CHFFA REVENUE BOND FINANCING PROGRAM
EXECUTIVE SUMMARY

Applicant:	Lucile Salter Packard Children's Hospital at Stanford ("Packard") 725 Welch Road Palo Alto, CA 94304 Santa Clara County	**Amount Requested:** **Requested Loan Term:** **Authority Meeting Date:** **Resolution Number:**	$200,000,000 Up to 40 years July 27, 2017 429

Project Sites: 725 & 777 Welch Road, Palo Alto, CA 94304, Santa Clara County
780 Quarry Road, Palo Alto, CA 94304, Santa Clara County
Facility Type: Acute Care Hospital
Eligibility: An acute care hospital pursuant to Government Code section 15432(d)(1)
Prior Borrower: Yes (date of last CHFFA issue 2016)
Obligated Group: Packard is the sole member

Background: Packard is a 302-bed not-for-profit tax-exempt hospital located in Palo Alto, California. It operates a licensed acute care pediatric and obstetric hospital on the Leland Stanford Junior University campus in Palo Alto and operates several inpatient care units on its license in nearby community hospitals. Packard also operates outpatient physician clinics in its facilities and other community settings. In FY 2016, Packard had 13,146 discharges, 83,115 patient days and 250,862 Pediatrics and Obstetrics Faculty Practice Organization ("FPO") clinic visits.

Use of Proceeds: Bond proceeds will be used to finance and reimburse for the extensive multi-phase capital expansion and renovation project in progress at its hospital facility, the acquisition of an additional facility in the vicinity of the hospital facility and routine capital expenditures (including renovation and equipping of existing hospital facilities). The funding will allow Packard to finish the remaining portion of the expansion project as well as provide for future projects.

Type of Issue: Negotiated public offering with fixed rate bonds (Minimum denominations of $5,000 or any integral multiple thereof)
Expected Credit Ratings: Aa3/AA- /AA; Moody's/S&P/Fitch
Financing Team: *Please see Exhibit 1 to identify possible conflicts of interest*

Financial Overview: Packard's income statement appears to exhibit positive operating results during the review period. Packard appears to have a solid financial position with a proforma operating debt service coverage ratio of 4.59x.

Estimated Sources of Funds:		**Estimated Uses of Funds:**		
Par amount of bonds	$200,000,000	Project Fund	$	198,000,000
		Financing Costs		2,000,000
Total Estimated Sources	$200,000,000	**Total Estimated Uses**	$	200,000,000

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

Staff Recommendation: Staff recommends the Authority approve Resolution Number 429 for Lucile Salter Packard Children's Hospital at Stanford in an amount not to exceed $200,000,000 subject to the conditions in the resolution, including a rating of at least investment grade by a nationally recognized rating agency. Macias Gini & O'Connell, LLP, the Authority's financial analyst, and KNN Public Finance LLC, the Authority's financial advisor, concur with the Authority's staff recommendation.

(EL)

I. PURPOSE OF FINANCING:

Packard is seeking $200 million in bond proceeds to finance and/or reimburse costs for the final phases of the extensive multi-phase capital expansion and renovation project of its hospital, the acquisition of an additional facility in the vicinity of the hospital facility and fund routine capital expenditures. Packard's expansion project, which was started in 2011, is intended to address the growing need for specialized pediatric care and to equip the facility to a level commensurate with Packard's current role as an important regional provider of tertiary and quaternary pediatric care[1]. Packard's management believes that sources of funding are adequate to cover remaining costs and that the main hospital will be open in December 2017.

The expansion project is anticipated to exceed its original estimated amount of $1.2 billion because of increases related to changes in technology, construction and market availability of subcontractors, among other factors. Funding for this project is provided through the Children's Hospital Grant Program, CHFFA's Tax-Exempt Bond Program, fundraising, a 2017 line of credit and internal funds. To date, CHFFA's board has approved a Proposition 3 grant in the amount of $98 million and has issued tax exempt bond financing in the amount of $601 million. It is anticipated that the proceeds from this financing will be sufficient for completion of the expansion project and no other tax exempt bond financing will be needed to complete the expansion project.

Project Fund **..** ***$198,000,000***

Packard's multi-phase capital expansion project is part of the vision of the hospital to continue its long tradition of connecting to nature through design of the building. All patient rooms in the expansion are designed to have views of a garden. The design of the grounds and building is anticipated to collect enough water to meet the irrigation needs of all the gardens at the hospital. This project will be LEED Gold Certified. The 521,000 square foot expansion will provide 149 new beds, 77 of them acute care beds and 72 of them intensive care beds. Surgery, Imaging and Diagnostic will be expanded to include, but not limited to, six new operating rooms, three new cardiac catheterization (cath) labs, and 32 new Post-Anesthesia Care Unit (PACU) beds. To help accommodate the patients and their families that have longer stays, the expansion will also include some features like kitchens, washers and dryers on every floor, a family resource center with a business center as well, and the ability to sleep two parents in each room, among many more additional features. In addition, Packard intends to reimburse itself for construction costs related to the expansion project.

Financing Costs **..** ***2,000,000***

- Estimated cost of issuance....................... $1,000,000
- Estimated Underwriter's discount........... 1,000,000

Total Estimated Uses of Funds **...** **$200,000,000**

---

[1] Tertiary and quaternary care represent the most advanced form of health care and may include complex surgery, such as neurosurgery, cardiac surgery, plastic surgery, and transplantation, as well as neonatology, psychiatry, cancer care, intensive care, palliative care, and many other complex medical and surgical interventions. Quaternary care may even involve experimental treatments and procedures.

II. PROPOSED COVENANTS, SECURITY PROVISIONS AND DISCLOSURES:

Packard is the sole member of the Obligated Group created pursuant to the Master Indenture. Pursuant to the provisions of the Master Indenture, Packard has issued obligations under the Master Indenture (each, an "Obligation") to secure the obligations of Packard under each of the loan agreements entered into with the Authority in connection with each issue of revenue bonds previously issued by the Authority for the benefit of Packard. Packard will issue an Obligation under the Master Indenture to secure its obligations under the Loan Agreement entered into with the Authority in connection with the proposed bonds. All the covenants listed below are applicable to Packard as sole member of the Obligated Group.

The Executive Summary and recommendations include minimum requirements. Additional or more stringent covenants or disclosures may be added following consultation with Authority staff. These covenants cannot be diluted or removed without subsequent review. If there has been modification to the covenants proposal following preparation of this Executive Summary, staff will report it at the meeting.

After reviewing Packard's credit profile, including its current financial profile, Packard's prior bond transactions, and current market precedent, Packard, KNN Public Finance, LLC, ("KNN"), and the underwriter of the proposed bonds have concluded that the covenants listed below balance the interest of Packard, the Authority, and investors. Packard, KNN, and the underwriter note these covenants are consistent with the covenants that have applied to Packard's prior bond transactions and that the current financial situation of Packard does not suggest that additional covenants should be required by the Authority.

The covenants listed below are applicable to this transaction.

Unconditional Promise to Pay; Pledge of Revenues. *Packard agrees to pay the trustee all amounts required for payment of the principal, interest and redemption premium, if applicable, with respect to the proposed bonds and agrees to pay the additional payments and expenses specified in the loan agreement. In addition, Packard will issue an Obligation under the Master Indenture to secure the obligation of Packard to make the payments under the loan agreement. All Revenues (which will include payments by Packard under the loan agreement and payments by the Obligated Group on the Obligation) and amounts held in the funds and account established under the bond indenture (excluding the Rebate Fund) will be pledged to secure the full payment of the proposed bonds.*

Pledge of Gross Revenues. *The Obligated Group has pledged to deposit all of its Gross Revenues into an account or accounts designated as the Gross Revenue Accounts. If there is a failure to make a Required Payment, the Master Trustee may exercise control over the Gross Revenue Accounts for the benefit of the holders of each obligation issued under the Master Indenture, including the trustee for the Existing Bonds and the trustee for the proposed bonds.*

Limitation on Liens; Permitted Encumbrances. *The Obligated Group has agreed not to create, assume or suffer to exist any Lien upon its Property unless all Obligations of the Obligated Group are secured prior to or equally and ratably with any obligation secured by such Lien or unless otherwise permitted under the Master Indenture.*

Debt Service Coverage Requirement. *The Master Indenture requires that the Obligated Group maintain a Historical Debt Service Coverage Ratio of 1.25.*

Limitations on Additional Indebtedness and Restrictions on Guaranties. *The Obligated Group has agreed not to incur Additional Indebtedness or enter into any Guaranty unless authorized by various provisions set out in the Master Indenture.*

Limitations on Disposition of Property. *The Obligated Group has agreed not to sell, lease or otherwise dispose of Property in any fiscal year other than as authorized by various provisions set out in the Master Indenture.*

Limitations on Consolidation, Merger, Acquisition, Sale or Conveyance. *The Obligated Group has agreed not to consolidate or merge with any corporation which is not a Member of the Obligated Group or acquire substantially all of the assets of an entity not a Member of the Obligated Group or sell or convey all or substantially all of its assets to an entity not a Member of the Obligated Group other than as authorized by the various provisions set out in the Master Indenture.*

Limitations on Withdrawal from the Obligated Group and Entrance into the Obligated Group. *The Master Indenture sets forth certain requirements, including certain financial tests, which must be met for withdrawal from, or entry into, the Obligated Group.*

Compliance with Rule 15c2-12. *Packard will take such action as is necessary to assist the underwriter of the proposed bonds to comply with Securities and Exchange Commission Rule 15c2-12 ("Rule 15c2-12). Packard will contractually agree to disclose designated financial and operating information to the designated website (EMMA) during the life of the proposed bonds and to report designated "material events" as specified in Rule 15c2-12.*

Staff has completed its due diligence, and KNN has reviewed the Loan Agreement, Bond Indenture, and prior Packard offering documents associated with this financing package and found these documents and proposed covenants to be acceptable.

III. FINANCIAL STATEMENTS AND ANALYSIS:

Lucile Salter Packard Children's Hospital at Stanford
Income Statement of Operations (In Thousands)

	As of August 31,		
	2016	**2015**	**2014**
Operating Revenues:			
Net patient service revenue*	$ 1,310,951	$ 1,314,587	$ 1,072,038
Provision for doubtful accounts, net	2,433	(10,474)	(12,826)
Net patient service revenue after provision for doubtful accounts	1,313,384	1,304,113	1,059,212
Other revenue	65,089	52,360	53,848
Net assets released form restrictions used for operations	23,829	23,352	21,029
Total operating revenues	1,402,302	1,379,825	1,134,089
Operating Expenses:			
Salaries and benefits	585,503	518,780	457,251
Professional services	18,655	23,151	28,412
Supplies	113,386	97,007	86,922
Purchased services	476,459	441,783	383,179
Other	113,223	134,731	87,525
Depreciation and amortization	56,454	58,532	47,771
Total operating expenses	1,363,680	1,273,984	1,091,060
Income from operations	38,622	105,841	43,029
Interest income	2,351	2,400	1,758
Income and gains from Stanford University managed pools	9,076	30,923	94,335
Loss on extinguishment of long term debt	(1,114)	-	-
Other	(500)	(833)	-
Excess of revenues over expenses	48,435	138,331	139,122
Net assets released from restriction used for purchases of property and equipment	27	1,999	24
Transfer of net investment loss on certain endowments	(10)	-	12
Adjustment for minimum pension liability	1,385	(678)	(925)
Transfers to Stanford University and other	(15,447)	(50,382)	(14,682)
Increase in unrestricted net assets	34,390	89,270	123,551
Changes in temporarily restricted net assets			
Contributions	129,868	70,810	40,071
Income and gains from Stanford University managed pools	9,987	14,549	41,688
Change in value of beneficial interest in remainder trusts	164	(254)	212
Net assets released from restrictions for operations	(23,829)	(23,352)	(21,029)
Purchase of property and equipment	(27)	(1,999)	(24)
Transfers to Stanford University and other	(283)	(878)	(2)
Increase (decrease) in temporarily restricted net assets	115,880	58,876	60,916
Changes in permanently restricted net assets			
Contributions and other	7,669	850	663
Change in value of beneficial interest in remainder trusts	1,255	(310)	1,938
Transfer to Stanford University and other	(1,981)	523	-
Increase (decrease) in permanently restricted net assets	6,943	1,063	2,601
Increase in net assets	157,213	149,209	187,068
Net assets, beginning of year	2,039,687	1,890,478	1,703,410
Net assets, end of year	$ 2,196,900	$ 2,039,687	$ 1,890,478

***Net Patient Service Revenues for FYE August 31,**	**2016**	**2015**
Payors Source	**Percent**	**Percent**
HMO/PPO	73.8	75.3
Medi-Cal	19.9	20.6
Other**	6.3	4.1
Total	**100**	**100**

***Other primarily consists of out of state cases*

Lucile Salter Packard Children's Hospital at Stanford
Balance Sheet (In Thousands)

	As of August 31, 2016	2015	2014
Assets			
Current assets:			
Cash and cash equivalents	$ 532,900	$ 335,901	$ 174,157
Patient accounts receivable, net	268,174	271,768	231,305
Contributions receivable	32,944	8,075	8,287
Other receivables	34,060	28,344	22,084
Prepaid expenses, inventory and other	17,497	15,559	13,823
Total current assets	885,575	659,647	449,656
Investments	70,642	69,313	68,830
Investments in Stanford University managed pools	599,151	717,866	730,784
Board designated funds in Stanford University managed pools	9,214	159,789	213,111
Assets limited as to use, held by trustee	219	89,500	259,472
Property and equipment, net	1,429,316	1,078,277	867,537
Beneficial interest in trusts, net	15,048	16,079	17,028
Contributions receivable, net of current portion	82,707	22,468	5,846
Other assets	64,857	57,817	48,982
Total assets	$3,156,729	$ 2,870,756	$ 2,661,246
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities	$ 151,224	$ 108,452	$ 76,236
Accrued salaries and related benefits	62,712	65,279	57,435
Due to related parties	34,189	53,759	30,306
Third-party payor settlements	1,849	1,967	1,515
Current portion of long-term debt and capital leases	5,695	5,675	5,375
Self-insurance reserves and other liabilities	8,612	7,924	7,524
Total current liabilities	264,281	243,056	178,391
Self-insurance reserves and other liabilities, net of current portion	32,837	34,002	31,578
Long-term debt and capital leases, net current portion	662,711	554,011	560,799
Total liabilities	959,829	831,069	770,768
Net assets:			
Unrestricted	1,411,433	1,377,043	1,287,773
Temporarily restricted	574,119	458,239	399,363
Permanently restricted	211,348	204,405	203,342
Total net assets	2,196,900	2,039,687	1,890,478
Total liabilities and net assets	$3,156,729	$ 2,870,756	$ 2,661,246

Financial Ratios:	**Proforma [a] FYE August 31, 2016**	2016	2015	2014
Debt Service Coverage - Operating (x) [b]	4.59	5.80	5.55	3.11
Debt Service Coverage - Net (x) [b]	4.89	6.18	7.12	3.60
Total Debt to Net Assets (x)	0.39	0.30	0.27	0.30
Margin (%)		2.75	7.67	3.79
Current Ratio (x)		3.35	2.71	2.52

[a] Recalculate FY 2016 audited results to include the impact of this proposed financing.

[b] Debt service coverage ratios were calculated using Maximum Annual Debt Service on Long-Term Indebtedness.

Financial Discussion – Statement of Activities (Income Statement)

Packard's income statement appears to exhibit positive operating results during the review period from FY 2014 to FY 2016.

Packard's total revenue increased by 24% from approximately $1.1 billion in FY 2014 to approximately $1.4 billion in FY 2016 driven by an increase in net patient services revenue, which also grew by 24% from approximately $1 billion in FY 2014 to approximately $1.3 billion in FY 2016. According to Packard, the increase in net patient revenue over the review period is mainly due to the complexity of the services provided and increased commercial managed care contract rates. In alignment with total revenue, total operating expenses increased by 25% from approximately $1.1 billion in FY 2014 to approximately $1.4 billion in FY 2016. The increase in total operating expenses was driven by an increase in patient volume and acuity, the need to support hospital expansion, wage increases as a result of a new union contract for CRONA nurses and higher provider fee expenses which is reflected over the review period in the increase in total salaries and benefits, supplies, purchased services and other.

Particular Facts to Note:

- In FY 2016, Packard experienced a loss of $1.1 million on the extinguishment of long term debt which, according to Packard management, was a result of the legal defeasance of the 2008 bonds.

- Investment income is mainly from realized and unrealized gains on the investments in Stanford University ("University") managed pools.[2] Income and gains from University managed pools under operating expenses decreased from approximately $94.3 million in FY 2014 to $9 million in FY 2016 and under temporarily restricted net assets, income and gains from University managed pools decreased from $41.7 million in FY 2014 to $10 million in FY 2016. The University managed pool is a diversified portfolio of actively managed public and private equity, absolute return, natural resources and real estate assets. The portfolio is designed to optimize long-term returns and create consistent payouts to support Packard's operations. These decreases were a result of the return on invested assets as well as planned withdrawals from the University managed pool investments to fund the ongoing construction costs.

- Temporarily restricted contributions increased from approximately $40 million in FY 2014 to $129.9 million in FY 2016 and permanently restricted contributions and other increased from approximately $663,000 in FY 2014 to $7.7 million in FY 2016. According to Packard management, this increase was mainly a result of a $100 million pledge from the David and Lucile Packard Foundation.

[2] Packard, located on the Stanford campus, is a pediatric and obstetric teaching hospital of Stanford University's school of medicine, Stanford Medicine. Investments of Packard are managed by the Stanford Management Company, the investment management division of Stanford University.

Financial Discussion – Statement of Financial Position (Balance Sheet)

Packard appears to have a solid financial position with a proforma operating debt service coverage ratio of 4.59x.

Over the review period, Packard's balance sheet grew with total net assets increasing from approximately $1.9 billion in FY 2014 to $2.2 billion in FY 2016, an increase of approximately 16%. Packard attributes the increase to a combination of increased cash generated from operations, strong fundraising results, and an investment of generated operating funds in property and equipment.

The operating debt service coverage ratio appears to be a solid 5.80x, and with the proposed financing, the proforma operating debt service coverage ratio continues to be solid at 4.59x.

Particular Facts to Note:

- According to Packard's management, cash and cash equivalent increased significantly from approximately $174.2 million in FY 2014 to $532.9 million in FY 2016 due to 2016 bond financing and planned withdrawals from the University managed pool investments to fund the ongoing construction costs.

- Contributions receivables significantly increased from approximately $8.3 million in FY 2014 to approximately $32.9 million in FY 2016 mainly due to the $100 million pledge from the David and Lucile Packard Foundation.

- Total liabilities have increased from approximately $771 million in FY 2014 to approximately $960 million in FY 2016, primarily due to the Series A and B Bonds that were issued in March 2016, and an increase in construction-related invoices for the expansion.

IV. DUE DILIGENCE:

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

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

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

  Packard is committed to advocacy, outreach, education and research to improve the health status of children and pregnant women. Packard continually reaffirms its commitment to community by developing innovative programs to enhance its own and the community's capacity to care for children and pregnant women. Packard's community health improvements initiatives for this last year have focused on improving access to primary health care services for children, teens and pregnant women, prevent and treat pediatric obesity, and improve the social, emotional and mental health of children and youth. Packard also provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The amounts determined to qualify as charity care are not reported as net patient service revenue. Packard also provides services to patients under Medi-Cal and other publicly sponsored programs, which reimburse at amounts less than the cost of the services provided to the recipients. Such amounts are considered community benefits. Packard's 2016 community benefits investment for services and activities to improve the health status of infants, children, adolescents and pregnant women was approximately $206 million which includes Medi-Cal shortfall of more than $185 million.

  http://www.stanfordchildrens.org/content-public/pdf/community-benefit-report-2016.pdf

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

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

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

- **Iran Contracting Act Certificate:** Packard and the underwriter properly submitted the certificate to the Authority.

EXHIBIT 1

FINANCING TEAM

Borrower:	Lucile Salter Packard Children’s Hospital at Stanford
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:	Ropes & Gray LLP
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP
Underwriter:	Morgan Stanley & Co., LLC
Underwriter’s Counsel:	Norton Rose Fulbright US LLP
Trustee:	Wells Fargo Bank, N.A.
Trustee’s Counsel:	Wells Fargo Bank, N.A.
Auditor:	Pricewaterhouse Coopers, LLP
Rating Agencies:	Moody’s Investors Service, Inc. Standard & Poor’s Financial Services, LLC Fitch Ratings, Inc.

EXHIBIT 2

UTILIZATION STATISTICS

Lucile Salter Packard Children's Hospital at Stanford

The table below presents selected statistical indicators of patient activity for Packard for each of the three fiscal years ended August 31, 2016, 2015 and 2014.

	Fiscal Year Ended August 31,		
	2016	**2015**	**2014**
Licensed/ Staffed Beds	302	302	302
Discharges	13,146	13,233	12,934
Patient Days	83,115	85,340	81,804
Average Length of Stay	6.3	6.4	6.3
Discharges - OB	4,880	4,774	4,685
Patient Days - OB	16,290	16,001	15,067
Average Length of Stay - OB	3.3	3.4	3.2
Discharges - Pediatric	8,266	8,459	8,249
Patient Days - Pediatric	66,825	69,339	66,737
Average Length of Stay - Pediatric	8.1	8.2	8.1
Average Daily Census	227.1	233.8	224.1
Percent Occupancy	75.2%	77.4%	74.2%
Pediatric CMI	2.10	2.10	2.06
Inpatient Surgical Procedures	3,519	3,724	3,380
Outpatient Surgical Procedures	4,417	4,455	4,134
Clinic Visits(1)	250,862	231,182	198,389

(1) Includes Pediatrics and Obstetrics Faculty Practice Organization clinic visits only.

Source: Lucile Salter Packard Children's Hospital at Stanford records.

EXHIBIT 3

OUTSTANDING DEBT

Date Issued	Original Amount	Amount Outstanding As of August 31, 2016	Estimated Amount Outstanding after Proposed Financing
- EXISTING LONG-TERM DEBT:			
Authority Debt:			
Lucile Salter Packard Children's Hospital, 2012 Series A	$200,000,000	$200,000,000	$200,000,000
Lucile Salter Packard Children's Hospital, 2012 Series B	51,045,000	42,195,000	42,195,000
Lucile Salter Packard Children's Hospital, 2014 Series A	100,000,000	100,000,000	100,000,000
Lucile Salter Packard Children's Hospital, 2014 Series B	100,000,000	100,000,000	100,000,000
Lucile Salter Packard Children's Hospital, 2016 Series A	76,975,000	73,675,000	73,675,000
Lucile Salter Packard Children's Hospital, 2016 Series B	100,000,000	100,000,000	100,000,000
- PROPOSED NEW DEBT:			
CHFFA Series 2017			**200,000,000**
- TOTAL DEBT		**$615,870,000**	**$815,870,000**

EXHIBIT 4

BACKGROUND AND LICENSURE

Background

Lucile Salter Packard Children's Hospital at Stanford ("Packard") is a 302-bed, not-for-profit hospital located in Palo Alto, California. It owns and operates a licensed acute care pediatric and obstetric hospital on the Leland Stanford Junior University campus in Palo Alto and operates several inpatient care units on its license in nearby community hospitals. Packard also operates outpatient physician clinics in its facilities and other community settings. Packard is a regional, national and international referral center for tertiary and quaternary pediatric care and is the largest single provider of pediatric hospital services in San Mateo and Santa Clara counties and of obstetric hospital services in San Mateo County.

Packard traces its roots to the Stanford Home for Convalescent Children, which was officially established in 1919. By 1970, the convalescent home moved to larger quarters and changed its name to Children's Hospital at Stanford. In 1986, David and Lucile Packard donated $40 million for the construction of a new children's hospital, and in 1988, groundbreaking began. The facility opened in 1991. In 1997, Packard added perinatal, labor, and delivery services to its license, creating the only children's hospital in California that serves both pregnant women and children. Packard and Stanford Health Care are the primary clinical affiliates of the Stanford University School of Medicine. Packard is a free-standing hospital with a separate license and provider number.

Licensure and Memberships

Packard is appropriately licensed as an acute care hospital by the California Department of Public Health Services to the extent required and is certified to participate in the Medicare and Medi-Cal programs. Packard received its most recent three year accreditation from the Joint Commission in January 2016, which is effective through November 2019.

Packard is a member of the Children's Hospital Association, the California Children's Hospital Association, the California Healthcare Association, the Hospital Council of Northern and Central California (Santa Clara County Division), the National Association of Children's Hospitals and Related Institutions and the American Hospital Association.

RESOLUTION NO. 429

**RESOLUTION OF THE
CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
AUTHORIZING THE ISSUANCE OF REVENUE BONDS
TO FINANCE PROJECTS
AT THE HEALTH FACILITIES OF
LUCILE SALTER PACKARD CHILDREN'S HOSPITAL AT STANFORD**

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;

WHEREAS, Lucile Salter Packard Children's Hospital at Stanford is a nonprofit public benefit 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;

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 $200,000,000, and make one or more loans of the proceeds thereof to the Borrower (i) to reimburse and finance costs of the construction, expansion, remodeling, renovation, furnishing, equipping and acquiring health facilities, as more particularly described in Exhibit A hereto (the "Project") and (ii) at the sole option of the Borrower, pay costs of issuance of such revenue bonds;

WHEREAS, to the extent required by subdivision (b) of Section 15455 of the California Government Code, the Borrower has provided documentation to the Authority demonstrating, to the extent applicable, that the Project has complied with Division 13 (commencing with Section 21000) of the California 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 (Lucile Salter Packard Children's Hospital at Stanford), 2017 Series A (the "Bonds"), in a total aggregate principal amount not to exceed $200,000,000, are hereby authorized to be issued from time to time, in one or more series, with such other name or names of the Bonds or series thereof as designated in the indenture pursuant to which the Bonds will be issued. The proceeds of the Bonds shall be used for either 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 the adoption 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 hereof) and in such series, at such prices (so long the discount on the Bonds sold shall not exceed six percent (6%) 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 investment grade by an active nationally recognized rating agency. The Bonds or any series them may, at the sole option of the Borrower, be secured by deeds of trust, a reserve fund, bond insurance, a credit facility and other security arrangements and/or supported by one or more liquidity facilities.

Section 3. The proposed forms of the following documents:

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

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

(iii) a Bond Purchase Contract, including the exhibits thereto, relating to the Bonds (the "Purchase Contract"), among Morgan Stanley & Co., LLC (the "Underwriter"), the Treasurer and the Authority, and approved by the Borrower, and

(iv) a preliminary official statement relating to the Bonds (the "Preliminary Official Statement"),

are hereby approved in substantially the forms on file with the Authority prior to this meeting, with such insertions, deletions or changes therein (including, without limitation, insertions, deletions or changes therein appropriate to reflect provisions relating to a deed of trust, a bond reserve fund, bond insurance, any other credit and/or liquidity facility and/or another security arrangement, at the sole option of the Borrower, for any series of Bonds) 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 in the case of the Loan Agreement, the Indenture and the Purchase Contract and by delivery thereof in the case of the Preliminary Official Statement. The Executive Director shall seek the advice of bond counsel and counsel to the Authority with respect to any such insertions, deletions or changes therein.

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

Section 5. The dated dates, maturity dates (not exceeding 40 years from the respective dates of issue), interest rates, interest payment dates, denominations, forms, registration privileges or requirements, place or places of payment, terms of tender or purchase, terms of redemption, provisions governing transfer, and other terms of the Bonds, including provisions for a credit facility and/or a liquidity facility from time to time, shall be as provided in the Indenture, as finally executed.

Section 6. The Underwriter is hereby authorized and directed to distribute a Preliminary Official Statement for the Bonds to persons who may be interested in the purchase of such Bonds offered in such issuance, it being understood that, at the discretion of the Underwriter (in consultation with the Borrower), a preliminary official statement may not be required to be used with respect to any series of Bonds. The Underwriter is hereby directed to deliver a final official statement (the "Official Statement") to all actual purchasers of such Bonds.

Section 7. The Bonds, when executed, shall be delivered to the Trustee for authentication by the Trustee. The Trustee is hereby requested and directed to authenticate the Bonds by executing the Trustee's Certificate of Authentication appearing thereon, and to deliver the Bonds, when duly executed and authenticated, to or upon the 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 Indenture, the Loan Agreement, the Purchase Contract and the Official Statement. The Authority hereby approves any and all documents to be delivered in furtherance of the foregoing purposes, including without limitation: (a) a tax certificate and agreement and other certifications; and (b) any agreement or commitment letter with respect to the provisions of bond insurance, a letter of credit, a surety bond, a credit facility and/or a liquidity facility for the Bonds.

Section 9. The provisions of the Authority's Resolution No. 2017-01 apply to the documents and actions approved in this Resolution. The Acting Executive Director is hereby delegated the same authority as the Executive Director under the Authority's Resolution No. 2017-01.

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

Proceeds of the California Health Facilities Financing Authority Revenue Bonds (Lucile Salter Packard Children's Hospital at Stanford), 2017 Series A will be applied by the Borrower to finance or reimburse itself for its prior payment of a portion of the costs of the expansion of the health care facilities described below and may also be applied to finance costs of the acquisition, renovation and equipping of related health care facilities located at 777 Welch Road, Palo Alto, California 94304 and the renovation and equipping of the Borrower's existing hospital facilities located at 725 Welch Road, Palo Alto, California 94304.

The expansion is being constructed in Palo Alto, California in the area bounded by Welch Road and Quarry Road adjacent to the Corporation's existing hospital facilities, located at 725 Welch Road, Palo Alto, California 94304, including 780 Quarry Road, Palo Alto, California 94304, which is the address assigned to the hospital loading dock. Upon completion, the expansion will increase the size of the existing hospital facilities by approximately 521,000 square feet.

The expansion includes construction, including the construction of two five-story towers, each of which will house amenity and ancillary support services at the ground and first levels and patient beds on levels two through five, equipment, furnishings and land improvements. Ancillary support services to be provided in the expansion include diagnostic, surgery and imaging departments, comprised of six new surgical suites, including a neuro hybrid surgery suite, three new imaging units, four diagnostic units, including a cardiac hybrid angiography suite, and a nuclear medicine department.