

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (“CHFFA”)
REVENUE BOND FINANCING PROGRAM
EXECUTIVE SUMMARY**

Applicant: Children’s Hospital of Orange County (CHOC) 1201 West La Veta Avenue Orange, California 92868 Orange County	Amount Requested: \$275,000,000 Requested Loan Term: Up to 40 years Authority Meeting Date: February 29, 2024 Resolution Number: 459
Project Sites: 1201 West LaVeta Avenue and 555 South Main Street, Orange, CA 92868	
Facility Types: Acute Care Hospital	
Eligibility: Government Code 15432(d)(1)	
Prior Borrower: Yes (date of last CHFFA issue, June 2021)	
Obligated Group: CHOC is the sole Member of the Obligated Group	
Guarantor Member: Children’s HealthCare of California (CHC)	
Background: CHOC was established in 1964 as a California nonprofit benefit corporation. CHOC’s hospital facility is a regional tertiary/quaternary referral center and is the largest single provider of pediatric hospital services in Orange County. CHOC also provides a wide variety of outpatient services through its ambulatory care centers. CHOC’s mission is to nurture, advance, and protect the health and well-being of children. In 1986, CHC was incorporated as the parent company and sole corporate member of CHOC.	
Use of Proceeds: CHOC intends to use bond proceeds to finance, reimburse, or refinance costs of the acquisition, construction, expansion, remodeling, renovation, furnishing and/or equipping of certain capital projects located on or about the campus of the health facilities located generally at 1201 West LaVeta Avenue and 555 South Main Street, in Orange, California.	
Type of Issue: Negotiated public offering of tax-exempt fixed rate and long-term put bonds	
Expected Credit Rating: AA-/ AA-; Standard & Poor’s/Fitch Ratings	
Financing Team: <i>See Exhibit 1 to identify possible conflicts of interest</i>	
Financial Overview: CHOC’s income statement continues to post increasing operating results over the review period. CHOC appears to have a strong financial position with a proforma operating debt service coverage ratio of 8.4x.	
<u>Estimated Sources of Funds:</u>	<u>Estimated Uses of Funds:</u>
Bond proceeds	Project fund
\$275,000,000	\$ 271,562,500
	Financing costs
	3,437,500
Total Estimated Sources	Total Estimated Uses
<u>\$275,000,000</u>	<u>\$ 275,000,000</u>
Due Diligence: Staff has confirmed the following documentation provided by CHOC satisfies the California Health Facilities Financing Authority’s (Authority or CHFFA) requirements: Eligibility, Legal Review, the California Environmental Quality Act, and the certifications for Pass-Through Savings, Iran Contracting Act, and Community Service Obligation.	
Staff Recommendation: Staff recommends the Authority approve Resolution Number 459 in an amount not to exceed \$275,000,000 for Children’s Hospital of Orange County, subject to the terms and conditions in the resolution. TAP International, Inc., the Authority’s financial analyst, and KNN Public Finance LLC (KNN), the Authority’s municipal advisor, concur with the Authority’s staff recommendation.	

Disclaimer: Any information related to the borrower, including any data or analysis related to the borrower’s financial condition or ability to repay the financing, described in this staff report is based on information provided by the borrower and was prepared solely for members of the Authority’s Board and to satisfy certain provisions of the California Health Facilities Financing Authority Act (Gov. Code, §15430 et seq.). Prospective investors should not rely on information in this staff report and must perform their own due diligence to obtain information essential to making an informed investment decision.

STAFF SUMMARY, ANALYSIS, AND RECOMMENDATION

I. PURPOSE OF FINANCING

CHOC is requesting to issue tax-exempt bonds to finance, reimburse, or refinance costs of the acquisition, construction, expansion, remodeling, renovation, furnishing and/or equipping of certain capital projects. CHOC is planning a number of expansion projects in order to meet increasing demand for services, to decrease wait times for patients receiving services, and to improve overall patient outcomes.

Project Fund **\$271,562,500**

Projects to be completed at CHOC’s health facilities located generally at CHOC’s Main Campus at 1201 West LaVeta Avenue and 555 South Main Street, include the following:

Operating Rooms – CHOC will expand surgical services by adding two additional operating rooms totaling approximately 2,000 square feet that will match the current layout and setup of its existing operating rooms. The two additional operating rooms will bring CHOC’s total to nine operating rooms and will allow CHOC to provide timely access to surgical services.

Magnetic Resonance Imaging (MRI) – CHOC will expand its MRI services with the addition of a third MRI machine. The MRI scanning modality offers the pediatric population high-quality imaging with no ionizing radiation exposure and is utilized by various service lines, including oncology, cardiology, neurology, neurosurgery, gastrointestinal, general surgery, critical care, research, and hospital medicine.

Catheterization Lab Equipment Replacement – CHOC opened its Cardiac Catheterization (Cath) Lab in 2013 and seeks to replace the outdated equipment with new equipment that takes advantage of technological advances made in Cath Lab techniques. The replacement equipment will result in greatly enhanced quality of images with the goal to continue providing the highest levels of safe, quality care, resulting in the best outcomes for patients.

Maternal Fetal Center – CHOC plans to build out approximately 23,500 square feet of shelled space to develop a Maternal Fetal Center (MFC)/Special Delivery Unit on the same floor as its level 4 Neonatal Intensive Care Unit. The MFC will feature four labor-delivery-recovery-post-partum rooms along with four shelled rooms for future growth, two fetal operating rooms, a special neonatal resuscitation room, as well as a diagnostics/treatment outpatient clinic to provide diagnosis and counseling.

Cardiovascular ICU (CVICU) – CHOC plans to build out approximately 23,500 square feet to add a new CVICU, which will be located on the sixth floor of the Bill Holmes Tower and will have 24 single patient rooms. Four rooms will be dedicated to treating the sickest patients who require extracorporeal membrane oxygenation (ECMO), also known as extracorporeal life support. In addition, CHOC will develop two ECMO anterooms for equipment and space for technicians to prepare. The CVICU will also include a dedicated playroom to enhance healing and rehabilitation of patients.

Neuroscience Unit – CHOC plans to build out approximately 23,500 square feet on the seventh floor of the Bill Holmes Tower for a new neuroscience unit, providing 28 single patient rooms and a unique playroom outfitted with portable electroencephalogram technology. The new unit will also increase the number of dedicated epilepsy monitoring rooms.

Patient Placement Center (PPC) and Emergency Management Center (EMC) CHOC will relocate the PPC and EMC to approximately 2,600 square feet on the second floor of the Bill Holmes Tower. The new PPC will include more technology-based space and will facilitate quicker admissions and discharges, positively impacting the patient and family experience.

CHOC will use the EMC to track incoming patients and transport teams and manage local emergencies. The EMC will allow CHOC to obtain the most up-to-date information, collaborate with local officials, and allow for strategic planning to occur in a Hospital Incident Command System that is engaged during emergencies.

Emergency Department (ED) Expansion – CHOC’s ED was originally built to support approximately 70,000 patient visits per year; however, CHOC is currently seeing over 110,000 patients annually, creating long wait times and a lack of immediate emergency services. CHOC will expand its ED by approximately 5,300 square feet with the addition of ten patient beds, allowing CHOC to care for patients with shorter wait times.

Southwest Tower (SWT) Project – CHOC is constructing a nine-story, 333,000 square foot outpatient facility located directly across from CHOC’s flagship hospital building. CHOC will provide pediatric specialty services on specific floors of the SWT, which are being partially funded through a \$135 million Children’s Hospital Program of 2018 (Proposition 4) grant that was approved by the Authority at its December 2023 meeting. The SWT will also contain a research facility, as well as an ambulatory radiology department, an outpatient infusion center, a retail pharmacy, food services, and a lobby.

<i>Financing Costs</i>	<u>3,437,500</u>
Estimated Underwriter's discount	\$1,718,750
Estimated cost of issuance	<u>1,718,750</u>
<i>Total Estimated Uses of Funds</i>	<u>\$275,000,000</u>

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II. PROPOSED COVENANTS, SECURITY PROVISIONS AND DISCLOSURES

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 (defined below) credit profile, including its current financial profile, prior bond transactions, and considering what the market will support, CHOC, KNN, and the underwriter have concluded the covenants listed below should be applicable to this transaction, 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.

Obligated Group

CHOC is the sole Member of the Obligated Group. Any future member of the Obligated Group is jointly and severally obligated under a master trust indenture (Master Indenture) with respect to payments on CHFFA's bonds and other parity debt (including CHFFA's Series 2019 Bonds and 2021 Bonds previously issued for CHOC). CHOC is the borrower under the loan agreements (collectively, Loan Agreements). All covenants below are applicable to each Member of the Obligated Group. There are also protective tests under the Master Indenture 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.

Parent as Guarantor

CHOC's parent entity, CHC (also a California nonprofit public benefit corporation), is a guarantor of debt under the Master Indenture, including the proposed 2024 Bonds, but only if the Obligated Group has failed to make payments. CHC is not bound by the various operational and financial covenants applicable to the Obligated Group Members.

The following covenants are applicable for this transaction:

Unconditional Promise to Pay. *CHOC agrees to pay the Bond Trustee all amounts required for principal, interest or redemption premium, if applicable, and other payments and expenses designated in each Loan Agreement. The Obligated Group guarantees all such payments under each Loan Agreement pursuant to a master indenture obligation, and CHC further guarantees such payments if the Obligated Group fails to make them. All Revenues¹ (which will include payments by CHOC under each Loan Agreement and payments by the Obligated Group and CHC) and any other amounts held in funds or accounts under each Bond Indenture (other than the Rebate Fund) are pledged to secure the full payment of the Bonds.*

¹ Capitalized terms are defined in the Bond Indenture.

Pledge of Gross Revenues. *Each Member of the Obligated Group pledges to deposit all Gross Revenues (which generally consist of revenues, income, moneys, fees, rates, receipts, rentals, charges, issues and income received) into a Gross Revenue Fund for which there is a deposit account control agreement for the benefit of the Master Trustee.*

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 Liens.*

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

Debt Service Coverage Requirement. *The Master Indenture contains a debt service coverage ratio requirement based on 1.10 times Annual Required Debt Service. It is not an event of default under the Master Indenture if the debt service coverage ratio falls below 1.10 times if an independent consultant is engaged, and there is substantial compliance with the recommendations of the independent consultant. However, if the debt service coverage ratio falls below 1.0 times for two consecutive years, it will be an event of default under the Master Indenture. 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.*

Limitations on Mergers, Consolidation, Sales or Conveyances. *Each Obligated Group Member agrees not to merge, 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.*

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. *CHOC, on behalf of the Obligated Group, will take such action as is necessary to assist the underwriter in complying with Securities and Exchange Commission Rule 15c2-12 (SEC Rule). CHOC will contractually agree to disclose designated financial and operating information to the SEC web site (EMMA) during the life of the 2024 bonds and to report designated “material events” such as missed debt service payments, any change in bond ratings, defeasance, redemptions, etc as specified in the SEC Rule.*

Staff has completed its due diligence, and KNN has reviewed the bond documents associated with the proposed financing and found these documents and proposed covenants to be acceptable.

III. FINANCIAL STATEMENTS AND ANALYSIS

**Children's Hospital of Orange County
Statement of Activities
Income Statement
(in Thousands)**

	As of June 30,		
	2023	2022	2021
Operating Revenue:			
Patient service revenue - net of contractual allowances, discounts, and implicit price concessions	\$ 1,309,017	\$ 895,450	\$ 699,412
Premium revenue	89,118	90,278	92,543
Other revenue	100,986	91,554	111,425
Net assets released from restrictions used for operations	23,039	19,986	15,220
Total operating revenue	<u>1,522,160</u>	<u>1,097,268</u>	<u>918,600</u>
Expenses:			
Salaries and benefits	568,059	478,230	399,342
Purchased services	336,261	301,934	275,499
Supplies	176,996	143,647	130,297
Rent	18,418	17,606	15,678
Depreciation & amortization	36,340	32,106	30,850
Interest expense	4,156	8,241	8,886
Provider program fees	109,509	26,681	13,786
Other	49,867	32,062	49,069
Total operating expenses	<u>1,299,606</u>	<u>1,040,507</u>	<u>923,407</u>
Income (Loss) from operations before other gains	222,554	56,761	(4,807)
Other gains			
Investment and other nonoperating gains	14,862	(8,552)	(13,776)
Contribution from CHOC foundation	1,159	2,459	5,980
Other (losses) gains, net	<u>16,121</u>	<u>(6,093)</u>	<u>(7,796)</u>
Increase in net assets without donor restrictions:	\$ 238,675	\$ 50,668	\$ (12,603)

Children's Hospital of Orange County
Statement of Financial Position
Balance Sheet
(in Thousands)

	As of June 30,		
	2023	2022	2021
Assets:			
Current assets:			
Cash and cash equivalents	\$ 319,636	\$ 321,613	\$ 376,455
Investments, current	82,310	78,745	83,372
Assets whose use is limited - current	-	-	22,627
Patient accounts receivable, net	245,001	197,936	131,670
Provider fee program receivable	161,885	-	11,913
Inventory	17,298	18,046	21,618
Other receivables	7,887	6,204	9,703
Receivables from related parties	23,266	41,448	23,482
Current portion of beneficial interest	588	1,523	777
Prepaid expenses and other current assets	13,356	55,711	36,474
Total current assets	<u>871,227</u>	<u>721,226</u>	<u>718,091</u>
Assets whose use is limited			
Designated by board	24,636	23,471	21,007
Other	3,485	3,343	3,549
Total assets whose use is limited	<u>28,121</u>	<u>26,814</u>	<u>24,556</u>
Property and equipment, net	791,983	672,170	639,099
Beneficial interest in net assets of CHOC Foundation	18,472	21,536	16,838
Operating lease right-of-use assets	93,918	79,931	72,220
Investments, noncurrent	1,511	880	7,019
Other assets	14,055	8,662	1,216
Total assets	<u>\$ 1,819,287</u>	<u>\$ 1,531,219</u>	<u>\$ 1,479,039</u>
Liabilities and Net Assets:			
Current liabilities:			
Long-term debt, current	\$ 9,158	\$ 8,901	\$ 8,155
Operating lease liabilities, current	8,719	9,321	11,143
Accounts payable and accrued liabilities	151,752	111,609	84,029
Accrued compensation and related liabilities	53,210	53,259	59,428
Provider fee program expenses payable	52,130	-	-
Medical claims payable	4,831	3,361	5,581
Deferred income	457	127,039	158,170
Payable to third-party payors	12,463	14,092	8,892
Payable to related parties	1,964	24,290	11,711
Total current liabilities	<u>294,684</u>	<u>351,872</u>	<u>347,109</u>
Long-term debt	296,696	307,361	290,407
Long-term notes and loans payable	85,000	-	-
Operating lease liabilities	88,008	72,675	61,565
Estimated liability for self-insured workers' compensation, net of current portion	-	-	6,570
Postretirement benefit obligation	-	-	3,766
Medical malpractice reserves, net of current portion	16,656	10,460	47,557
Other liabilities	8,831	8,668	9,925
Total liabilities	<u>789,875</u>	<u>751,036</u>	<u>766,899</u>
Net assets:			
Without donor restrictions:	935,960	695,266	643,346
With donor restrictions	93,452	84,917	68,794
Total net assets	<u>1,029,412</u>	<u>780,183</u>	<u>712,140</u>
Total liabilities and net assets	<u>\$ 1,819,287</u>	<u>\$ 1,531,219</u>	<u>\$ 1,479,039</u>

	Proforma			
	FYE June 30, 2023 ^(a)	2023	2022	2021
Debt Service Coverage - Operating (x)	8.4	20.1	5.9	2.1
Debt Service Coverage - Net (x)	8.9	21.4	5.6	1.6
Debt/Net Assets Without Donor Restrictions (x)	0.7	0.4	0.5	0.5
Margin (%)		14.6	5.2	(0.5)
Current Ratio (x)		3.0	2.0	2.1

^(a) Recalculates FY 2023 audited results to include the impact of this proposed financing.

Financial Discussion

CHOC's income statement continues to post increasing operating results over the review period.

CHOC's total operating revenue increased from approximately \$918.6 million in FY 2021 to approximately \$1.5 billion in FY 2023 as operating revenues increased in each fiscal year. Total operating revenue grew 65.7% over the review period, driven by increases in patient service revenue. According to CHOC's management, the increase in patient service revenue, from approximately \$699.4 million in FY 2021 to approximately \$1.3 billion in FY 2023, is mainly due to growth in both inpatient and outpatient volumes over the last three years. Additionally, another reason for the outsized jump in FY 2023 was due to an accounting change and revenue recognition related to the Hospital Quality Assurance Fee (HQAF) programs. In FY 2023, CHOC reassessed variables for estimating and recognizing revenues through the HQAF programs. CHOC determined the supplemental payments for the HQAF programs met all criteria for revenue recognition as prior constraints on the revenue recognition no longer existed. As a result, CHOC recognized approximately \$417 million of provider fee revenues as patient service revenue in FY 2023 compared to approximately \$57 million in FY 2021 and nearly \$145 million in FY 2022.

In alignment with increasing total operating revenue, total operating expenses increased by 40.7% from approximately \$923.4 million in FY 2021 to approximately \$1.3 billion in FY 2023. According to CHOC's management, the previously mentioned changes to the HQAF programs also led to increased provider fee expense recognition. Provider program fees increased from nearly \$26.7 million in FY 2022 to about \$109.5 million in FY 2023. Additionally, inflation, industry labor, and supply cost pressures contributed to higher expenses.

To offset the financial impact of the COVID-19 pandemic, CHOC received approximately \$20.8 million in FY 2021 from the Provider Relief Fund (PRF) as part of the Coronavirus Aid, Relief, and Economic Security Act. Distributions of PRF were not subject to repayment as CHOC complied with the terms and conditions of the grant funding.

CHOC appears to have a strong financial position with a proforma operating debt service coverage ratio of 8.4x.

CHOC appears to demonstrate a continued strong ability to repay debt as its debt service coverage ratio (DSCR) from operations increased from 2.1x in FY 2021 to 20.1x in FY 2023. While total debt remained relatively constant over the review period, the large improvement in CHOC's DSCR from operations was due to a large improvement in operating income, from a loss of approximately \$4.8 million in FY 2021 to a gain of approximately \$222.6 million in FY 2023. Considering the issuance of the new bonds, CHOC's pro-forma FY 2023 operating debt service coverage ratio continues to be strong at 8.4x.

Net assets without donor restrictions have grown from nearly \$643.3 million in FY 2021 to approximately \$936 million in FY 2023, an overall increase of 45.5%. CHOC's debt to net assets without donor restrictions ratio has remained relatively steady over the review period, being 0.5x, in FY 2021 and FY 2022 and 0.4x in FY 2023. Considering the proposed new debt, CHOC's pro-forma FY 2023 debt to net assets without donor restrictions ratio increases to 0.7x, indicating CHOC's continuing ability to manage its total amount of debt.

IV. DUE DILIGENCE

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

- **Government Code section 15438.5(a) of the Act (Pass-Through Savings):** CHOC properly completed and submitted the Pass-Through Savings Certification.
- **Government Code section 15459.1 of the Act (Community Service Obligation):** CHOC properly completed and submitted the Community Service Obligation certification and indicated that Medi-Cal and Medicare patients are accepted. Below is a link to CHOC's 2023 Annual Report regarding community service:

<https://www.choc.org/files/CommunityBenefitPlanFY2023.pdf>

- **Compliance with Government Code section 15455(b) (California Environmental Quality Act (Pub. Resources Code, §21000 et seq.)):** CHOC properly submitted relevant documentation addressing the California Environmental Quality Act.
- **Legal Review:** CHOC properly completed and submitted relevant documentation for the Authority's Legal Status Questionnaire.
- **Iran Contracting Act Certification:** The underwriter has properly completed and submitted the Iran Contracting Act Certificate.

V. OUTSTANDING DEBT (000's)

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding As of June 30, 2023^(a)</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
EXISTING LONG-TERM DEBT:			
CHFFA 2019 Series A	\$ 88,390	\$ 72,465	\$ 72,465
CHFFA 2021 Series A	96,025	95,080	95,080
CHFFA 2021 Series B	83,330	83,330	83,330
CHOC 2021 Series C (Taxable)	24,686	15,914	15,914
PROPOSED NEW DEBT:			
CHFFA 2024 Series A&B			275,000
TOTAL DEBT		\$ 266,789	\$ 541,789

VI. UTILITIZATION STATISTICS

	As of June 30,		
	2023	2022	2021
Licensed Beds	334	334	334
Discharges	13,043	11,852	10,643
Patient Days	80,285	69,587	61,398
Average Length of Stay (days)	6.2	5.9	5.8
Occupancy Based on Licensed Beds (%)	65.9	57.2	50.3
Select Outpatient Visits:			
Emergency Room	119,197	101,878	59,404
Specialty Clinic	71,479	73,146	69,989
Outpatient Surgery	9,534	8,529	8,222
Outpatient Infusion Center	8,115	7,299	7,981
Outpatient Observation	5,237	4,514	3,260
Subspecialty Physician Encounters	509,217	458,214	420,613
Primary Care Physician Encounters	278,865	272,050	239,310

VII. BACKGROUND AND LICENSURE

Background

CHOC was incorporated and began operating in 1964. CHOC's original 62-bed facility was located in a leased wing of St. Joseph Hospital of Orange, with which CHOC shared hospital services such as surgery, laboratory, radiology, pharmacy and dietary, among others. With a growth in demand, in 1975, CHOC moved to a former skilled nursing facility renovated into an acute care pediatric hospital, including neonatal and pediatric intensive care units and increased its licensed capacity to 190 beds. CHOCO Realty Corporation (Realty), which (prior to its merger into CHOC) held title to all of CHOC's land and buildings, purchased a two-story building adjacent to CHOC's acute care pediatric hospital and renovated the building to house ambulatory care services, including an outpatient clinic, outpatient pharmacy, psychology services, medical records, computer services, pediatric subspecialty medical offices and several administrative departments. In 1990, Realty constructed a six-story research building and an expanded clinic facility adjacent to CHOC's acute care pediatric hospital, and, in 1991, Realty constructed a 192 licensed bed replacement facility for all inpatient services (CHOC North). During the summer of 2002, because of increased demand, CHOC added ten new intensive care beds. This brought the current Newborn Intensive Care Unit (NICU) bed count to 42, and CHOC's total beds to 202. Between 2007 and 2011, CHOC added 36 beds, including Pediatric Intensive Care Unit, Cardiovascular Intensive Care Unit, NICU, and adolescent oncology beds.

In the spring of 2013, CHOC opened the newly constructed Bill Holmes Tower, creating the first comprehensive pediatric care hospital in Orange County. Ancillary services previously purchased from St. Joseph Hospital, including surgery, laboratory, emergency department, radiology, etc. were replaced with services provided by CHOC's pediatric-trained experts. Additionally, on the 5th floor of the Bill Holmes Tower, CHOC opened a 28-bed private room Hematology/Oncology unit. CHOC also opened a 13-bed private room NICU located within St. Joseph Hospital in 2013. On June 30, 2013, CHOC's licensed beds totaled 279.

In the summer of 2017, CHOC opened a 37-bed private-room NICU on the 4th floor of the Bill Holmes Tower, and in the spring of 2018, CHOC opened an 18-bed pediatric mental health inpatient center. As of December 1, 2023, CHOC's licensed beds totaled 334.

Licensure and Accreditation

CHOC is appropriately licensed as an acute care hospital by the California Department of Public Health Services to the extent required, is fully accredited by The Joint Commission, and is certified to participate in the Medicare and Medi-Cal programs.

STAFF RECOMMENDATION

Staff recommends the Authority approve Resolution No. 459 in an amount not to exceed \$275,000,000 for Children's Hospital of Orange County, subject to the terms and conditions in the resolution. TAP International, Inc., the Authority's financial analyst, and KNN Public Finance, LLC, the Authority's municipal advisor, concur with the Authority's staff recommendation.

EXHIBIT 1
FINANCING TEAM

Borrower: Children's Hospital of Orange County

Agent for Sale: California State Treasurer

Issuer's Counsel: Office of the Attorney General

Issuer's Municipal Advisor: KNN Public Finance, LLC

Issuer's Financial Analyst: TAP International, Inc.

Borrower's Counsel: McCann Law PLLC

Bond Counsel: Orrick, Herrington & Sutcliffe LLP

Underwriter: Morgan Stanley & Co. LLC

**Underwriter's Counsel and
Special Tax Counsel:** Norton Rose Fulbright US LLP

Bond Trustee: U.S. Bank Trust Company National Association

Bond Trustee's Counsel: Dorsey & Whitney LLP

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

Master Trustee's Counsel: The Bank of New York Mellon Trust Company, N.A.

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

Auditor: KPMG LLP

RESOLUTION NO. 459

RESOLUTION OF THE CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY AUTHORIZING THE ISSUANCE OF REVENUE BONDS TO FINANCE AND/OR REFINANCE PROJECTS AT THE HEALTH FACILITIES OF CHILDREN'S HOSPITAL OF ORANGE COUNTY

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, Children's Hospital of Orange County (the "Corporation") is a nonprofit public benefit corporation duly organized and existing under the laws of the State of California, which owns and operates health facilities in the State of California; and

WHEREAS, the Corporation has requested that the Authority issue one or more series of its revenue bonds in an aggregate principal amount not to exceed \$275,000,000 and make one or more loans of the proceeds thereof to the Corporation (i) to finance (including by reimbursing expenditures made for such purposes) or refinance costs of the acquisition, construction, expansion, remodeling, renovation, furnishing, and/or equipping of certain health facilities of the Corporation, as more particularly described under the caption "Description of the Project" in Exhibit A hereto (collectively, the "Project") and (ii) at the option of the Corporation, pay costs of issuance of such revenue bonds; and

WHEREAS, to the extent required by subdivision (b) of Section 15455 of the Government Code, the Corporation has provided documentation to the Authority demonstrating, to the extent applicable, that the Project has complied with Division 13 (commencing with Section 21000) of the Public Resources Code or is not a "project" under such division; and

WHEREAS, approval of the terms of issuance and sale of such revenue bonds and various related matters is now sought;

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

SECTION 1. Pursuant to the Act, revenue bonds of the Authority designated as the "California Health Facilities Financing Authority Revenue Bonds (Children's Hospital of Orange County), Series 2024" (the "Bonds"), in a total aggregate principal amount not to exceed \$275,000,000, 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 bond indentures pursuant to which the Bonds will be issued. The proceeds of the Bonds shall be used for any or all of the purposes set forth in the third recital above.

SECTION 2. The Treasurer of the State of California (the “Treasurer”) is hereby authorized to enter into agreements to sell the Bonds in one or more series, on one or more sale dates at any time prior to the first anniversary of the date of this Resolution, at public or private sale, in such aggregate principal amounts (not to exceed the aggregate principal amount set forth in Section 1) and in such series, at such prices (so long as the discount on the Bonds sold shall not exceed 6 percent of the par value thereof) and at such interest rate or rates and upon such other terms and conditions as the Treasurer, with the advice and consent of the Corporation, 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 Corporation, 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 (the “Loan Agreements”), each between the Authority and the Corporation,

(ii) One or more Bond Indentures relating to the Bonds (the “Bond Indentures”), each between the Authority and U.S. Bank Trust Company, National Association, as bond trustee (the “Bond Trustee”),

(iii) One or more Bond Purchase Contracts, including the exhibits thereto, relating to the Bonds (collectively, the “Purchase Contracts”), each among Morgan Stanley & Co. LLC, on behalf of itself and any other underwriters named in the Purchase Contracts as finally executed (the “Underwriter”), the Treasurer and the Authority, and approved by the Corporation, 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 credit and/or liquidity facility and/or another security arrangement, at the sole option of the Corporation, for any series of the Bonds) as the officer executing the same may require or approve, such approval to be conclusively evidenced by execution and delivery thereof in the case of the Loan Agreements, the Bond Indentures and the Purchase Contracts and by delivery thereof in the case of the Preliminary Official Statements. The Executive Director or Deputy 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 date of issue), interest rates, interest rate modes, manner of determining interest rates, interest payment dates, series designation, 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 the 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 Corporation), a preliminary official statement may not be used with respect to any Series of the 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 8. Each officer of the Authority is hereby authorized and directed, for and in the name of and on behalf of the Authority, to do any and all things which they may deem necessary or advisable in order to consummate the issuance, sale, and delivery of the Bonds and otherwise to effectuate the purposes of this Resolution and the Bond Indentures, Loan Agreements, 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) tax certificate 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.

SECTION 9. The provisions of the Authority's Resolution No. 2023-06, or a superseding resolution subsequently adopted by the Authority, 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

DESCRIPTION OF THE PROJECT

The Project consists of financing (including reimbursing for) or refinancing costs of the acquisition, construction, expansion, remodeling, renovation, furnishing and/or equipping of certain health facilities of the Corporation and certain of its affiliates located on or about the campus of the health facilities located generally at 1201 West LaVeta Avenue and 555 South Main Street, in Orange, California.