

**CHFFA REVENUE BOND FINANCING PROGRAM
EXECUTIVE SUMMARY**

| | |
|--|--|
| Applicant: Sutter Health (“Sutter”) 2200 River Plaza Drive Sacramento, CA 95833 Sacramento County | Principal Amount Requested: \$1,026,000,000 Date Requested: July 7, 2016 Requested Loan Term: Up to 40 years Resolution Number: 413 |
| Project Sites: <i>See Exhibit 1</i> | |
| Facility Types: General acute, sub-acute and outpatient care | |
| Eligibility: Government Code 15432(d) (1) | |
| Prior Borrower: Yes (date of last CHFFA issue, February 2016) | |
| Obligated Group: The Sutter Health Obligated Group (the “Obligated Group”), the central financing vehicle for the Sutter Health system, is identified in <i>Exhibit 5</i> . | |
| Background: Sutter Health, a California nonprofit public benefit corporation, is the “parent” of the Sutter Health system, which is comprised of Sutter Health and its affiliated health care organizations (the “System”). The System operates primarily in Northern California, providing a broad range of health care services, including acute, sub-acute, long-term, home health, and outpatient care, as well as physician delivery systems. The System delivers a full range of health care products and services to the communities it serves through an integrated health care delivery approach. Sutter had 8,506,443 outpatient visits in FY 2015. (<i>See Exhibit 3 for more details</i>) | |
| Use of Proceeds: Bond proceeds will be used to refund the outstanding CHFFA Series 2007A Bonds, California Statewide Communities Development Authority (“CSCDA”) Series 2003A and 2003B Bonds, and CSCDA Series 2005B and 2005C Bonds. Bond proceeds will also be used to finance, including reimbursement for, the costs of acquisition, construction and expansion of, two new replacement hospitals located in San Francisco. CHFFA previously issued bonds for the two replacement hospital projects in February 2016. Both hospitals have an estimated completion date of 2018, and will replace existing older buildings to satisfy the seismic regulations mandate. Sutter anticipates a net present value savings of close to \$170 million over the life of the refunding bonds. | |
| Type of Issue: Negotiated public offering with fixed rate and variable rate bonds (expected minimum denominations of \$5,000) | |
| Expected Credit Rating: AA-/Aa3/AA-; S&P /Moody’s/ Fitch | |
| Financing Team: <i>Please see Exhibit 2 to identify possible conflicts of interest</i> | |
| Financial Overview: The Obligated Group’s income statement appears to exhibit consistent results with solid income from operations each year from FY 2013 through FY 2015. The Obligated Group’s balance sheet also appears strong with an operating pro-forma debt service coverage ratio of 4.55x, which includes debt payments for bonds issued in February 2016. | |
| Estimated Sources of Funds: | Estimated Uses of Funds: |
| Par amount of bonds | Refunding CHFFA Series 2007A \$ 770,000,000 |
| Net premium | Refunding CSCDA Series 2003AB 101,000,000 |
| Reserve fund release | Refunding CSCDA Series 2005BC 50,000,000 |
| Borrower funds | Project fund 105,000,000 |
| | Financing costs 7,500,000 |
| Total Estimated Sources | Total Estimated Uses |
| \$ 1,033,500,000 | \$ 1,033,500,000 |
| 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 413 for Sutter Health in a principal amount not to exceed \$1,026,000,000 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. | |

I. PURPOSE OF FINANCING:

Sutter seeks to issue up to \$1.026 billion in principal amount of revenue bonds. To provide Sutter greater financing flexibility, the bonds may be comprised of a combination of fixed and variable rate or only fixed rate bonds. Sutter Health and the underwriters presently anticipate that a portion of the total estimated sources noted above may be realized through original issue premium from the sale of the Bonds.

A portion of the Bond proceeds will be used to refund all outstanding CHFFA Series 2007A Bonds, CSCDA Series 2003A and 2003B, and CSCDA Series 2005B and 2005C Bonds. Sutter anticipates a net present value savings of close to \$170 million over the life of the refunding bonds. A portion of the bond proceeds will also be used to finance, including reimbursement for, costs associated with the acquisition, construction and expansion of, two new replacement hospitals located in San Francisco and operated by Sutter Bay Hospitals doing business as (“d/b/a”) California Pacific Medical Center (“CPMC”). CHFFA previously issued bonds for the two replacement hospital projects in February 2016. The two new hospitals will replace existing older buildings to 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 its building to be extended to January 1, 2020. The proceeds of the Bonds will be used as follows:

| | |
|---|----------------------|
| <i>Refund CHFFA Series 2007A Bonds</i> | \$770,000,000 |
|---|----------------------|

Proceeds from the CHFFA Series 2007A Bonds were used to finance or reimburse Sutter for the costs of acquisition, construction and expansion of certain health facilities owned by Sutter or its affiliates and operated by Sutter’s affiliates. The health facilities included Sutter Bay Hospitals (formerly Sutter West Bay Hospitals) d/b/a California Pacific Medical Center located in San Francisco, Sutter Central Valley Hospitals d/b/a Memorial Hospital Association located in Modesto, Sutter Valley Hospitals (formerly Sutter Health Sacramento Sierra Region) d/b/a Sutter Amador Hospital located in Jackson and d/b/a Sutter Roseville Medical Center located in Roseville, Sutter Valley Medical Foundation d/b/a Sutter Gould Medical Foundation located in Stockton, and Mills-Peninsula Health Services located in Burlingame¹. Sutter anticipates approximately \$147 million in present value savings from refunding the Series 2007A Bonds.

| | |
|---|--------------------|
| <i>Refund CSCDA Series 2003A & 2003B Bonds</i> | 101,000,000 |
|---|--------------------|

Proceeds from the CSCDA Series 2003A and 2003B Bonds were used to finance the costs of acquisition, construction, expansion and improvement of certain health care facilities and related facilities owned or operated by the following Obligated Group Members: Sutter Central Valley Hospitals, Sutter Valley Medical Foundation (formerly Sutter Medical Foundation), and Sutter Valley Hospitals (formerly Sutter Health Sacramento Sierra Region). Sutter anticipates approximately \$15.5 million in present value savings from refunding the Series 2003A and 2003B Bonds.

¹ It is anticipated that Mills-Peninsula Health Services will merge into Sutter Bay Hospitals on August 1, 2016.

Refund CSCDA Series 2005B & 2005C Bonds..... 50,000,000

Proceeds from the CSCDA Series 2005B and 2005C Bonds were used to prepay a portion of the outstanding 1995 Certificates of Participation, which were used to construct a 315,000 square foot replacement facility in Roseville, a 65,000 square foot 30 bed short stay maternity and surgery facility in Santa Cruz, and a 63,000 square foot 40 bed short stay hospital and ancillary care facility in Laguna. Sutter anticipates approximately \$7.5 million in present value savings from refunding the Series 2005B and 2005C Bonds.

Project Fund 105,000,000

CPMC – Van Ness and Geary Campus Hospital

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. The new hospital expects to open in 2019.

CPMC – St. Luke's Campus Hospital

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 and a full range of inpatient services. The new hospital expects to open in 2018.

Financing Costs²..... 7,500,000

| | |
|--|------------------|
| Estimated underwriter's discount | \$3,750,000 |
| Estimated cost of issuance | <u>3,750,000</u> |

Total Estimated Uses of Funds **\$1,033,500,000**

² 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 eleven 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.

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

After reviewing 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 underwriters 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.

The following covenants are applicable to this transaction:

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, | | |
|---|--------------------------------|-------------|-------------|
| | 2015 | 2014 | 2013 |
| Unrestricted net assets: | | | |
| Operating revenues: | | | |
| Patient service revenues less provision for bad debts* | \$ 9,179 | \$ 8,489 | \$ 8,047 |
| Capitation revenues | 936 | 873 | 887 |
| Contributions | 4 | 5 | 4 |
| Other | 391 | 348 | 324 |
| Total operating revenues | 10,510 | 9,715 | 9,262 |
| Operating expenses: | | | |
| Salaries and employee benefits | 4,820 | 4,419 | 4,311 |
| Purchased services | 2,386 | 2,143 | 2,155 |
| Supplies | 1,206 | 1,086 | 1,025 |
| Depreciation and amortization | 597 | 546 | 585 |
| Capitated purchased services | 236 | 229 | 233 |
| Rentals and leases | 141 | 135 | 126 |
| Interest | 117 | 90 | 75 |
| Insurance | 61 | 61 | 85 |
| Other | 588 | 564 | 629 |
| Total operating expenses | 10,152 | 9,273 | 9,224 |
| Income from operations | 358 | 442 | 38 |
| Investment income | 64 | 224 | 151 |
| Change in net unrealized gains/(losses) on investments classified as trading | (189) | (204) | 196 |
| Income | 233 | 462 | 385 |
| Less income attributable to noncontrolling interests | (49) | (42) | (44) |

Continued

| | | | |
|---|-----------------|-----------------|-----------------|
| Unrestricted controlling net assets: | | | |
| Income attributable to Sutter Health | 184 | 420 | 341 |
| Change in net unrealized gains/(losses) on investments classified as other-than-trading | 5 | 13 | (23) |
| Net assets released from restrictions for equipment acquisition | 13 | 12 | 6 |
| Pension-related changes other than net periodic pension cost | (32) | (764) | 634 |
| Transfers with related entities, net | (71) | (66) | (100) |
| Other | 3 | (4) | 16 |
| (Decrease) increase in unrestricted controlling net assets | 102 | (389) | 874 |
| Unrestricted controlling net assets, beginning of year | 6,970 | 7,359 | 6,485 |
| Unrestricted controlling net assets, end of year | <u>\$ 7,072</u> | <u>\$ 6,970</u> | <u>\$ 7,359</u> |

Obligated Group Payer Source for FYE 12/31/2015

| *Patient service revenues | Percent |
|----------------------------------|----------------|
| Medicare | 40.4 |
| Medi-Cal | 21.1 |
| Commerical Programs | 35.1 |
| Other Payers | 3.4 |
| Total | 100 |

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

| | Year ended December 31, | | |
|---|-------------------------|-------------------------|-------------------------|
| | 2015 | 2014 | 2013 |
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 399 | \$ 179 | \$ 255 |
| Short-term investments | 3,070 | 3,516 | 3,445 |
| Patient accounts receivable | 1,212 | 1,068 | 1,163 |
| Other receivables | 323 | 557 | 213 |
| Inventories | 106 | 95 | 90 |
| Other | 130 | 113 | 60 |
| Total current assets | <u>5,240</u> | <u>5,528</u> | <u>5,226</u> |
| Non-current investments | 368 | 331 | 565 |
| Property, plant and equipment, net | 7,280 | 6,997 | 6,602 |
| Other assets | 414 | 334 | 812 |
| Total assets | <u><u>\$ 13,302</u></u> | <u><u>\$ 13,190</u></u> | <u><u>\$ 13,205</u></u> |
| Liabilities and net assets | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 416 | \$ 585 | \$ 413 |
| Accrued salaries and related benefits | 550 | 543 | 524 |
| Other accrued expenses | 508 | 456 | 422 |
| Current portion of long-term obligations | 47 | 21 | 16 |
| Total current liabilities | <u>1,521</u> | <u>1,605</u> | <u>1,375</u> |
| Non-current liabilities: | | | |
| Long-term obligations, less current portion | 3,648 | 3,724 | 3,762 |
| Other | 890 | 753 | 555 |
| Total liabilities | <u>6,059</u> | <u>6,082</u> | <u>5,692</u> |
| Net assets: | | | |
| Unrestricted controlling ^(a) | 7,072 | 6,970 | 7,359 |
| Unrestricted noncontrolling ^(a) | 93 | 61 | 73 |
| Temporarily restricted | 65 | 64 | 68 |
| Permanently restricted | 13 | 13 | 13 |
| Total net assets | <u>7,243</u> | <u>7,108</u> | <u>7,513</u> |
| Total liabilities and net assets | <u><u>\$ 13,302</u></u> | <u><u>\$ 13,190</u></u> | <u><u>\$ 13,205</u></u> |

Financial Ratios:

Proforma^(b)
FYE December 31, 2015

| | | | | |
|---|------|------|------|------|
| Debt Service Coverage (x) -- Operating ^(c) | 4.55 | 5.73 | 5.83 | 3.94 |
| Debt Service Coverage (x) -- Net ^(c) | 4.02 | 5.06 | 5.94 | 5.90 |
| Debt/Unrestricted Net Assets (x) | 0.61 | 0.52 | 0.53 | 0.51 |
| Margin (%) | | 3.41 | 4.55 | 0.41 |
| Current Ratio (x) | | 3.45 | 3.44 | 3.80 |

^(a) As of December 31, 2010, Sutter adopted the new GAAP requirement for the accounting of noncontrolling interest. Sutter has 32 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.

^(b) Recalculates FY 2015 audited results to include the impact of this proposed financing.

^(c) Pro-forma FY 2015 calculations include debt payments on \$550M bonds issued in February 2016

The audited, combined financial statements of the Obligated Group were analyzed in this section. The Obligated Group comprises approximately 93% 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 consistent results with solid income from operations each year from FY 2013 through FY 2015.

The Obligated Group appeared to experience solid growth in total operating revenues of 13.5% from FY 2013 to FY 2015. Over the same period, expenses increased approximately 10.1%, which resulted in operating income of approximately \$38 million, \$442 million, and \$358 million in FY 2013, FY 2014, and FY 2015, respectively. According to Sutter's management, two unusual expenditures caused operating income in FY 2013 to be significantly less than the other two fiscal years. The unusual expenditures 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's 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. According to Sutter's management, the decrease in operating income from FY 2014 to FY 2015 was mainly due to increases in salaries and benefits, purchased services, and supplies, which increased at a rate higher than that of net patient revenues.

Particular Facts to Note:

- Investment income decreased from approximately \$224 million in FY 2014 to approximately \$64 million in FY 2015, a decrease of about 71%. According to Sutter's management, investment income decreased due in part to a decline in market returns overall, and in part to underperformance of several of Sutter's asset managers. Sutter's management has taken steps to address the latter.
- Pension-related changes significantly improved from a loss of approximately \$764 million in FY 2014 to a loss of approximately \$32 million in FY 2015. According to Sutter's management, the loss in FY 2014 was due to a reduction in the discount rate Sutter used in the valuation of pension liability, as well as an adjustment to the mortality tables Sutter used in the pension assumptions. In FY 2015, the discount rate increased, contributing to a reduction in the pension liability. Additionally, the FY 2014 change in mortality tables was partially rolled back as a result of actuarial review.
- According to Sutter's 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 14% 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.

Financial Discussion – Statement of Financial Position (Balance Sheet)

The Obligated Group's balance sheet appears strong with an operating pro-forma debt service coverage ratio of 4.55x, which includes debt payments for bonds issued in February 2016.

The Obligated Group has demonstrated a strong ability to service its debt with an operating debt service coverage ratio of 3.94x, 5.83x, and 5.73x in fiscal years 2013, 2014, and 2015 respectively. With the issuance of the new bonds, and including bonds issued in February 2016, the Obligated Group maintains a strong ability to repay its debt obligations with a pro-forma debt service coverage ratio of 4.55x. The Obligated Group's debt-to-unrestricted net assets ratio has remained steady at 0.51x, 0.53x, and 0.52x in fiscal years 2013, 2014, and 2015, respectively. In February 2016, Sutter received \$550 million in bond proceeds for the construction of three new hospitals to meet seismic safety standards. A portion of the proposed new bond issue will provide approximately \$105 million in additional funding for construction and seismic related expenditures at two of the new hospitals. The proposed new bond issue combined with the previous bond issue in February increases the Obligated Group's pro-forma debt-to-unrestricted net assets ratio to 0.61x.

Particular Facts to Note:

- Patient accounts receivable experienced growth of 13.5%, from approximately \$1.07 billion in FY 2014 to approximately \$1.2 billion in FY 2015. According to Sutter's management, the increase in accounts receivable was a temporary spike as facilities transitioned onto a new billing platform and electronic health record. The increase in was expected and management continues to focus on the metric.
- Short-term investments decreased from approximately \$3.5 billion in FY 2014 to approximately \$3.1 billion in FY 2015. According to Sutter's management, the decrease was primarily the result of large capital purchases in FY 2015.

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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 over \$4 billion over the past five years, including \$957 million in calendar year 2015, 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
- 601 Duboce Avenue, San Francisco, CA 94117

Memorial Medical Center

- 1700 Coffee Road, Modesto, CA 95355

Mills-Peninsula Health Services

- 1501 Trousdale Drive, Burlingame, CA 94010

Sutter Amador Hospital

- 100 Mission Boulevard, Jackson, CA 95642

Sutter Auburn Faith Hospital

- 11815 Education Street, Auburn, CA 95602

Sutter Davis Hospital

- 2000 Sutter Place, Davis, CA 95616

Sutter Gould Medical Foundation

- 2505 West Hammer Lane, Stockton, CA 95209

Sutter Maternity and Surgery Center of Santa Cruz

- 2900 Chanticleer Avenue, Santa Cruz, CA 95065

Sutter Medical Center

- 2801 L Street, Sacramento, CA 95816
- 2825 Capitol Avenue, Sacramento, CA 95816

Sutter Medical Foundation

- 2020 Sutter Place, Davis, CA 95616

Sutter North Medical Foundation

- 480 Plumas Street, Yuba City, CA 95991
- 550 B Street, Yuba City, CA 95991

Sutter Roseville Medical Center

- 1 Medical Plaza Drive, Roseville, CA 95661

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: Norton Rose Fulbright 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, | | |
|---|---|-------------|-------------|
| | 2015 | 2014 | 2013 |
| Licensed Beds - Acute Care ^{(1),(2)} | 4,470 | 4,738 | 4,775 |
| Beds in Service - Acute Care | 4,062 | 4,260 | 4,428 |
| Licensed Beds - Long-Term Care ⁽³⁾ | N/A | 62 | 62 |
| Admissions ⁽⁴⁾ | 189,568 | 189,056 | 196,608 |
| Patient Days ⁽⁴⁾ - Acute Care | 873,732 | 833,561 | 871,630 |
| Patient Days - Long-Term Care ⁽³⁾ | N/A | 12,085 | 13,556 |
| Average Length of Stay (Days) | 4.6 | 4.4 | 4.4 |
| Occupancy % ⁽⁵⁾ | 58.9 | 54.2 | 54.7 |
| Occupancy % - Long-Term Care ⁽³⁾ | N/A | 53.4 | 59.9 |
| Emergency Room Visits ⁽⁶⁾ | 867,113 | 797,148 | 780,927 |
| Outpatients Visits | 8,506,443 | 8,093,325 | 7,160,402 |

⁽¹⁾ As of September 30, 2015, revised from past continuing disclosure reports and official statements to include suspended beds in definition of "licensed bed."

⁽²⁾ As of March 31, 2013, revised from past continuing disclosure reports and official statements to conform to the Office of Statewide Health Planning and Development's Definition of "licensed bed."

⁽³⁾ Mills-Peninsula Skilled Nursing, Sutter Health's last remaining freestanding skilled nursing facility operating under its own license and Medicare provider number, was sold outside of the Sutter Health system on June 30, 2015

⁽⁴⁾ Excludes well newborns.

⁽⁵⁾ Based on Beds in Service.

⁽⁶⁾ Does not include Emergency Room patients subsequently admitted as inpatients.

EXHIBIT 4
OUTSTANDING DEBT

As of December 31, 2015, 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. In February 2016, Sutter received \$550 million in bond proceeds issued through the Authority, increasing the Obligated Group's total outstanding debt to approximately \$4.2 billion, and the amount of the Authority debt increased to approximately \$3.0 billion (71%).

Following this proposed financing of up to \$1.026 billion, the Obligated Group's total outstanding debt will increase to approximately \$4.3 billion, and the amount of the Authority debt will increase to approximately \$3.2 billion (74%).

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 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 March 31, 2016, 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 27 licenses, with a total of approximately 5,000 licensed beds;
- Four medical foundations that contract with medical groups organized as professional corporations that account for the services of 2,938 physicians and physician extenders; and
- Fifteen home health care locations.

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 Health
- Sutter Valley Hospitals¹
- Sutter Valley Medical Foundation²
- Sutter Visiting Nurse Association and Hospice
- Sutter Bay Hospitals³

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.

¹ Formerly Sutter Health Sacramento Sierra Region.

² Formerly Sutter Medical Foundation. On March 1, 2016, Sutter Gould Medical Foundation, a former Obligated Group Member, merged into Sutter Valley Medical Foundation.

³ Formerly Sutter West Bay Hospitals. On June 1, 2016, Sutter Medical Center, Castro Valley, a former Obligated Group Member, merged into Sutter Bay Hospitals.

RESOLUTION NO. 413

**RESOLUTION OF THE CALIFORNIA HEALTH FACILITIES FINANCING
AUTHORITY AUTHORIZING THE ISSUANCE OF
REVENUE BONDS TO FINANCE AND 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 Authority has previously issued its Revenue Bonds (Sutter Health), Series 2007A (the "Series 2007A Bonds") in the original aggregate principal amount of \$756,410,000, all of which is currently outstanding, and loaned the proceeds thereof to the Borrower to finance costs of the acquisition, construction, expansion, furnishing and equipping of certain health facilities, as more particularly described under the caption "2007 Project" in Exhibit A hereto (the "2007 Project"); and

WHEREAS, the California Statewide Communities Development Authority ("CSCDA") has previously issued its Revenue Bonds (Sutter Health), Series 2003A and 2003B (together, the "Series 2003 Bonds"), in the original aggregate principal amount of \$101,125,000, of which \$95,840,000 is currently outstanding, and loaned the proceeds thereof to the Borrower to finance the costs of acquisition, construction, expansion, improvement, furnishing and equipping of certain health facilities, as more particularly described under the caption "2003 Project" in Exhibit A hereto (the "2003 Project"); and

WHEREAS, CSCDA has previously issued its Revenue Bonds (Sutter Health), Series 2005B and 2005C (together, the "Series 2005 Bonds" and, together with the Series 2007A Bonds and the Series 2003 Bonds, the "Prior Bonds"), in the original aggregate principal amount of \$50,000,000, of which \$47,430,000 is currently outstanding, and loaned the proceeds thereof to the Borrower to finance the costs of acquisition, construction, expansion, improvement, furnishing and equipping of certain health facilities, as more particularly described under the caption "2005 Project" in Exhibit A hereto (the "2005 Project" and, together with the 2007 Project and the 2003 Project, the "Prior Projects"); 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 \$1,026,000,000, and make one or more loans of the proceeds thereof to the Borrower to (i) finance (including reimburse for) the costs of acquisition, construction, expansion, furnishing and equipping of certain health facilities, as more particularly described under the caption "New Project" in Exhibit A hereto (the "New Project" and, together with the Prior Projects, the "Project"), and (ii) refund all or any portion of the outstanding Prior Bonds; 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 (a) "California Health Facilities Financing Authority Refunding Revenue Bonds (Sutter Health), Series 2016B" (the "Fixed Rate Bonds") and (b) "California Health Facilities Financing Authority Revenue Bonds (Sutter Health), Series 2016C, Series 2016D and Series 2016E" (collectively, the "Variable Rate Bonds" and, together with the Fixed Rate Bonds, the "Bonds"), in a total aggregate principal amount not to exceed \$1,026,000,000, 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 sixth 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 sales, 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) One or more Loan Agreements relating to the Bonds (collectively, the "Loan Agreements"), between the Authority and the Borrower,

(ii) One or more Bond Indentures relating to the Bonds (collectively, the "Bond Indentures"), between the Authority and Wells Fargo Bank, National Association, as bond trustee (the "Bond Trustee"),

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

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

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

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

SECTION 5. The dated dates, maturity dates (not exceeding 40 years from the respective date of issue), interest rates, 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 one or more Preliminary Official Statements for the Bonds to persons who may be interested in the purchase of such Bonds offered in such issuance, it being understood that, at the discretion of the Underwriter (in consultation with the 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 statements (the “Official Statements”) to all actual purchasers of such Bonds.

SECTION 7. The Bonds, when executed, shall be delivered to the Bond Trustee for authentication by the Bond Trustee. The Bond Trustee is hereby requested and directed to authenticate the Bonds by executing the Bond Trustee’s Certificate of Authentication appearing thereon, and to deliver the Bonds, when duly executed and authenticated, to or upon direction of the Underwriter thereof in accordance with written instructions executed on behalf of the Authority, which instructions are hereby approved. Said instructions shall provide for the delivery of the Bonds to or upon direction of the Underwriter, as determined and confirmed by the Treasurer, upon payment of the purchase price thereof.

SECTION 9. Each officer of the Authority is hereby authorized and directed, for and in the name of and on behalf of the Authority, to do any and all things which they may deem necessary or advisable in order to consummate the issuance, sale, and delivery of the Bonds and otherwise to effectuate the purposes of this Resolution and the Bond Indentures, Loan Agreements, Purchase Contracts and Official Statements. The Authority hereby approves any and all documents to be delivered in furtherance of the foregoing purposes, including without limitation: (a) one or more tax certificates and agreements 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 of any series.

SECTION 10. The provisions of the Authority's Resolution No. 2014-05 apply to the documents and actions approved in this Resolution.

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

THE PROJECT

New Project

The financing, including reimbursement of, the costs of acquisition, construction, expansion, furnishing and equipping of the health facilities owned by the Borrower or its affiliates, and operated by its affiliate, Sutter Bay Hospitals d/b/a California Pacific Medical Center, generally located at 1101 Van Ness Avenue and 3555 Cesar Chavez Street, each in San Francisco, California.

2007 Project

The financing of the costs of acquisition, construction, expansion, furnishing and equipping of the health facilities owned by the Borrower or its affiliates, and operated by the affiliates of the Borrower and generally located at the addresses in California as follows: (i) Sutter Bay Hospitals d/b/a California Pacific Medical Center located at 601 Duboce Avenue, San Francisco; (ii) Sutter Central Valley Hospitals d/b/a Memorial Medical Center at 1700 Coffee Rd., Modesto; (iii) Sutter Health Sacramento Sierra Region d/b/a Sutter Amador Hospital at 100 Mission Blvd., Jackson; (iv) Sutter Health Sacramento Sierra Region d/b/a Sutter Roseville Medical Center at One Medical Plaza Drive, Roseville; (v) Sutter Valley Medical Foundation d/b/a Sutter Gould Medical Foundation at 2505 West Hammer Lane, Stockton; and (vi) Mills-Peninsula Health Services at 1501 Trousdale Drive, Burlingame.

2005 Project

The refinancing of the costs of acquisition, construction, expansion, improvement, furnishing and equipping of certain health facilities owned by the Borrower or its affiliates, and operated by the affiliates of the Borrower and generally located at the addresses in California as follows: (i) Mills-Peninsula Health Services d/b/a Sutter Maternity and Surgery Center of Santa Cruz at 2900 Chanticleer Avenue, Santa Cruz; and (ii) Sutter Health Sacramento Sierra Region d/b/a Sutter Roseville Medical Center at One Medical Plaza Drive, Roseville.

2003 Project

The financing of the costs of acquisition, construction, expansion, improvement, furnishing and equipping of certain health facilities owned by the Borrower or its affiliates, and operated by the affiliates of the Borrower and generally located at the addresses in California as follows: (i) Sutter Valley Medical Foundation d/b/a Sutter North Medical Foundation at 480 Plumas Street and 550 B Street, Yuba City; (ii) Sutter Central Valley Hospitals d/b/a Memorial Medical Center at 1700 Coffee Road, Modesto; (iii) Sutter Health Sacramento Sierra Region d/b/a Sutter Medical Center at 2801 L Street and 2825 Capitol Avenue, each in Sacramento; (iv) Sutter Health Sacramento Sierra Region d/b/a Sutter Auburn Faith Hospital at 11815 Education Street, Auburn; (v) Sutter Health Sacramento Sierra Region d/b/a Sutter Davis Hospital at 2000 Sutter Place, Davis; (vi) Sutter Valley Medical Foundation d/b/a Sutter Medical Foundation at 2020 Sutter Place, Davis; and (vii) Sutter Health Sacramento Sierra Region d/b/a Sutter Roseville Medical Center at One Medical Plaza Drive, Roseville.