

**CHFFA REVENUE BOND FINANCING PROGRAM  
EXECUTIVE SUMMARY**

<p><b>Applicant:</b> Adventist Health System/West (“Adventist”) 2100 Douglas Blvd. Roseville, CA 95661 Placer County</p> <p><b>Project Sites:</b> See Exhibit 1</p> <p><b>Facility Types:</b> General acute/ sub-acute and outpatient care</p> <p><b>Eligibility:</b> Government Code 15432(d) (1)</p> <p><b>Prior Borrower:</b> Yes (date of last CHFFA issue, 2013)</p> <p><b>Obligated Group:</b> The Adventist Obligated Group is identified in Exhibit 5</p>	<p><b>Amount Requested:</b> \$325,000,000</p> <p><b>Date Requested:</b> August 4, 2016</p> <p><b>Requested Loan Term:</b> Up to 40 years</p> <p><b>Resolution Number:</b> 415</p>																
<p><b>Background:</b> Adventist Health System/West (“Adventist”) was established in 1980 by the merging of two smaller health systems known as Adventist Health Services, Inc. and Northwest Medical Foundation. Based in Roseville, California, Adventist is a nonprofit organization whose mission is to improve the quality of health care in the communities they serve by emphasizing wellness and disease prevention. Adventist includes more than 23,400 employees and 4,300 volunteers who work alongside over 5,000 medical staff physicians, 20 hospitals, approximately 260 clinics, 14 home care agencies, seven hospice agencies and four joint venture retirement centers. Adventist serves communities in California, Hawaii, Oregon and Washington. Adventist operates the largest rural health clinic network in California. See Exhibit 5 for more details.</p>																	
<p><b>Use of Proceeds:</b> Bond proceeds will be used to current refund the outstanding CHFFA Series 1998A Bonds and to advance refund CHFFA Series 2009A, California Statewide Communities Development Authority (“CSCDA”) Series 2007A and Series 2007B Bonds. Adventist expects to achieve approximately \$40 million in debt service savings from the proposed refunding over the life of the bonds.</p>																	
<p><b>Type of Issue:</b> Negotiated public offering with fixed rate bonds (expected minimum denominations of \$5,000)</p> <p><b>Expected Credit Rating:</b> “A” with Stable Outlook (S&amp;P and Fitch)</p> <p><b>Financing Team:</b> <i>Please see Exhibit 2 to identify possible conflicts of interest</i></p>																	
<p><b>Financial Overview:</b> Adventist’s income statement appears to exhibit solid and improving operating results over the review period with an increasing operating margin and continued revenue growth. Adventist appears to have a solid financial position with an operating pro-forma maximum annual debt service coverage ratio of 3.66x.</p>																	
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<p>*Other funds includes funds released from prior bonds debt service reserve funds.</p>																	
<p><b>Legal Review:</b> Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through, Seismic, CEQA documentation, and the Iran Contracting Act Certificate documentation. All documentation satisfies the Authority’s requirements.</p>																	
<p><b>Staff Recommendation:</b> Staff recommends the Authority approve Resolution Number 415 for Adventist Health System/West in an amount not to exceed \$325,000,000 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 KNN Public Finance, LLC, the Authority’s financial advisor, concur with the Authority’s staff recommendation.</p>																	

**I. PURPOSE OF FINANCING:**

Over the past ten years, Adventist has engaged in significant capital investments to comply with state-mandated seismic standards, replace aging facilities, and address capacity constraints. Adventist seeks to issue \$325 million in CHFFA Fixed Rate Revenue Bonds Series 2016 for the refunding of prior CHFFA debt and CSCDA debt that financed some of these capital investments as well as refund Lodi Memorial Hospital’s (“LMH”) debt (acquired in June 2015), which will become a member of the Obligated Group with this CHFFA Series 2016 financing. Adventist expects to achieve approximately \$40 million in debt service savings from the proposed refunding over the life of the bonds.

***Refunding*..... \$342,500,000**

*CHFFA Insured Variable Rate Hospital Revenue Bonds  
(Adventist Health System/West), 1998 Series A<sup>1</sup>*

Proceeds of these bonds were used to finance and refinance the costs of construction, expansion, remodeling, renovation, furnishing, equipping and/or acquisition of certain health facilities owned by Adventist or its affiliates and operated by Adventist’s affiliates. The health facilities included Adventist Clearlake Hospital, Inc., Feather River Hospital, Glendale Adventist Medical Center, Hanford Community Medical Center, Sonora Community Hospital, Simi Valley Hospital & Health Care Services, Ukiah Valley Medical Center and White Memorial Medical Center. Portion of the proceeds were used refinance CHFFA Series 1987 Series A Bonds that proceeds were used to refinance certain outstanding indebtedness of certain California Members of the Obligated Group and finance certain renovation, remodeling, acquisition and equipping of various hospital facilities of certain California Members of Obligated Group.

*CHFFA Revenue Bonds (Adventist Health System/West), Series 2009A*

Proceeds of these bonds were used to finance certain health facilities the costs of various capital expenditures including:

- (1) the remodel and upgrade of emergency rooms
- (2) retrofitting to meet seismic requirements
- (3) expansion, remodeling and equipping departments
- (4) constructing new facilities and patient towers
- (5) improving parking facilities and structures
- (6) equipping new and existing facilities
- (7) reimbursement for capital expenditures.

The health facilities included Adventist Health Clearlake Hospital, Feather River Hospital, Glendale Adventist Medical Center, Hanford Community Hospital, St. Helena Hospital, and Simi Valley Hospital & Health Care Services.

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<sup>1</sup> CHFFA 1998 Series A was converted to bear interest at fixed rates in 2008.

*CSCDA Insured Revenue Bonds (Lodi Memorial Hospital), Series 2007A*

Proceeds of these bonds were used to finance the costs of construction, expansion, remodeling, renovation, furnishing, equipping of Lodi Memorial Hospital. The project included a new construction of a four-story patient care wing (the “South Wing”) and related site work. The 131,340 square-foot South Wing consists of 1) 30 bed medical/surgical units on each of the second, third and fourth floors, 2) a new emergency department and urgent care enter on the ground floor, and 3) hallway linkage to LMH on the basement and second floor levels.

*CSCDA Insured Revenue Bonds (Adventist Health System/West), Series 2007B*

Proceeds of these bonds were used to finance the costs of construction, expansion, remodeling, renovation, furnishing, equipping and/or acquisition of certain health facilities owned by Adventist or its affiliates and operated by Adventist’s affiliates. The health facilities included Feather River Hospital, Hanford Community Medical Center, and Simi Valley Hospital and Health Care Services.

<b><i>Financing Costs</i></b> .....		<b><u>6,500,000</u></b>
Estimated underwriter’s discount .....	\$1,787,500	
Estimated cost of issuance.....	<u>4,712,500</u>	
<b><i>Total Estimated Uses of Funds</i></b> .....		<b><u>\$349,000,000</u></b>

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

Adventist Health System/West (“Adventist”) acts as the representative of an Obligated Group which, upon issuance of the 2016 Bonds, will consist of Adventist and sixteen (16) affiliate Members (including Lodi Memorial Hospital Association, Inc. d/b/a Lodi Memorial Hospital (“LMH”), which will become a member of Obligated Group with the CHFFA Series 2016 financing), each of which operates hospitals and/or health facilities. All Members are jointly and severally liable on Notes issued under the Master Indenture of Trust (the “Master Indenture”) with respect to repayments of loan amounts relating to CHFFA’s bonds and other parity debt. Adventist is the borrower under the loan agreement and is bound by all covenants below. There are also protective tests limiting other 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 the Obligated Group’s credit profile, including its current financial profile, prior bond transactions and considering what the market will support, Adventist, KNN Public Finance, LLC (the CHFFA’s financial advisor), and the underwriters have all concluded the covenants listed below align the interests of the Obligated Group, CHFFA, and the investors and therefore 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 for this transaction:

**Unconditional Promise to Pay.** *Adventist agrees to pay the Bond Trustee all amounts required for principal, interest, redemption premium, if any, and other payments and expenses designated in the Loan Agreement. The Obligated Group guarantees all such payments under a Master Indenture Note. All Revenues received by or on behalf of CHFFA and any other amounts held in designated funds or accounts under any 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 revenues, income, receipts and money received into a Gross Revenues Fund over which the Master Trustee has a restricted 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 Operating Assets and Current Assets or their respective Property, Plant and Equipment other than Permitted Liens.*

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

**No Debt Service Reserve.** *The Bonds shall not be secured by a reserve fund.*

**Debt Service Coverage Requirement.** *The Master Indenture contains a debt service coverage requirement based on 1.25 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 long-term 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.*

**Limitations on Mergers, Sales or Conveyances.** *Each Obligated Group Member agrees not to merge or consolidate with any other entity or sell or convey all or substantially all of its assets to any Person outside of the Obligated Group unless authorized by various limiting measures set out in the Master Indenture.*

**Limitations on Disposition of Operating Assets.** *Each Obligated Group Member agrees not to sell, lease or dispose of any operating assets unless authorized by various limiting measures set out in the Master Indenture.*

**Comply with SEC Rule 15c2-12.** *Adventist will take such action as is necessary to assist the underwriter in complying with SEC Rule 15c2-12. Adventist will contractually agree to disclose designated financial and operating information to the SEC web site (EMMA) during the life of the 2016 bonds and to report designated “material events” such as missed debt service payments, any change in bond ratings, defeasance, redemptions, etc.*

**Staff and KNN Public Finance, LLC have reviewed the entirety of this financing package and find it to be acceptable.**

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### III. FINANCIAL STATEMENTS AND ANALYSIS:

**Adventist Health System/West<sup>(1)</sup>**  
**Combined Income Statement of Operations and Changes in Unrestricted Net Assets (\$ in thousands)**

	<b>For the year ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b><u>Unrestricted Revenues, Gains and Support</u></b>			
Net patient service revenue less provision for bad debts <sup>(3)</sup>	\$ 3,295,765	\$ 2,982,827	\$ 2,794,378
Premium revenue	100,866	88,211	51,322
Other revenues	167,534	159,855	198,341
Net assets released from restriction	12,208	10,117	8,058
Total revenues, gains and support	<u>3,576,373</u>	<u>3,241,010</u>	<u>3,052,099</u>
<b><u>Expenses</u></b>			
Employee compensation	1,724,284	1,551,161	1,468,668
Professional fees	345,545	315,772	331,214
Supplies	470,485	440,336	419,304
Purchased services and other	690,739	651,089	598,596
Interest	41,129	34,123	34,588
Depreciation and amortization	164,182	152,635	144,675
Impairment loss	15,000	-	-
Total expenses	<u>3,451,364</u>	<u>3,145,116</u>	<u>2,997,045</u>
Income from operations	125,009	95,894	55,054
<b><u>Nonoperating Income</u><sup>(2)</sup></b>			
Investment income	23,754	21,853	-
Gain on acquisition	87,046	-	-
Gain on early extinguishment of debt	1,799	-	-
Total nonoperating income	<u>112,599</u>	<u>21,853</u>	<u>-</u>
Excess of revenues over expenses from continuing operations	237,608	117,747	55,054
<b><u>Unrestricted Net Assets</u></b>			
Change in net unrealized gains and losses	(22,285)	2,405	(11,411)
Donated property and equipment	-	1,146	950
Net assets released from restriction	4,320	6,025	7,532
Increase in unrestricted net assets	<u>219,643</u>	<u>127,323</u>	<u>52,125</u>
Net (loss) from discontinued operations	<u>(541)</u>	<u>(926)</u>	<u>(615)</u>
Increase in unrestricted net assets	219,102	126,397	51,510
Unrestricted net assets, beginning of year	<u>1,645,885</u>	<u>1,519,488</u>	<u>1,467,978</u>
Unrestricted net assets, end of year	<u>\$ 1,864,987</u>	<u>\$ 1,645,885</u>	<u>\$ 1,519,488</u>

<sup>(1)</sup> The Obligated Group (including Lodi Memorial Hospital) represents approximately 93% of the total revenues shown in the above statement.

<sup>(2)</sup> In FY 2015, Adventist revised the format of its statement of operations and added "Income from operations."

<b><u>Payer Source</u></b>	<b><u>Percent</u></b>
Medicare	43.5
Medicaid	29.6
HMO/PPO	21.7
Self-pay and Other	3.4
Commercial	1.8
<b>Total</b>	<b>100.0</b>

**Adventist Health System/West<sup>(1)</sup>**  
**Combined Balance Sheets (\$ in thousands)**

	<b>December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b><u>Assets</u></b>			
Current assets:			
Cash and cash equivalents	\$ 307,073	\$ 293,934	\$ 356,370
Marketable securities	136,942	93,113	26,914
Assets whose use is limited	33,853	27,623	23,105
Patients accounts receivables, net	530,713	440,374	384,931
Receivables from third party payors	115,166	142,355	33,481
Other receivables	33,035	27,790	28,229
Inventories	52,873	47,409	46,205
Prepaid expenses and other current assets	31,180	28,884	31,227
Total current assets	<u>1,240,835</u>	<u>1,101,482</u>	<u>930,462</u>
Other assets:			
Notes receivable	25,119	24,463	24,143
Marketable securities	743,020	458,333	456,245
Assets whose use is limited	358,390	372,283	399,270
Long-term investments	41,991	27,807	13,199
Deferred financing costs	13,122	7,505	7,917
Other long-term assets	64,535	60,699	58,422
Assets who use is limited, net of current portion	<u>1,246,177</u>	<u>951,090</u>	<u>959,196</u>
Property, plant and equipment, net	<u>1,777,938</u>	<u>1,630,697</u>	<u>1,586,309</u>
Total assets	<u>\$ 4,264,950</u>	<u>\$ 3,683,269</u>	<u>\$ 3,475,967</u>
<b><u>Liabilities &amp; Net Assets</u></b>			
Current liabilities:			
Accounts payable	\$ 136,159	\$ 123,563	\$ 132,960
Accrued compensation and related payables	211,868	192,069	163,135
Accrued interest	13,130	12,290	12,513
Liabilities to third party payors	59,936	38,411	28,528
Other current liabilities	40,115	31,440	39,056
Short-term financing	-	-	16,498
Current maturities of long-term debt	29,344	20,412	20,457
Total current liabilities	<u>490,552</u>	<u>418,185</u>	<u>413,147</u>
Long-term debt, net of current maturities	1,490,094	1,214,747	1,169,178
Other noncurrent liabilities	<u>342,207</u>	<u>334,883</u>	<u>311,932</u>
Total liabilities	<u>2,322,853</u>	<u>1,967,815</u>	<u>1,894,257</u>
Net assets:			
Unrestricted	1,864,987	1,645,885	1,519,488
Temporarily restricted	69,905	63,689	56,400
Permanently restricted	7,205	5,880	5,822
Total net assets	<u>1,942,097</u>	<u>1,715,454</u>	<u>1,581,710</u>
Total liabilities & net assets	<u>\$ 4,264,950</u>	<u>\$ 3,683,269</u>	<u>\$ 3,475,967</u>
<b><u>Financial Ratios:</u></b>			
	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>Proforma<sup>(2)</sup></b>		
	<b>FYE December 31, 2015</b>		
Debt Service Coverage (x) -- Operating <sup>(3)</sup>	<b>3.66</b>	<b>3.90</b>	<b>4.01</b>
Debt Service Coverage (x) -- Net <sup>(3)</sup>	<b>3.92</b>	<b>4.17</b>	<b>4.34</b>
Debt/Unrestricted Net Assets (x)	<b>0.93</b>	<b>0.81</b>	<b>0.79</b>
Margin (%)	<b>3.50</b>	<b>2.96</b>	<b>1.80</b>
Current Ratio (x)	<b>2.53</b>	<b>2.63</b>	<b>2.25</b>

<sup>(1)</sup> The Obligated Group (including Lodi Memorial Hospital) represents approximately 98% of the total assets shown in the above statement.

<sup>(2)</sup> Recalculates FY 2015 audited results to include the impact of this proposed financing and \$200 million new money taxable borrowing.

<sup>(3)</sup> Utilizing Maximum Annual Debt Service.

The audited, combined financial statements of entities operating under Adventist were analyzed in this section. The Obligated Group (including Lodi Memorial Hospital (“LMH”), which will become a member of the Obligated Group with the CHFFA Series 2016 financing) comprises approximately 98% of the total assets and 93% of the total revenues of the combined financials.

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

**Adventist’s income statement appears to exhibit solid and improving operating results over the review period with an increasing operating margin and continued revenue growth.**

Adventist’s total revenues appear to have grown 17.2% over the review period from approximately \$3.1 billion in Fiscal Year (“FY”) 2013 to \$3.6 billion in FY 2015. Over the same period, total expenses increased approximately 15.2%, which resulted in operating income of approximately \$55 million, \$96 million, and \$125 million in FY 2013, FY 2014 and FY 2015, respectively. Although expenses have increased, it appears to have increased at a slower pace than revenues, resulting in improving operating margins from 1.8% in FY 2013 to 3.5% in FY 2015. Net patient service revenue, which attributes approximately 90% of the total revenues, increased approximately 17.9% from approximately \$2.8 billion in FY 2013 to \$3.3 billion in FY 2015. This increase is mainly attributed to sustained normal operating growth along with the acquisition of LMH in June 2015. Total expenses increased from approximately \$3 billion in FY 2013 to \$3.5 billion in FY 2015, an increase of 15.2%. This increase is mainly due to increased employee compensation from approximately \$1.5 billion in FY 2013 to \$1.7 billion in FY 2015.

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

- Other revenues decreased approximately 19.4% from FY 2013 to FY 2014 due to the reclassification of investment income, which is now shown under nonoperating income as investment income.
- Adventist reported \$15 million in impairment loss in FY 2015. According to Adventist’s management, this loss was due to the adjustment in book value of Walla Walla General Hospital.
- Adventist acquired LMH effective June 1, 2015 as an affiliate to expand patient access in the Lodi, California market. As result of the acquisition, Adventist reported \$87 million as a gain on acquisition in FY 2015.
- Adventist reported net losses from discontinued operations throughout the review period due to losses associated with the sale of South Coast Medical Center.
- Adventist reports that the changes in the net unrealized gains and losses from approximately negative \$11 million to \$2.4 million to negative \$22.3 million in FY 2013, FY 2014 and FY 2015, respectively. According to Adventist’s management, the fluctuation relates principally to equity market changes and the impact of interest rates and credit spread on the fixed income portfolio.



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

**Adventist appears to have a solid financial position with an operating pro-forma maximum annual debt service coverage ratio of 3.66x.**

Adventist demonstrated the ability to service its debt with an operating maximum annual debt service coverage ratio of 3.43x, 4.01x, and 3.90x in FY 2013, FY 2014, and FY 2015, respectively. With the issuance of the new refunding bonds and \$200 million in new money (taxable direct placement borrowing expected to close in July 2016), Adventist's pro-forma debt service coverage ratio appears to remain solid at approximately 3.66x, indicating Adventist's ability to likely manage the new debt. Adventist's debt-to-unrestricted net assets ratio appears to have remained steady at 0.79x, 0.75x, and 0.81x in FY 2013, FY 2014, and FY 2015, respectively. Adventist's balance sheet appears to have continued growing. Total net assets increased from approximately \$1.6 billion in FY 2013 to \$1.9 billion in FY 2015, an increase of nearly 22.8%. Adventist attributes the increase to sustained operating profitability and the gain on acquisition of LMH.

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

- Total current assets grew from approximately \$930 million in FY 2013 to \$1.2 billion in FY 2015, a 33.4% increase. This increase was attributed to increases in patients accounts receivable, receivables from third party payors and marketable securities.
- Adventist attributes its approximate 12% increase in property, plant and equipment ("PP&E") to its significant capital investment to comply with California state-mandated seismic standards, replace aging facilities, and address capacity. These costs were capitalized which subsequently increased PP&E. In addition the assets acquired under the LMH affiliation increased PP&E.
- Marketable securities and long-term investments appear to have significantly increased due to sustained operating profitability, borrowing and disciplined capital spending allowing for future expansion.
- Total liabilities increased over the review period from \$1.9 billion in FY 2013 to \$2.3 billion in FY 2015. Adventist attributes to financing capital projects, increasing level of business, and fluctuations in the normal business cycle.
- Adventist reported approximately \$16.5 million in short-term financing in FY 2013, which has since been refinanced into the long-term debt. Long-term debt increased approximately \$300 million from approximately \$1.2 billion in FY 2014 to approximately \$1.5 billion in FY 2015. Almost half of the increased long-term debt resulted from Adventist assuming LMH. In addition, Adventist's other financial activities attributed to the increased long-term debt including: 1) obtaining a \$50 million revolving bank line of credit, 2) maintaining an \$80 million long-term credit facility, 3) issuing revenue bonds in FY 2015 and 4) borrowing \$150 million through taxable direct placements in FY 2015.

#### IV. DUE DILIGENCE:

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

- **Section 15438.5(a) of the Act (Savings Pass Through):** Adventist 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):** Adventist properly completed and submitted this certification and indicated that Medi-Cal and Medicare patients are accepted.

Adventist, a nonprofit integrated health system, is devoted to empower healthy communities by improving access to comprehensive, quality health care services and to enhancing the quality of life for those Adventist serves through health programs that have been collaboratively identified and prioritized. Adventist is committed to provide health professions education, research, and other health services that would be otherwise unavailable to those in need. Adventist conducts Community Health Needs Assessment (“CHNA”) for each community to learn about pressing health needs, identify community assets, and hear from all members of the community. Knowing the communities intimately helps focus the collaboration with community partners to develop collective strategies. The CHNA helps Adventist to:

- Engage public health and community stakeholders including low-income, minority and other underserved populations
- Assess and understand the community’s health issues and needs
- Understand the health behaviors, risk factors and social determinants that impact health
- Identify community resources and collaborate with community partners to develop collective strategies
- Use findings to develop and implement a Community Health Plan (implementation Strategy) based on the Hospital’s prioritized issues

The latest CHNA was conducted in 2013 to identify potential priority areas for community health. Annually, Adventist updates and publishes its Community Health Plan for 18 health facilities. Across the system, Adventist provided approximately \$372 million in community health development in FY 2015.

<https://www.adventisthealth.org/pages/about-us/community-health-needs-assessments.aspx>

- **Compliance with Seismic Regulations:** Adventist 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):** Adventist properly submitted relevant documentation addressing CEQA.
- **Religious Affiliation Due Diligence:** Adventist properly completed and submitted relevant documentation to meet the religious due diligence requirement.
- **Legal Review:** Adventist properly completed and submitted relevant documentation for the Authority's Legal Questionnaire.
- **Iran Contracting Act Certificate:** The underwriters properly submitted the certificate to the Authority.

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**EXHIBIT 1**

**PROJECT SITES**

<b>Simi Valley Hospital and Health Care Services, d/b/a Simi Valley Hospital</b>	2975 North Sycamore Drive, Simi Valley
<b>Feather River Hospital</b>	5974 Pentz Road 5734 Canyon View Drive FRH-Rural Health Care Clinic at 5125 Skyway, each in Paradise
<b>Lodi Memorial Hospital Association, Inc. d/b/a Lodi Memorial Hospital</b>	975 South Fairmont Avenue 800 South Lower Sacramento Road, each in Lodi
<b>Hanford Community Hospital d/b/a Adventist Medical Center – Hanford Adventist Medical Center, Central Valley</b>	1025 North Douty Street, 450 North Greenfield Avenue 115 Mall Drive, each in Hanford
<b>Glendale Adventist Medical Center</b>	1509 Wilson Terrace, Glendale
<b>St. Helena Hospital d/b/a St. Helena Hospital Napa Valley</b>	10 Woodland Road, St. Helena 650 Sanitarium Road, Deer Park
<b>St. Helena Hospital d/b/a St. Helena Hospital Center for Behavioral Health</b>	525 Oregon Street, Vallejo
<b>Adventist Health Clearlake Hospital, Inc. d/b/a St. Helena Hospital Clear Lake</b>	15630 18 <sup>th</sup> Avenue, Highway 53 and 15250 Lakeshore Drive, each in Clearlake and Hidden Valley Medical Clinic at 18990 Coyote Valley Road, Hidden Valley Lake
<b>San Joaquin Community Hospital</b>	2615 Chester Avenue, Bakersfield
<b>Sonora Community Hospital d/b/a Sonora Regional Medical Center</b>	One South Forest Road, 1000 Greenley Road, 179 South Fairview Lane, and 940 Silva Lane, each in Sonora
<b>Ukiah Adventist Hospital d/b/a Ukiah Valley Medical Center</b>	275 Hospital Drive and 1120 South Dora, each in Ukiah
<b>White Memorial Medical Center</b>	1720 East Caesar E Chavez Avenue, Los Angeles
<b>Adventist Health System/West</b>	2100 Douglas Boulevard, Roseville
<b>Adventist Health System/West</b>	Approximately 27 acres of undeveloped land in Roseville California, bounded by Eureka Road (on the southwest side), N. Sunrise Avenue (on the northwest side), Stone Point Drive (on the northeast side), and an existing shopping center (on the southwest side)

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

**Borrower:** Adventist Health System/West

**Agent for Sale:** California State Treasurer

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

**Issuer's Financial Advisor:** KNN Public Finance, LLC

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

**Borrower's Counsel:** Katten Muchin Rosenman LLP

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

**Senior Underwriter:** B.C. Ziegler and Company

**Potential Co-Managers:** Wells Fargo Bank, National Association  
(Wells Fargo Securities)  
Merrill Lynch, Pierce, Fenner & Smith  
Incorporated (Bank of America Merrill  
Lynch)

**Underwriter's Counsel:** Squire Patton Boggs (US) LLP

**Trustee:** U.S. Bank National Association

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

**Master Trustee:** The Bank of New York Mellon Trust  
Company, N.A.

**Master Trustee's Counsel:** The Law Office of Samuel D. Waldman

**Auditor:** Ernst & Young LLP

**Rating Agencies:** Standard & Poor's Financial Services, LLC  
Fitch Ratings, Inc.

**EXHIBIT 3**  
**UTILIZATION STATISTICS**

**Adventist Health System/West**

The following table presents selected operating statistics for the Obligated Group.

	<b>Year Ended December 31,</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
Discharges	122,635	122,000	119,869
Patient Days	546,414	543,204	539,985
Average Length of Stay in days	4.5	4.5	4.5
Outpatient Revenue as a % of Gross Patient Revenue	42%	44%	45%

**EXHIBIT 4**

**OUTSTANDING DEBT:**

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding As of December 31, 2015<sup>(1)</sup></u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
<b>Existing Long-Term Debt:</b>			
<i>Authority Debt</i>			
Adventist Health System/West-Sutter Health Revolving Loan Pool, Series 1991 A & 1991 B	\$28,417,482	\$28,217,482	\$28,217,482
Adventist Health System/West, 1998 Series A	60,000,000	37,200,000	-
Adventist Health System/West, 1998 Series B	42,200,000	25,600,000	25,600,000
Adventist Health System/West, 2009 Series A	90,000,000	90,000,000	-
Adventist Health System/West, 2009 Series B	30,000,000	30,000,000	30,000,000
Adventist Health System/West, 2009 Series C	54,495,000	6,000,000	6,000,000
Adventist Health System/West, 2011 Series A	130,000,000	121,840,000	121,840,000
Adventist Health System/West, 2013 Series A	290,365,000	286,465,000	286,465,000
<i>CSCDA's Debt</i>			
Lodi Memorial Hospital, 2007 Series A	150,000,000	133,625,000	-
Adventist Health System/West, 2007 Series B	57,500,000	56,425,000	-
<i>Other Outstanding Debt</i>		704,065,518	704,065,518
<i>2016 Taxable Private Placement</i>			200,000,000
<b>Proposed New Debt:</b>			
<b>CHFFA Series 2016</b>			<b>325,000,000</b>
<b>TOTAL DEBT</b>		<b>\$1,519,438,000</b>	<b>\$1,727,188,000</b>

(1) Includes current portion of long-term debt.

## EXHIBIT 5

### BACKGROUND AND LICENSURE

#### **Background**

The health care system led by Adventist Health System/West (“Adventist”), doing business as Adventist Health, has a rich history with a commitment to delivering quality health care. This commitment stems back to 1866 with dedicated health care pioneers who promoted proper nutrition, exercise and proper sanitation.

Adventist, headquartered in Roseville, California, is a nonprofit corporation created in 1980 when two smaller health systems, Adventist Health Services, Inc. and Northwest Medical Foundation, merged. Adventist was formed to coordinate the management of health care facilities in the Western United States (Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon, Utah and Washington). These facilities range in size from 25 to 515 licensed acute care beds, plus other bed categories such as skilled nursing, ambulatory residential and retirement housing. Adventist includes more than 23,400 employees and 4,300 volunteers who work alongside over 5,000 medical staff physicians, 20 hospitals, approximately 260 clinics, 14 home care agencies, seven hospice agencies and four joint venture retirement centers. Adventist operates the largest rural health clinic network in California.

#### **Obligated Group**

The Obligated Group consists of Adventist and 16 affiliate nonprofit hospital corporations (including Lodi Memorial Hospital (“LMH”), which will become a member of the Obligated Group at the time of the CHFFA Series 2016 financing), 14 of which own and operate facilities in California, Hawaii, Oregon and Washington and two which operate a leased hospital facility in California and Oregon. Frank R. Howard Memorial Hospital became an Adventist owned facility during FY 2015. The Obligated Group is the central financing and credit vehicle for Adventist. The members of the Obligated Group are jointly and severally liable for substantially all of Adventist’s debt under the terms of a Master Indenture. Assuming LMH as a member of the Obligated Group, the assets of the entities that are not members of the Obligated Group represented approximately 2% of the aggregate assets of the entire system and the total revenues of the entities that are not members of the Obligated Group represented approximately 7% of the total revenues of the entire system for the fiscal year ending December 31, 2015.



**Obligated Group**

<b><u>Member</u></b>	<b><u>Location</u></b>
Adventist Medical Center – Hanford <sup>(1)</sup> .....	Hanford, CA
Adventist Medical Center – Reedley <sup>(2)</sup> .....	Reedley, CA
Adventist Medical Center – Portland .....	Portland, OR
Castle Medical Center .....	Kailua, HI
Feather River Hospital .....	Paradise, CA
Glendale Adventist Medical Center .....	Glendale, CA
Howard Memorial Hospital <sup>(3)</sup> .....	Willits, CA
Lodi Memorial Hospital <sup>(4)</sup> .....	Lodi, CA
St Helena Hospital.....	Deer Park, CA
San Joaquin Community Hospital.....	Bakersfield, CA
Simi Valley Hospital .....	Simi Valley, CA
Sonora Reginal Medical Center .....	Sonora, CA
Tillamook County General Hospital .....	Tillamook, OR
Ukiah Valley Medical Center.....	Ukiah, CA
Walla Walla General Hospital .....	Walla Walla, WA
White Memorial Hospital.....	Los Angeles, CA

<sup>(1)</sup> Central Valley General Hospital merged with Adventist Medical Center - Hanford effective 12/1/2015.

<sup>(2)</sup> Adventist Medical Center - Reedley entered the Obligated Group effective 12/1/2015.

<sup>(3)</sup> Critical Access Hospital.

<sup>(4)</sup> Lodi Memorial Hospital will become a member of the Obligated Group with the completion of the CHFFA Series 2016 financing.

**Licensure and Memberships**

Each of Adventist’s California hospital facilities is accredited by The Joint Commission and each hospital and skilled nursing facility is appropriately licensed by applicable State licensing agencies and is fully certified for Medicare and Medicaid reimbursement.

RESOLUTION NO. 415

RESOLUTION OF THE CALIFORNIA HEALTH FACILITIES FINANCING  
AUTHORITY AUTHORIZING THE ISSUANCE OF  
REFUNDING REVENUE BONDS TO REFINANCE  
PROJECTS AT THE HEALTH FACILITIES OF  
ADVENTIST HEALTH SYSTEM/WEST 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, Adventist Health System/West is a nonprofit religious corporation duly organized and existing under the laws of the State of California (the “Borrower”), which owns and operates health care facilities in the State of California; and

WHEREAS, the Authority has previously issued its Insured Variable Rate Hospital Revenue Bonds (Adventist Health System/West), 1998 Series A (the “Series 1998A Bonds”) in the aggregate principal amount of \$60,000,000, of which \$34,800,000 is currently outstanding, and loaned the proceeds thereof to the Borrower to finance and refinance indebtedness incurred thereby in connection with the construction, expansion, remodeling, renovation, furnishing, equipping and/or acquisition of certain health facilities, as more particularly described under the caption “1998A Project” in Exhibit A hereto (the “1998A Project”); and

WHEREAS, the California Statewide Communities Development Authority (“CSCDA”) has previously issued its Insured Revenue Bonds (Lodi Memorial Hospital), Series 2007A (the “Series 2007A Bonds”) in the aggregate principal amount of \$150,000,000, of which \$133,625,000 is currently outstanding, and loaned the proceeds thereof to an affiliate of the Borrower to finance indebtedness incurred thereby in connection with the construction, expansion, remodeling, renovation, furnishing, equipping and/or acquisition of certain health facilities, as more particularly described under the caption “2007A Project” in Exhibit A hereto (the “2007A Project”); and

WHEREAS, CSCDA has previously issued its Insured Revenue Bonds (Adventist Health System/West), Series 2007B (the “Series 2007B Bonds”), in the aggregate principal amount of \$57,500,000, of which \$56,425,000 is currently outstanding, and loaned the proceeds thereof to the Borrower to finance indebtedness incurred thereby in connection with the construction, expansion, remodeling, renovation, furnishing, equipping and/or acquisition of certain health facilities, as more particularly described under the caption “2007B Project” in Exhibit A hereto (the “2007B Project”); and

WHEREAS, the Authority has previously issued its Revenue Bonds (Adventist Health System/West), Series 2009A (the “Series 2009A Bonds” and, together with the Series 1998A Bonds, the Series 2007A Bonds and the Series 2007B Bonds, the “Prior Bonds”) in the aggregate principal amount of \$90,000,000, of which \$90,000,000 is currently outstanding, and loaned the proceeds thereof to the Borrower to finance indebtedness incurred thereby in connection with the construction, expansion, remodeling, renovation, furnishing, equipping and/or acquisition of certain health facilities, as more particularly described under the caption “2009A Project” in Exhibit A hereto (the “2009A Project” and, together with the 1998A Project, the 2007A Project and the 2007B 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 \$325,000,000, and make one or more loans of the proceeds thereof to the Borrower to (i) refund all or any portion of the outstanding Prior Bonds and (ii) pay costs of issuance of the Bonds (as defined below); 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 Prior Projects have 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 (Adventist Health System/West), Series 2016A” (the “Bonds”), in a total aggregate principal amount not to exceed \$325,000,000, are hereby authorized to be issued from time to time, in one or more series, with such other name or names of the Bonds or series thereof as designated in the bond indenture 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 seventh 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 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) 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 U.S. Bank National Association, as bond trustee (the “Bond Trustee”),
- (iii) A Bond Purchase Agreement, including the exhibits thereto, relating to the Bonds (the “Purchase Agreement”), among B.C. Ziegler and Company, on behalf of the underwriters named in the Purchase Agreement as finally executed (the “Underwriter”), the Treasurer and the Authority, and approved by the Borrower,
- (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 Agreement, the Bond Indenture and the Purchase Agreement 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, 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 the Bond Indenture, as finally executed.

SECTION 6. The Underwriter is hereby authorized to distribute the 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 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 Agreement 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; (b) any certificates or documents related to the refunding of the Prior Bonds; and (c) 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**

### **Prior Projects:**

#### 1998A Project:

The construction, expansion, remodeling, renovation, furnishing, equipping and/or acquisition of health facilities owned and operated by: (i) Adventist Health Clearlake Hospital, Inc. d/b/a St. Helena Hospital Clear Lake at 15630 18th Avenue, Highway 53 and 15250 Lakeshore Drive, each in Clearlake; (ii) Feather River Hospital at 5974 Pentz Road, Paradise; (iii) Glendale Adventist Medical Center, 1509 Wilson Terrace, Glendale; (iv) Hanford Community Hospital d/b/a Adventist Medical Center – Hanford, Adventist Medical Center – Central Valley at 450 North Greenfield Avenue and 115 Mall Drive, each in Hanford; (vi) St. Helena Hospital d/b/a St. Helena Hospital Napa Valley at 650 Sanitarium Road, Deer Park; (vii) St. Helena Hospital d/b/a St. Helena Hospital Center for Behavioral Health at 525 Oregon Street, Vallejo; (viii) San Joaquin Community Hospital at 2615 Chester Avenue, Bakersfield; (ix) Simi Valley Hospital & Health Care Services d/b/a Simi Valley Hospital at 2975 North Sycamore Drive, Simi Valley; (x) Sonora Community Hospital d/b/a Sonora Regional Medical Center at One South Forest Road, 1000 Greenley Road, 179 South Fairview Lane, and 940 Silva Lane, each in Sonora; (xi) Ukiah Adventist Hospital d/b/a Ukiah Valley Medical Center at 275 Hospital Drive and 1120 South Dora, each in Ukiah; (xii) White Memorial Medical Center at 1720 East Caesar E Chavez Avenue, Los Angeles; and (xiii) Adventist Health System/West at 2100 Douglas Boulevard, Roseville.

#### 2007A Project:

The construction, expansion, remodeling, renovation, furnishing, equipping and/or acquisition of health facilities owned and operated by Lodi Memorial Hospital Association, Inc. d/b/a Lodi Memorial Hospital at 975 South Fairmont Avenue and 800 South Lower Sacramento Road, each in Lodi.

#### 2007B Project:

The construction, expansion, remodeling, renovation, furnishing, equipping and/or acquisition of health facilities owned and operated by (i) Feather River Hospital at 5974 Pentz Road and 5734 Canyon View Drive, FRH-Rural Health Care Clinic at 5125 Skyway, each in Paradise; (ii) Hanford Community Hospital d/b/a Adventist Medical Center – Hanford, Adventist Medical Center – Central Valley at 1025 North Douty Street, 450 North Greenfield Avenue and 115 Mall Drive, each in Hanford; and (iii) Simi Valley Hospital & Health Care Services d/b/a Simi Valley Hospital at 2975 North Sycamore Drive, Simi Valley.

2009A Project:

The construction, expansion, remodeling, renovation, furnishing, equipping and/or acquisition of health facilities owned and operated by: (i) Adventist Health Clearlake Hospital, Inc. d/b/a St. Helena Hospital Clear Lake at 15630 18th Avenue, Highway 53 and 15250 Lakeshore Drive, each in Clearlake, and Hidden Valley Medical Clinic at 18990 Coyote Valley Road, Hidden Valley Lake; (ii) Feather River Hospital at 5974 Pentz Road and 5734 Canyon View Drive, each in Paradise; (iii) Glendale Adventist Medical Center at 1509 Wilson Terrace, Glendale; (iv) Hanford Community Hospital d/b/a Adventist Medical Center – Hanford, Adventist Medical Center – Central Valley at 450 North Greenfield Avenue and 115 Mall Drive, each in Hanford; (v) St. Helena Hospital d/b/a St. Helena Hospital Napa Valley at 10 Woodland Road, St. Helena; and (vi) Simi Valley Hospital & Health Care Services d/b/a Simi Valley Hospital at 2975 North Sycamore Drive, Simi Valley.