute, sub-acute and outpatient care		
Eligibility:	Government Code 15432(d) (1)		
Prior Borrower:	Yes (date of last CHFFA issue, 2015)		
Obligated Group:	The Sutter Health Obligated Group (the "Obligated Group"), the central financing vehicle for the Sutter Health system, is identified in Exhibit 5.		

Background: Sutter, a California nonprofit public benefit corporation, is the "parent" of the Sutter Health system (comprised of Sutter Health and its affiliated health care organizations) (the "System"), which operates primarily in Northern California. The System provides a broad range of health care services, including acute, sub-acute, long-term, home health, and outpatient care, as well as physician delivery systems. These services are provided through an integrated health care delivery approach which gives the System the ability to deliver a full range of health care products and services to the communities it serves. Sutter had 8,093,325 outpatient visits in FY 2014. *See Exhibit 3 for more details.*

Use of Proceeds: Bond proceeds will be used for the financing of the construction of two new replacement hospitals located in San Francisco, as well as to reimburse Sutter for the construction of a new replacement hospital located in Santa Rosa. Each of the hospitals located in San Francisco have an estimated completion date of 2019, and the Santa Rosa hospital was completed in 2014. All three new hospitals will replace existing older buildings and will satisfy the seismic regulations mandate.

Type of Issue:	Negotiated public offering with fixed rate bonds (expected minimum denominations of $5,000)
Expected Credit Rating:	AA-/Aa3/AA-; S&P /Moody's/ Fitch
Financing Team:	*Please see Exhibit 2 to identify possible conflicts of interest*

Financial Overview: The Obligated Group's income statement appears to exhibit solid results with positive income from operations each year from FY 2012 through FY 2014. The Obligated Group's balance sheet also appears strong with an operating pro-forma debt service coverage ratio of 4.24x.

Estimated Sources of Funds:		**Estimated Uses of Funds:**	
Par Amount of Bond Proceeds	$ 550,000,000	Project Fund	$ 550,000,000
Borrower Funds	4,000,000	Financing Costs	4,000,000
Total Estimated Sources	$ 554,000,000	**Total Estimated Uses**	$ 554,000,000

Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through, Seismic, CEQA documentation, Community Service Obligation, and the Iran Contracting Act Certificate documentation. All documentation satisfies the Authority's requirements.

Staff Recommendation: Staff recommends the Authority approve Resolution Number 409 in an amount not to exceed $550,000,000 subject to the conditions in the resolution, including a rating of at least investment grade by a nationally recognized rating agency. Macias Gini & O'Connell, LLP, the Authority's financial analyst, and Fieldman Rolapp & Associates, the Authority's financial advisor, concur with the Authority's staff recommendation.

(BL/TG)

I. PURPOSE OF FINANCING:

Sutter seeks to issue $550 million in fixed rate revenue bonds for the costs of acquisition, construction, expansion, furnishing, and equipping of two new hospitals located in San Francisco and operated by Sutter West Bay Hospitals dba California Pacific Medical Center ("CPMC"). Bond proceeds will also be used to reimburse Sutter for the costs of acquisition, construction, expansion, furnishing, and equipping of a new hospital located in Santa Rosa and operated by Sutter West Bay Hospitals dba Sutter Santa Rosa Regional Hospital. All three new hospitals will replace existing older buildings and will satisfy the Senate Bill 1953 (Figueroa) seismic mandate. The CPMC replacement hospitals are being completed under the Senate Bill 90 (Steinberg) extension, which allowed the completion date to rebuild their building to be extended to January 1, 2020.

Project Fund **...** ***$550,000,000***

CPMC – Van Ness and Geary Campus Hospital **...................** ***$425,000,000***
Sutter plans to construct a new 765,000 square foot, 274-bed hospital along with a 250,000 square foot parking structure. The new 12-story hospital will include women's, children's, cardiology, oncology, transplant, and emergency departments. An underground pedestrian tunnel will provide patients with direct access to a nine-story medical office building. Construction of the new hospital has an estimated completion date of 2019.

CPMC – St. Luke's Campus Hospital **....................................** ***$75,000,000***
Sutter plans to construct a new 237,000 square foot, 120-bed hospital, located in the Mission District of San Francisco. The new hospital will offer expanded emergency department and obstetrics, in addition to a full range of inpatient services. Sutter aims to transform the St. Luke's Campus into the hospital of choice for the southern sector of San Francisco. Construction of the new hospital has an estimated completion date of 2019.

Sutter Santa Rosa Regional Hospital **.....................................** ***$50,000,000***
Sutter will reimburse itself for costs associated with the construction of a two-story, 193,260 square foot, 84-bed, state-of-the-art replacement acute care hospital that was completed in 2014. The hospital provides a full range of care and services, including intensive care, nursery care and level III neonatal intensive care, emergency services, medical and surgical services, comprehensive cardiac services, supporting ancillary services, and a full range of women's reproductive health services.

Financing Costs[1] **..** ***$4,000,000***

Estimated underwriter's discount........................	$2,000,000
Estimated cost of issuance...................................	2,000,000

Total Estimated Uses of Funds **...** ***$554,000,000***

[1] Sutter Health will pay underwriter's discount and costs of issuance from its own funds.

II. PROPOSED COVENANTS, SECURITY PROVISIONS AND DISCLOSURES:

Sutter is a Member of the Obligated Group that currently consists of thirteen affiliated California nonprofit public benefit corporations, each of which is jointly and severally obligated under a master trust indenture with respect to payments on CHFFA bonds and other parity debt. Sutter will be the borrower under the loan agreement with CHFFA and will act on behalf of the other Obligated Group Members. All covenants below are applicable to each Member of the Obligated Group. There are also protective tests limiting Members from being added to or withdrawing from the Obligated Group if the change would result in a significant reduction of the financial strength of the Obligated Group.

Executive summary and recommendations include minimum requirements. Additional or more stringent covenants or disclosures may be added following consultation with Authority staff but without further notification to the Authority's Board. These covenants cannot be diluted or removed without subsequent review. If there have been modifications to the covenant proposal following the preparation of this executive summary, staff will report it at the meeting.

After reviewing Sutter's current finances, Sutter's prior bond transactions, and considering what the market will support, Sutter, Fieldman Rolapp & Associates (the Authority's financial advisor), and the underwriter have all concluded the below listed covenants should be applicable to this transaction, are consistent with covenants that have applied to Sutter's prior bond transactions, and that Sutter's current financial situation does not suggest additional covenants should be required.

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

Unconditional Promise to Pay. *Sutter agrees to pay the Bond Trustee all amounts required for principal, interest or redemption premium, if applicable, and other payments and expenses designated in the Loan Agreement. The Obligated Group guarantees all such payments under a master indenture obligation. All Revenues (which will include payments by Sutter under the Loan Agreement and payments by the Obligated Group) and any other amounts held in a designated fund or account under the Bond Indenture are pledged to secure the full payment of the Bonds.*

Pledge of Gross Revenues. *Each Member of the Obligated Group pledges to deposit all revenues, income, receipts and money received into a Gross Revenue Fund over which the Master Trustee has a blocked account agreement for the benefit of each bond trustee and parity lender.*

Negative Pledge Against Prior Liens. *Each Obligated Group Member agrees not to create, assume or permit any Lien upon the Gross Revenues or their respective Property other than Permitted Encumbrances.*

Limited Permitted Encumbrances. *Each Obligated Group Member is subject to a restrictive set of allowable encumbrances it may incur pursuant to the Master Indenture.*

Debt Service Coverage Requirement. *The Master Indenture contains a debt service coverage requirement based on 1.10 times Maximum Annual Debt Service. A debt service coverage requirement is a ratio measuring ability to make interest and principal payments as they become due by assessing the amount of revenue available to meet debt service payments.*

Additional Debt Limitation. *Each Obligated Group Member agrees not to incur additional Indebtedness unless authorized by various financial performance or projection measures set out in the Master Indenture.*

Disposition of Cash and Property Limitations. *Each Obligated Group Member agrees not to sell, lease or dispose of any property, plant or equipment or liquid assets unless authorized by various limiting measures set out in the Master Indenture.*

Comply with SEC Rule 15c2-12. *Sutter, on behalf of the Obligated Group, will take such action as is necessary to assist the underwriter in complying with SEC Rule 15c2-12. Sutter will contractually agree to disclose designated financial and operating information to the SEC web site (EMMA) during the life of the bonds and to report designated "material events" such as missed debt service payments, any change in bond ratings, defeasance, redemptions, etc.*

There will not be a debt service reserve account pledged to these bonds.

Staff and Fieldman Rolapp & Associates have reviewed the entirety of this financing package and find it to be acceptable.

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III. FINANCIAL STATEMENTS AND ANALYSIS:

SUTTER HEALTH OBLIGATED GROUP
Consolidated Statements of Operations and
Changes in Unrestricted Controlling Net Assets
($ in millions)

	Year ended December 31,		
	2014	**2013**	**2012**
Unrestricted net assets:			
Operating revenues:			
Patient service revenues less provision for bad debts*	$ 8,489	$ 8,047	$ 7,961
Capitation revenues	873	887	925
Contributions	5	4	5
Other	348	324	314
Total operating revenues	9,715	9,262	9,205
Operating expenses:			
Salaries and employee benefits	4,419	4,311	4,171
Purchased services	2,143	2,155	1,997
Supplies	1,086	1,025	988
Depreciation and amortization	546	585	454
Capitated purchased services	229	233	247
Rentals and leases	135	126	114
Interest	90	75	72
Insurance	61	85	55
Other	564	629	510
Total operating expenses	9,273	9,224	8,608
Income from operations	442	38	597
Investment income	224	151	96
Change in net unrealized gains/(losses) on investments classified as trading	(204)	196	111
Income	462	385	804
Less income attributable to noncontrolling interests	(42)	(44)	(41)

Continued

Unrestricted controlling net assets:			
Income attributable to Sutter Health	420	341	763
Change in net unrealized gains/(losses) on investments classified as other-than-trading	13	(23)	6
Net assets released from restrictions for equipment acquisition	12	6	11
Pension-related changes other than net periodic pension cost	(764)	634	35
Transfers with related entities, net	(66)	(100)	(118)
Other	(4)	16	6
(Decrease) increase in unrestricted controlling net assets	(389)	874	703
Unrestricted controlling net assets, beginning of year	7,359	6,485	5,782
Unrestricted controlling net assets, end of year	$ 6,970	$ 7,359	$ 6,485

Obligated Group Payer Source for FYE 12/31/2014

***Patient service revenues**	**Percent**
Medicare	40.3
Medi-Cal	19.9
Commerical Programs	35.3
Other Payers	4.5
Total	**100**

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SUTTER HEALTH OBLIGATED GROUP
Consolidated Balance Sheets
($ in millions)

	Year ended December 31, 2014	2013	2012
Assets			
Current assets:			
Cash and cash equivalents	$ 179	$ 255	$ 371
Short-term investments	3,516	3,445	2,606
Patient accounts receivable	1,068	1,163	1,052
Other receivables	557	213	214
Inventories	95	90	91
Other	113	60	68
Total current assets	5,528	5,226	4,402
Non-current investments	331	565	546
Property, plant and equipment, net	6,997	6,602	6,165
Other assets	352	812	334
Total assets	$ 13,208	$ 13,205	$ 11,447
Liabilities and net assets			
Current liabilities:			
Accounts payable	$ 585	$ 413	$ 319
Accrued salaries and related benefits	543	524	494
Other accrued expenses	456	422	409
Current portion of long-term obligations	21	16	16
Total current liabilities	1,605	1,375	1,238
Non-current liabilities:			
Long-term obligations, less current portion	3,742	3,762	2,994
Other	753	555	599
Total liabilities	6,100	5,692	4,831
Net assets:			
Unrestricted controlling [b]	6,970	7,359	6,485
Unrestricted noncontrolling[b]	61	73	54
Temporarily restricted	64	68	64
Permanently restricted	13	13	13
Total net assets	7,108	7,513	6,616
Total liabilities and net assets	$ 13,208	$ 13,205	$ 11,447

Financial Ratios:

	Proforma [a] FYE December 31, 2014	2014	2013	2012
Debt Service Coverage (x) -- Operating	4.24	5.31	4.08	6.31
Debt Service Coverage (x) -- Net	4.32	5.41	6.11	7.47
Debt/Unrestricted Net Assets (x)	0.62	0.54	0.51	0.46
Margin (%)		4.55	0.41	6.49
Current Ratio (x)		3.44	3.80	3.56

[a] Recalculates FY 2014 audited results to include the impact of this proposed financing.

[b] As of December 31, 2010, Sutter adopted the new GAAP requirement for the accounting of noncontrolling interest. Sutter has 25 consolidating joint ventures that require Sutter to report the portion of the unrestricted net assets that belong to "noncontrolling" owners to be separated and reflected as unrestricted noncontrolling net assets.

The audited, combined financial statements of the Obligated Group were analyzed in this section. The Obligated Group comprises approximately 92% of the total assets and 96% of the total revenues of the combined financials.

Financial Discussion – Statement of Activities (Income Statement)

The Obligated Group's income statement appears to exhibit solid results with positive income from operations each year from FY 2012 through FY 2014.

In FY 2013, the Obligated Group appeared to experience a slow-down in revenue growth of 0.6% while expenses increased at a faster rate of 7.2%. However, in FY 2014 the Obligated Group appeared to improve its operations as revenues increased approximately 4.9% and expenses increased at a minimal rate of approximately 0.5%. According to Sutter management, there were two unusual expenditures in FY 2013, which included a loss on impairment of Property, Plant, and Equipment for redesign and pre-construction services of $83 million, and a litigation settlement of $46 million associated with the California Insurance Commissioner intervening in a case alleging violation of California insurance code provisions. Sutter management also noted that expenses increased in FY 2013 as Sutter invested $128 million in a significant transformation project to standardize and centralize back-office functions by relocating them to a shared service center. Sutter's hospital fee program also created inconsistencies from year to year based on its approval process. Sutter recorded hospital fee program revenue of approximately $416 million in FY 2013 and approximately $377 million in FY 2014 with offsetting expenses of approximately $294 million and approximately $268 million, respectively, creating the fluctuations and inconsistencies.

Particular Facts to Note:

- Capitation revenues decreased each fiscal year, from approximately $925 million in FY 2012 to approximately $887 in FY 2013, and then to approximately $873 million in FY 2014. According to Sutter management, Sutter has experienced overall decreases across the system in its capitation products as employers are favoring preferred provider organization plans and self-funded plans.

- Investment income increased from approximately $96 million in FY 2012 to approximately $151 million in FY 2013, and then to approximately $224 million in FY 2014, which represents a total increase of about 133% from FY 2012 to FY 2014. According to Sutter management, the Obligated Group's investments are highly dependent on market conditions, which have shown volatility in the past and may continue to show volatility in the future.

- Net unrealized gains and losses on investments classified as trading experienced significant fluctuations, from an increase of approximately 77% in FY 2013 to a decrease of approximately 204% in FY 2014. The unrealized gain increased from approximately $111 million in FY 2012 to approximately $196 million in FY 2013, but turned to an unrealized loss of approximately $204 million in FY 2014. According to Sutter management, the Obligated Group's investments are highly dependent on market conditions, which have shown volatility in the past and may continue to show volatility in the future.

- Pension-related changes initially had strong growth, increasing from approximately $35 million in FY 2012 to approximately $634 million in FY 2013; however, Sutter had a significant loss of approximately $764 million in FY 2014. According to Sutter management, the fluctuations were primarily due to volatility in the investment market. In FY 2013, Sutter reduced the discount rate used in the valuation of pension liability, which was then increased in FY 2014. Additionally, in FY 2014 the mortality tables Sutter used in the pension assumptions were adjusted causing increased losses in the pension related changes.

- According to Sutter management, estimates of the future financial impact from the Affordable Care Act (the "ACA") would not be reliable given the uncertainty about the calculation and application of future Medicare payments under the ACA. Currently, approximately 15% of Sutter's net revenue is derived from Medicare and the ACA contains provisions which would significantly reduce Medicare physician payments. As of this date, there has been no material adverse impact on Medicare payments to Sutter and its integrated physicians as a result of the ACA.

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Financial Discussion – Statement of Financial Position (Balance Sheet)

The Obligated Group's financial strength appears strong with an operating pro-forma debt service coverage ratio of 4.24x.

The Obligated Group has demonstrated a strong ability to service its debt with a debt service coverage ratio from operating income of 6.31x, 4.08x, and 5.31x in fiscal years 2012, 2013, and 2014, respectively. With the issuance of new bonds, the Obligated Group maintains a strong ability to repay its debt obligations with a pro-forma debt service coverage ratio of 4.24x. The Obligated Group's debt to unrestricted net assets increased from 0.46x in FY 2012 to 0.51x in FY 2013, and then to 0.54x in FY 2014. According to Sutter management, the larger increase in FY 2013 was due to Sutter issuing approximately $750 million in bonds, of which $450 million in tax-exempt bonds were issued through the Authority. While Sutter continues to display a strong ability to repay its debt obligation, the issuance of new bonds increases the Obligated Group's pro-forma debt-to-unrestricted net assets ratio to 0.62x. According to management, Sutter currently anticipates additional borrowings of $500 million over the next four years to fund capital projects and seismic expenditures, but actual borrowings may differ from current expectations.

Particular Facts to Note:

- Cash and cash equivalents decreased by a little more than half, from approximately $371 million in FY 2012 to approximately $179 million in FY 2014. According to Sutter management, cash and cash equivalents decreased due to Sutter's contribution of approximately $140 million to its retirement plan.
- Patient accounts receivable experienced growth of 10.6% from FY 2012 to FY 2013, but then decreased by 8.2% in FY 2014. Patient accounts receivable grew a total of 1.5% over the review period, from approximately $1.05 billion in FY 2012 to approximately $1.07 billion in FY 2014. According to Sutter management, Sutter launched a significant transformation project in FY 2012 that centralized the hospital billing function. The increase in patient accounts receivable is associated with the transition of hundreds of staff relocating from across the system to a service center in the Sacramento area.
- Accounts payable demonstrated strong increases, from approximately $319 million in FY 2012 to approximately $413 million in FY 2013, and then to approximately $585 million in FY 2014. According to Sutter management, one of the projects of the transformation project noted above centralized the accounts payable function. The increase in accounts payable is associated with the transition of staff relocating from across the system to a service center in the Sacramento area as well as the introduction of new technology to scan and process invoices. Additionally, the hospital fee program resulted in a liability of $242 million recorded in FY 2014, which was not present in FY 2012 or FY 2013.
- Long-term obligations, which make up more than 60% of total liabilities, increased from nearly $3 billion in FY 2012 to nearly $3.8 billion in FY 2013, but then slightly decreased to approximately $3.7 billion in FY 2014. According to Sutter management, in FY 2013 Sutter issued approximately $450 million in tax-exempt bonds through the Authority as well as approximately $300 million in taxable bonds issued directly by Sutter. Bond proceeds were used to finance capital expenditures for health facilities owned and operated by certain Obligated Group Members.

IV. DUE DILIGENCE:

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

- **Section 15438.5(a) of the Act (Savings Pass Through):** Sutter properly completed and submitted the "Pass-Through Savings Certification."

- **Section 15491.1 of the Act (Community Service Requirement):** Sutter properly completed and submitted this certification and indicated that Medi-Cal and Medicare patients are accepted.

  As a not-for-profit, Sutter invests its earnings back into its communities. Sutter has invested nearly $4 billion over the past five years, including $767 million in calendar year 2014, to provide care for patients who couldn't afford to pay and support community health programs. Sutter's investments and partnerships with community health centers and other community organizations help support access to medical care, mental health services and key social services, such as transitional housing, transportation, meals for the hungry, education, youth job-training programs and health research.

  http://www.sutterhealth.org/annualreport/community-benefit.php

- **Compliance with Seismic Regulations:** Sutter 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):** Sutter properly submitted relevant documentation addressing CEQA.

- **Religious Affiliation Due Diligence:** Sutter properly completed and submitted relevant documentation to meet the religious due diligence requirement.

- **Legal Review:** Sutter properly completed and submitted relevant documentation for the Authority's Legal Questionnaire.

- **Iran Contracting Act Certificate:** Sutter and the underwriters properly submitted the certificate to the Authority.

EXHIBIT 1

PROJECT SITES

California Pacific Medical Center

- 1101 Van Ness Avenue, San Francisco, CA 94109
- 3555 Cesar Chavez Street, San Francisco, CA 94110

Sutter Santa Rosa Regional Hospital

- 30 Mark West Springs Road, Santa Rosa, CA 95403

EXHIBIT 2

FINANCING TEAM

Borrower:	Sutter Health
Agent for Sale:	California State Treasurer
Issuer's Counsel:	Office of the Attorney General
Issuer's Financial Advisor:	Fieldman Rolapp & Associates
Issuer's Financial Analyst:	Macias Gini & O'Connell, LLP
Borrower's Counsel:	Dentons US, LLP
Borrower's Financial Advisor:	The PFM Group
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP
Underwriters:	Morgan Stanley Bank of America Merrill Lynch Sutter Securities, Inc. Siebert Brandford Shank & Co., LLC
Underwriter's Counsel:	Sidley Austin LLP
Trustee:	Wells Fargo Bank Corporate Trust Services
Trustee Counsel:	Wells Fargo Law Department
Master Trustee:	U.S. Bank National Association
Master Trustee Counsel:	Dorsey & Whitney LLP
Auditor:	Ernst & Young LLP
Rating Agencies:	Moody's Investors Service, Inc. Standard & Poor's Financial Services, LLC Fitch Ratings, Inc.

EXHIBIT 3

UTILIZATION STATISTICS

Sutter Health

The following table summarizes the Obligated Group's utilization data for the fiscal years below:

The Obligated Group
Utilization Statistics

	Fiscal Year Ended December 31,		
	2014 (Restated)	**2013 (Restated)**	**2012 (Restated)**
Licensed Beds - Acute Care[(1),(2)]	4,738	4,775	4,828
Beds in Service - Acute Care[(2)]	4,260	4,428	4,490
Licensed Beds - Long-Term Care	62	62	62
Admissions[(3)]	189,056	196,608	202,875
Patient Days[(3)] - Acute Care	833,561	871,630	913,574
Patient Days - Long-Term Care	12,085	13,556	13,329
Average Length of Stay (Days)	4.4	4.4	4.5
Occupancy %[(4)]	54.2	54.7	56.2
Occupancy % - Long-Term Care	53.4	59.9	58.9
Emergency Room Visits[(5)]	797,148	780,927	798,681
Outpatients Visits	8,093,325	7,160,402	7,325,962

(1) As of March 31, 2013, revised from past continuing disclosure reports to conform to the Office of Statewide Health Planning and Development's definition of "licensed bed."

(2) Total year-end 2013 Current Licensed Beds (4,335) and Beds in Service (4,287) exclude beds reported for Eden Medical Center. Ownership of Eden's San Leandro Hospital was transferred to Alameda Health System as of October 30, 2013.

(3) Excludes well newborns.

(4) Based on Beds in Service.

(5) Does not include Emergency Room patients subsequently admitted as inpatients.

EXHIBIT 4

OUTSTANDING DEBT

As of December 31, 2014, the Obligated Group's outstanding long-term debt totaled approximately $3.7 billion, of which approximately $2.4 billion (65%) was comprised of debt issued through the Authority.

Following this proposed financing of $550 million, the Obligated Group's total outstanding debt will increase to approximately $4.2 billion, and the amount of the Authority debt will increase to approximately $3.0 billion (71%).

EXHIBIT 5

BACKGROUND, GOVERNANCE AND LICENSURE

Background

Sutter Health, a California nonprofit public benefit corporation (“Sutter”), is the “parent” of various organizations that directly or indirectly, through one or more intermediaries, are controlled by, or are under common control with, Sutter (each, an “Affiliated Entity” and, collectively, the “Affiliated Entities”). The operations of the Affiliated Entities are primarily in Northern California. The Affiliated Entities, together with Sutter, comprise the Sutter system (the “Sutter system”) and provide a full range of health care and related services through an integrated health care delivery model. Sutter also provides certain centralized support functions to the Sutter system, which include the operation of a system-wide laboratory, administrative services and system initiatives throughout Northern California.

The mission of the Sutter system is to enhance the well-being of people in the communities it serves through a not-for-profit commitment to compassion and excellence in health care services. The Sutter system’s vision is to lead the transformation of health care to achieve the highest levels of quality, access and affordability. At both local and operating unit levels, the Sutter system’s goal is to be the preferred provider to its patients and customers, the best place to work and a role model of community citizenship.

As of June 30, 2015, the Sutter system included:

- Twenty-eight acute care facilities (two of which are acute psychiatric facilities operating under two separate individual license numbers) and two free-standing chemical dependency recovery hospitals operating under 26 licenses, with a total of 5,000 licensed beds;

- Five medical foundations that contract with medical groups organized as professional corporations that account for the services of 2,827 physicians and physician extenders; and

- Fourteen home health care locations.

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Obligated Group

The Obligated Group is the central financing vehicle of credit for Sutter and was formed to facilitate access to capital for Sutter Health and selected Affiliated Entities by unifying the credit of the Obligated Group Members through the Master Indenture.

Obligated Group Members

- Eden Medical Center
- Mills-Peninsula Health Services
- Palo Alto Medical Foundation for Health Care, Research and Education
- Sutter Central Valley Hospitals
- Sutter Coast Hospital
- Sutter East Bay Hospitals
- Sutter Gould Medical Foundation
- Sutter Health
- Sutter Health Sacramento Sierra Region
- Sutter Medical Center Castro Valley
- Sutter Valley Medical Foundation[2]
- Sutter Visiting Nurse Association and Hospice[3]
- Sutter West Bay Hospitals

Only the Obligated Group Members have assumed financial obligations related to the payment or security for any bonds or any other obligations incurred under the Master Indenture.

Corporate Governance

Sutter is vested in a Board of Directors that consists of between 9 and 16 directors. One of those positions is ex-officio and is filled by the President and Chief Executive Officer of Sutter. Members are elected by the Board of Directors to serve three-year terms with a maximum of three consecutive terms.

Licensure and Memberships

All Sutter affiliated hospitals are licensed by the Department of Health Services. The Obligated Group Members that operate acute care hospital facilities participate in the Medicare program and provide a range of services to Medicare and Medi-Cal patients under various payment arrangements.

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[2] On November 1, 2015, Sutter Medical Foundation changed its name to Sutter Valley Medical Foundation.

[3] On August 31, 2015, Hospice of the Valley, a California nonprofit public benefit corporation, merged with Obligated Group Member, Sutter Visiting Nurse Association and Hospice ("SVNAH"), with SVNAH remaining as the surviving corporation.

RESOLUTION NO. 409

RESOLUTION OF THE CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY AUTHORIZING THE ISSUANCE OF REVENUE BONDS TO FINANCE OR REFINANCE PROJECTS AT THE HEALTH FACILITIES OF SUTTER HEALTH 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 issue revenue bonds and loan proceeds thereof to any participating health institution to finance the construction, expansion, remodeling, renovation, furnishing, equipping and acquisition of health facilities (including by reimbursing expenditures made for such purposes), to refinance indebtedness of a participating health institution in connection therewith and to refund any outstanding bonds or any outstanding series or issue of bonds of the Authority; and

WHEREAS, Sutter Health is a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the “Borrower”), which is the sole corporate member of various of its affiliates that own and operate 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 $550,000,000, and make one or more loans of the proceeds thereof to the Borrower to finance, including reimburse for, or refinance the costs of acquisition, construction, expansion, furnishing and equipping of certain health facilities, as more particularly described in Exhibit A hereto (the “Project”); and

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 Revenue Bonds (Sutter Health), Series 2016A” (the “Bonds”), in a total aggregate principal amount not to exceed $550,000,000, 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 indenture 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 prior to the first anniversary of the date of this Resolution, at public or private sale, in such aggregate principal amounts (not to exceed the aggregate principal amount set forth in Section 1) and in such series, at such prices (so long as the discount on the Bonds sold shall not exceed 6 percent of the par value thereof) and at such interest rate or rates and upon such other terms and conditions as the Treasurer, with the advice and consent of the 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 facilities and other security arrangements and/or supported by one or more liquidity facilities.

SECTION 3. The proposed forms of the following documents:

(i) A Loan Agreement relating to the Bonds (the "Loan Agreement"), between the Authority and the Borrower,

(ii) A Bond Indenture relating to the Bonds (the "Bond Indenture"), between the Authority and Wells Fargo Bank, National Association, as bond trustee (the "Bond Trustee"),

(iii) A Bond Purchase Contract, including the exhibits thereto, relating to the Bonds (the "Purchase Contract"), among Morgan Stanley & Co. LLC, on behalf of the underwriters named in the Purchase Contract as finally executed (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 the Bonds) as the officer executing the same may require or approve, such approval to be conclusively evidenced by execution and delivery thereof in the case of the Loan Agreement, the Bond Indenture and the Purchase Contract 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 Agreement are true and correct.

SECTION 5. The dated dates, maturity dates (not exceeding 40 years from the respective date of issue), interest rates, interest payment dates, denominations, forms, registration privileges or requirements, place or places of payment, terms of tender or purchase, terms of redemption, provisions governing transfer and other terms of the Bonds, including provisions for a credit facility and/or a liquidity facility from time to time, shall be as provided in the 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 the 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 Bond Trustee for authentication by the Bond Trustee. The Bond Trustee is hereby requested and directed to authenticate the Bonds by executing the Bond Trustee's Certificate of Authentication appearing thereon, and to deliver the Bonds, when duly executed and authenticated, to or upon direction of the Underwriter thereof in accordance with written instructions executed on behalf of the Authority, which instructions are hereby approved. Said instructions shall provide for the delivery of the Bonds to or upon direction of the Underwriter, as determined and confirmed by the Treasurer, upon payment of the purchase price thereof.

SECTION 8. Each officer of the Authority is hereby authorized and directed, for and in the name of and on behalf of the Authority, to do any and all things which they may deem necessary or advisable in order to consummate the issuance, sale, and delivery of the Bonds and otherwise to effectuate the purposes of this Resolution and the Bond Indenture, Loan Agreement, Purchase Contract 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. 2014-05 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

Project Description

To finance, including reimburse for, or refinance the costs of acquisition, construction, expansion, furnishing and equipping of the health facilities (1) located generally at 1101 Van Ness Avenue, San Francisco; and 3555 Cesar Chavez Street, San Francisco, both of which are operated by Sutter West Bay Hospitals, an affiliate of Sutter Health and an organization described in Section 501(c)(3) of the Code, d/b/a California Pacific Medical Center and (2) located generally at 30 Mark West Springs Road, Santa Rosa, which is operated by Sutter West Bay Hospitals d/b/a Sutter Santa Rosa Regional Hospital,.