California Health Facilities Financing Authority ("CHFFA")
Resolution No. 2012-02
Lucile Salter Packard Children's Hospital at Stanford
Request for Approval of Amendment of Bond Indenture

February 23, 2012

Background

Lucile Salter Packard Children's Hospital at Stanford ("LPCH") has previously issued $93,450,000 aggregate principal amount of the CHFFA Refunding Revenue Bonds (LPCH) 2008 Series A, Series B, and Series C ("2008 Series Bonds"). The bond proceeds were used to refund previously issued auction rate and variable rate bonds which were used for certain capital expenditures at the facilities owned and operated by LPCH.

Issue

LPCH requests the Authority authorize amendments to the bond indenture for the Series 2008 Bonds for the following purposes: (1) to allow the addition of two interest rate reset modes[1], the Windows Interest Rate mode ("Windows Mode") and the Index Floating Rate Interest Rate mode ("Index Mode"), two modes of interest rate setting that were not available in the marketplace when the Series 2008 Bonds were issued, and (2) to modify LPCH's existing Commercial Paper Rate mode to provide for the establishment of subseries[2],.

Interest Rate Reset Modes

The Series 2008 Bonds are currently in a Weekly Interest Rate mode[3]. The addition of the Windows Mode and the Index Mode to the other interest rate reset modes currently included in LPCH's bond indenture would give LPCH additional flexibility over the term of the Series 2008 Bonds to convert into an interest rate reset mode which may better suit its debt management needs at a given point in time.

All variable rate debt issuances have several interest rate reset modes built into their financing structure to give the borrower flexibility to adjust its interest rate reset method from time to time to accommodate financial, economic, and/or liquidity changes in the market and the borrower's debt management needs, each of which affect a borrower's decision regarding which interest rate reset mode to select at a given point in time. A change from one interest rate reset mode to another interest rate reset mode may result in changes to interest rates, payment dates, and other provisions relating to the bonds. For example, fixed interest rates are at historic lows now, so a borrower might choose an interest rate reset mode that establishes a fixed interest rate for a certain period of time. At another point in time, fixed interest rates might be higher so a borrower would select an interest rate that would be reset on a weekly or monthly period. If LPCH decides to convert the interest rate reset mode to either of the two proposed modes with respect to the Series 2008 Bonds, a mandatory tender[4] is required, causing remarketing of the Series 2008 bonds in the secondary market.

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[1] An interest rate reset mode is a method of calculating the variable interest rate on an issue, which usually specifies how the interest rate will be calculated during the period of time the interest rate mode is in effect. (Examples: A Daily interest rate mode, a weekly interest rate mode, a long term rate mode, a commercial paper rate mode, etc…)
[2] Establishment of subseries divides a Series of Bonds into two or more portions such as Series A into Series A1 and A2.
[3] Weekly Interest Rate mode is one of many interest rate reset modes, where the interest rate is reset on a weekly basis.
[4] Tender is the surrendering of a security to the issuer or its agent for purchase or remarketing. A tender can be mandatory or optional based on the provisions built in to the bond indenture of an issue

The two modes LPCH proposes to add were included in two other transactions recently approved by CHFFA for Catholic Healthcare West and Scripps Health. The Windows Mode is a relatively new feature in the market that is gaining popularity since it gives borrowers more time to take action and more flexibility with respect to a tender with its seven-month put feature.[5] The Index Mode is a feature often used with direct bank purchase transactions, another feature gaining in popularity in the market. Other transactions recently approved by CHFFA involving an Index Mode and a direct bank purchase include Adventist, Kaiser and Casa Colina.

Commercial Paper Subseries

According to LPCH, the establishment of subseries will increase flexibility for LPCH by providing LPCH with the ability to appoint more than one remarketing agent.[6] Additional remarketing agents results in increased competition among the remarketing agents to set more favorable interest rates for the borrower for each of the smaller subseries to obtain competitive interest rates. A desire for this flexibility is becoming more commonplace. This was recently requested and approved by the Authority for Stanford Hospital Clinics in their 2011 remarketing, and is covered by the Master Delegation Resolution but now presented before the Authority board for purposes of complete disclosure.

Recommendation

Staff recommends the Authority approve Resolution Number 2012-XX authorizing any and all actions necessary to amend the bond indenture as requested by LPCH to permit the addition of two interest rate reset modes, the Windows and Index Modes, and authorize provisions modifying the existing Commercial Paper Rate mode to provide for the establishment of subseries. Public Financial Management, CHFFA's Financial Advisor, concurs with the recommendations of Authority staff.

Additional Information Concerning the 2008 Series Bonds

Based on its plans for the issuance of new money bonds which were approved by the Authority at its January 26 meeting, the issuance of refunding bonds on the Authority's agenda for today's meeting, and the ability to convert into other interest rate reset modes for the 2008 Series Bonds, LPCH has an opportunity to restructure its tax exempt debt in a favorable interest rate environment. To provide maximum flexibility, LPCH has requested that CHFFA conduct a TEFRA hearing, which is planned for March 5. Holding this TEFRA hearing would enable LPCH to extend the maturity of the 2008 Series Bonds. If LPCH elects to extend the maturity date in connection with a conversion and remarketing of the 2008 Series Bonds, the extended maturity date would be included in an amendment to the bond indenture covered by the Master Delegation Resolution.

[5] Windows mode put feature gives a window of at least seven months to remarket or repay the bonds in the case of a tender.
[6] A Remarketing agent is the party responsible for setting the interest rate on the bonds and remarketing bonds tendered for purchase.

RESOLUTION NO. 2012-02

RESOLUTION OF THE CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY RELATING TO THE APPROVAL OF A FIRST SUPPLEMENTAL INDENTURE FOR THE CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY REFUNDING REVENUE BONDS (LUCILE SALTER PACKARD CHILDREN'S HOSPITAL AT STANFORD), 2008 SERIES A, 2008 SERIES B AND 2008 SERIES C AND THE AUTHORIZATION OF OTHER ACTIONS NECESSARY IN CONNECTION THEREWITH

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 to finance construction, expansion, remodeling, renovation, furnishing, equipping and acquisition of health facilities by participating health institutions (including by reimbursing expenditures made or refinancing indebtedness incurred for such purpose) and to refund any outstanding bonds or any outstanding series or issue of bonds of the Authority;

WHEREAS, the Authority previously issued $93,450,000 aggregate principal amount of the California Health Facilities Financing Authority Refunding Revenue Bonds (Lucile Salter Packard Children's Hospital at Stanford), 2008 Series A, 2008 Series B and 2008 Series C (each, a "Series of Bonds," and, collectively, the "2008 Series Bonds") and loaned the proceeds of the 2008 Series Bonds to Lucile Salter Packard Children's Hospital at Stanford, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation");

WHEREAS, the Bonds were issued as variable rate bonds pursuant to an Indenture, dated as of August 1, 2008 (the "Indenture"), between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee");

WHEREAS, the proceeds of the Bonds were loaned to the Corporation pursuant to a Loan Agreement, dated as of August 1, 2008 (the "Loan Agreement"), between the Authority and the Corporation;

WHEREAS, the Corporation has requested that the Indenture be amended in order to (i) include two additional interest rate reset modes developed since the Bonds were issued in 2008 and (ii) modify certain other provisions to provide for the establishment of subseries in the event that a Series of Bonds is converted to the Commercial Paper Rate mode;

WHEREAS, the proposed amendments include (i) provisions adding a Windows Interest Rate mode (the "Windows Mode") and an Index Floating Rate Interest Rate mode (an "Index Mode"), (ii) provisions modifying certain other provisions of the Indenture necessary to accommodate the addition of the Windows Mode and the Index Mode and (iii) provisions modifying the existing Commercial Paper Rate mode to provide for the establishment of subseries;

WHEREAS, pursuant to Section 10.01(B)(10) of the Indenture, the Authority and the Trustee may enter into a supplement to the Indenture in order to make any modification or amendment to the Indenture which would be effective upon the remarketing of a Series of Bonds following the mandatory purchase of such Series of Bonds pursuant to Section 4.07 of the Indenture;

WHEREAS, the proposed amendments will take effect with respect to each Series of Bonds only upon the remarketing of such Series of Bonds following the mandatory purchase of such Series of Bonds pursuant to Section 4.07 of the Indenture;

WHEREAS, the Corporation has caused to be prepared and presented to the Authority a proposed form of supplement to the Indenture (hereinafter referred to as the "First Supplemental Indenture");

WHEREAS, the Corporation has also requested that the Authority conduct a TEFRA hearing with respect to the 2008 Series Bonds, which would make it possible for the final maturity date of the 2008 Series Bonds to be extended upon the remarketing of a Series of Bonds following mandatory purchase, which TEFRA hearing will be conducted on March 5, 2012;

WHEREAS, if the Corporation elects to extend the maturity of a Series of Bonds, the extended maturity date would be also be set forth in the First Supplemental Indenture;

WHEREAS, the Corporation has requested that Authority authorize the execution and delivery of the First Supplemental Indenture; and

WHEREAS, the Authority deems it desirable to authorize the execution and delivery of the First Supplemental Indenture;

NOW, THEREFORE, BE IT RESOLVED by the California Health Facilities Financing Authority as follows:

Section 1. The Authority deems it desirable to authorize the delivery of the First Supplemental Indenture to amend the Indenture as set forth in the form of First Supplemental Indenture as presented to this meeting and to authorize all other actions necessary in connection with the delivery of the First Supplemental Indenture.

Section 2. The proposed form of First Supplemental Indenture, to be executed by the Authority and the Trustee, is hereby approved in substantially the form on file with the Authority prior to this meeting, with such insertions, deletions or changes therein as the officer(s) executing and/or delivering the same may require or approve, such approval to be conclusively evidenced by execution and delivery thereof.

Section 3. Each officer of the Authority is hereby authorized and directed to do any and all things and to execute and deliver any and all documents, directions and instructions which they may deem necessary or advisable in order to effectuate the purposes of this Resolution and the First Supplemental Indenture, including, without limitation, execution and delivery of a supplement to the Loan Agreement if necessary to harmonize the provisions of the Loan Agreement with the amended provisions of the Indenture.

Section 4. The provisions of the Authority's Resolution No. 2011-15 apply to the documents and actions approved in this Resolution.

Section 5. 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 6. This Resolution shall take effect from and after the date of adoption.

Date of Adoption: _____ __, 2012.