CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

# BOND

# &

# TAX-EXEMPT EQUIPMENT

# FINANCING PROGRAMS

## 2021 ANNUAL REPORT

# BOND & TAX-EXEMPT EQUIPMENT FINANCING PROGRAMS

## 2021 ANNUAL REPORT

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# Overview

The California Health Facilities Financing Authority (CHFFA) offers various financing programs that provide financial assistance for California's public and nonprofit health facilities, two of which are the Bond Financing Program and the Tax-Exempt Equipment Financing Program. The different financing programs allow borrowers the ability to determine which type of financing best fits the needs of the health care institution, depending on the specific use of proceeds.

### Bond Financing Program

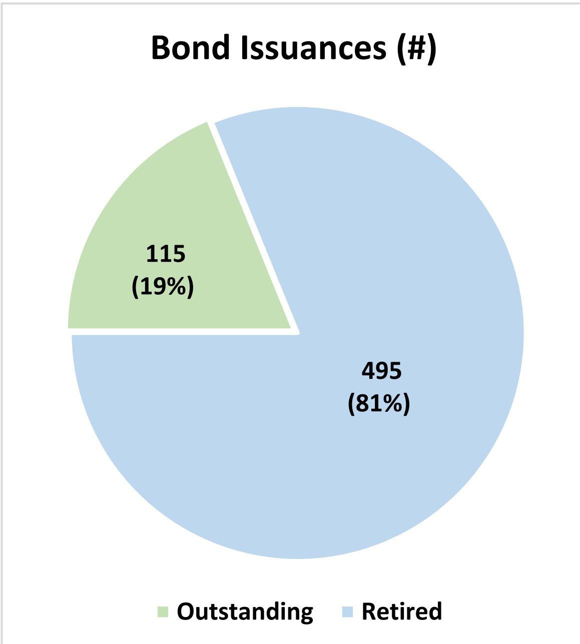
The Bond Financing Program provides eligible health facilities with access to low interest rate capital markets through the issuance of tax-exempt and taxable revenue bonds. Bond proceeds may be used to fund construction/renovation projects, for land acquisition for future projects, to acquire existing health facilities, to refinance existing debt, for working capital for start-up facilities and to pay costs of issuance.

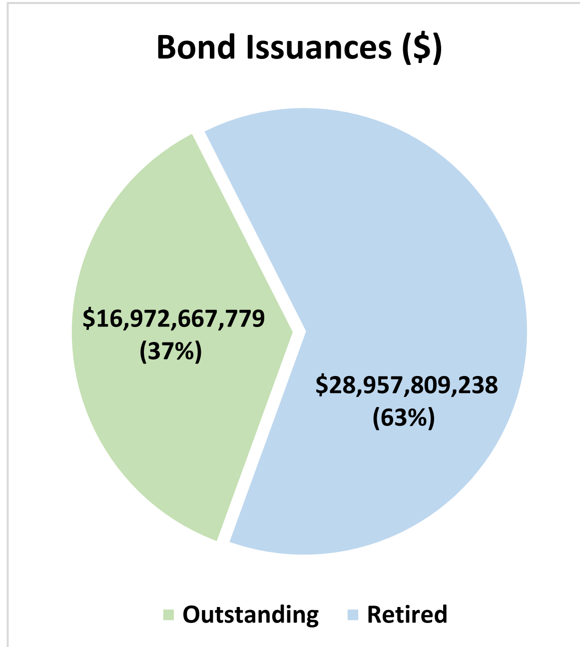
### Tax-Exempt Equipment Financing Program

The Tax-Exempt Equipment Financing Program provides eligible health facilities with access to tax-exempt, fixed rate financing for equipment purchases. Funds may be used to purchase or reimburse all types of qualifying equipment, including but not limited to, medical and diagnostic equipment, computer hardware and software, telecommunication equipment and minor equipment installation costs.

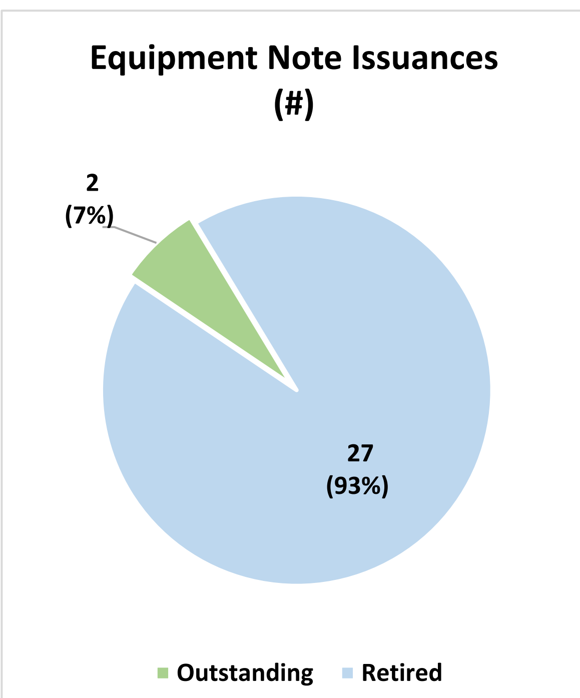
# Portfolio

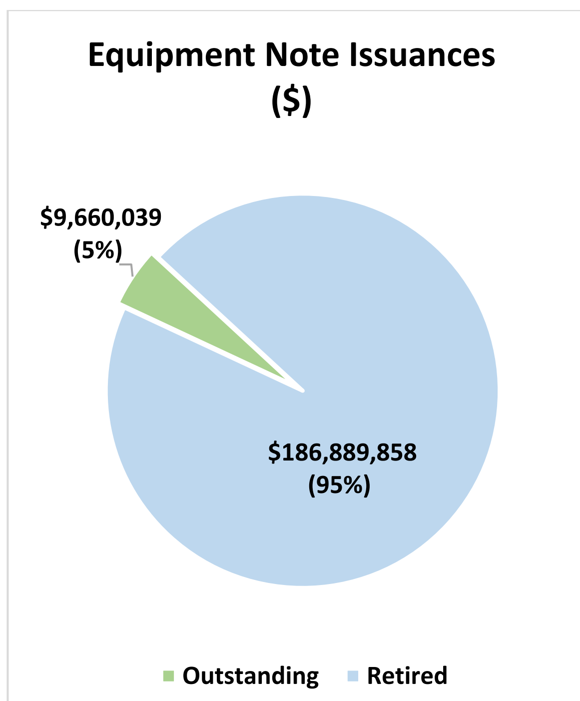
Since its first bond issuance in 1981, CHFFA has issued 610 bonds for an aggregate total of approximately $45.9 billion. As of December 31, 2021, CHFFA has 115 outstanding bond issuances totaling approximately $17 billion.



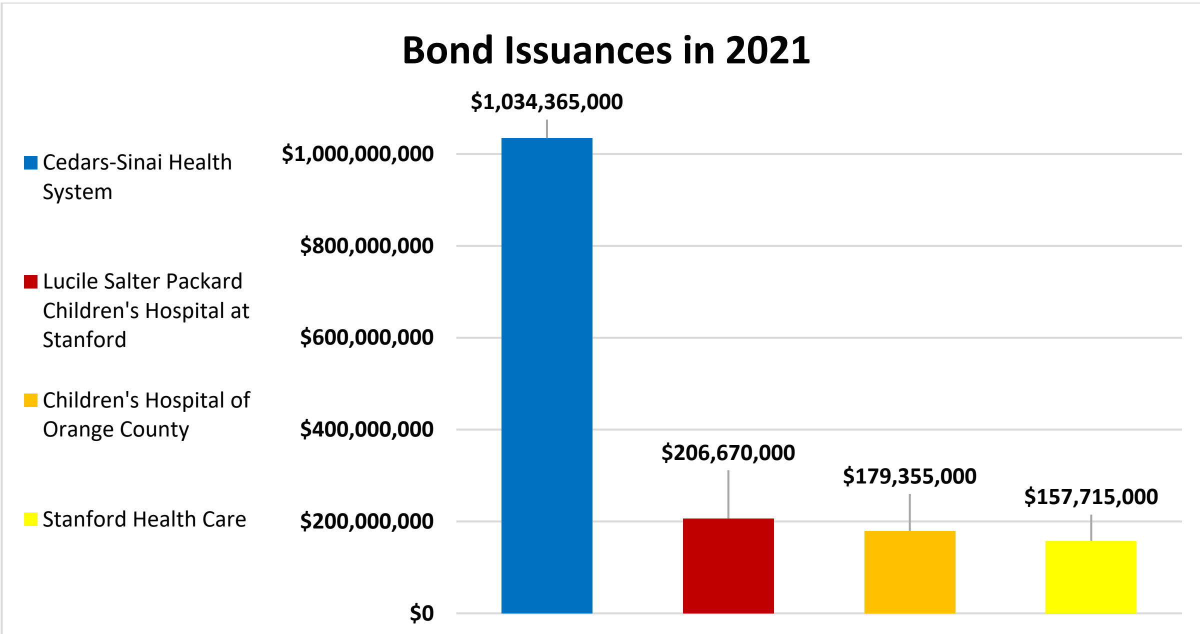

Since its first note issuance in 1994, CHFFA has issued 29 tax-exempt equipment notes for an overall total of approximately $196.5 million. As of December 31, 2021, CHFFA had two outstanding tax-exempt equipment notes in the approximate amount of $9.7 million.

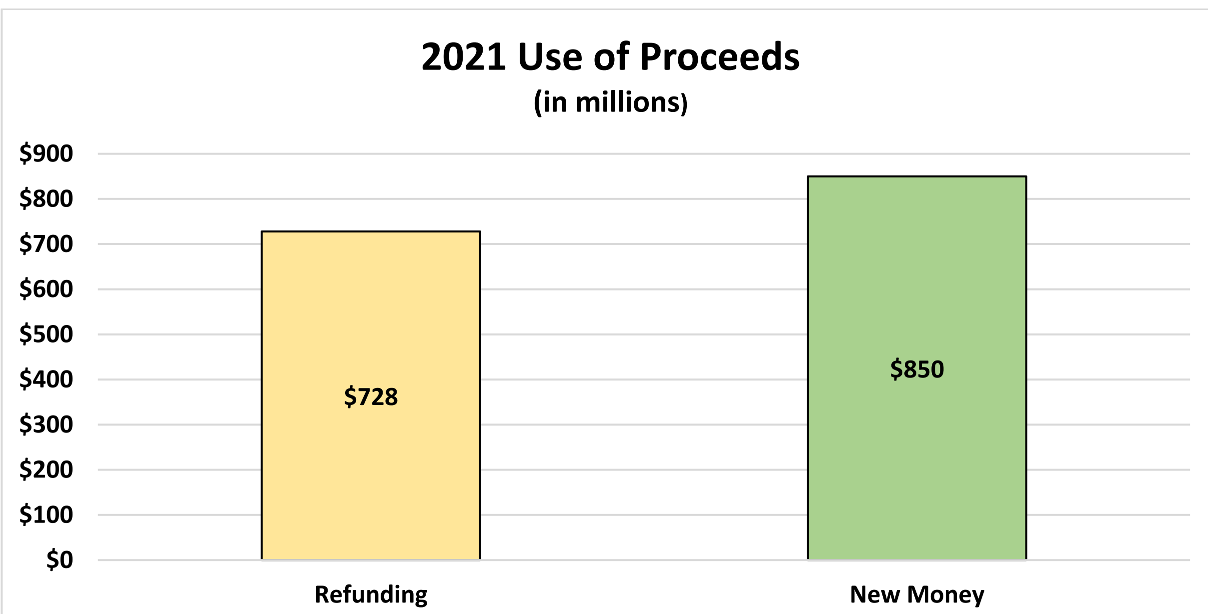


# Summary of Calendar Year 2021 Financings

In 2021, CHFFA authorized four bond financings and zero equipment note financings for four California health facilities, which resulted in a total issuance of $1,578,105,000. The following provides a summary of CHFFA's bond issues that closed in 2021.



# *Cedars-Sinai Health System*
# *2021 Series A*

**Amount Issued: $1,034,365,000**

**Borrower Profile:**

Cedars-Sinai Health System (Cedars-Sinai), a California nonprofit public benefit corporation, began in 1902 as a 12-bed hospital in Angelino Heights. In 1961, Cedars-Sinai was created from the merger of Cedars of Lebanon and Mount Sinai Hospitals. As one of the largest nonprofit hospitals in the western United States, Cedars-Sinai has combined expertise in technology, research, and the provision of patient care to create a standard of excellence in healthcare. Today, Cedars-Sinai serves over one million people each year at over 40 locations with a team of more than 4,700 physicians and nurses and 1,500 active research projects.

**Project Description:**

Cedars-Sinai was approved to use bond proceeds to fund the construction of the Cedars-Sinai Marina Del Rey replacement hospital, as well as to fund improvements at Cedars-Sinai Medical Center. In addition, Cedars-Sinai was approved to refund various outstanding bonds to take advantage of the low borrowing rates in the market, as well as to simplify its capital structure by replacing variable rate debt and direct purchase obligations with public fixed-rate debt.


**Rendering of Cedars-Sinai's Marina Del Rey Replacement Hospital—Photo Courtesy of Cedars-Sinai Health System**

# *Lucile Salter Packard Children's Hospital at Stanford 2022 Series A (Forward Delivery)*

**Amount Issued: $206,670,000**

## Borrower Profile:

Lucile Salter Packard Children's Hospital at Stanford (Packard) is a not-for-profit pediatric and obstetric hospital located in Palo Alto, California. It currently maintains a total of 397 licensed acute care beds, 361 of which are located at the Leland Stanford Junior University campus and 36 that are located at two satellite facilities. 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.

## Project Description:

Packard was approved to use bond proceeds to refund all or a portion of its CHFFA Series 2012 and 2014 bonds. The 2012 and 2014 bonds were originally used to fund an extensive multiphase capital expansion and renovation project and finance the renovation and equipping of existing hospital facilities. In addition to the bond financing, the project received $98 million in grant funding through the Children's Hospital Program of 2008.

**Rendering of Packard's Headquarters on its Main Campus in Palo Alto—Photo Courtesy of Lucile Salter Packard Children's Hospital at Stanford**

# *Children's Hospital of Orange County*
# *2021 Series A&B*

**Amount Issued: $179,355,000**

**Borrower Profile:**

Children's Hospital of Orange County (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.

**Project Description:**

CHOC was approved to use bond proceeds to refund all or a portion of its CHFFA 2009 Series BCD and 2011 Series A bonds. The 2009BCD bonds were originally issued to finance and refinance CHOC's South Tower Project located on its main campus, which included the construction of a 425,000 square-foot, seven-story building that encompasses an emergency room used to provide surgical services, radiological imaging services, and laboratory services. Additionally, bond proceeds were used to refund older debt, which also originally financed expenditures and renovations at CHOC's main campus.

# *Stanford Health Care*
# *2021 Series A*

**Amount Issued: $157,715,000**

**Borrower Profile:**

Established in 1958, Stanford Health Care (SHC) operates a licensed acute care hospital and a cancer center in Palo Alto, an outpatient center in Redwood City, and clinics located on the Stanford University campus and in neighboring communities. SHC is a principal teaching affiliate of the Stanford University School of Medicine and provides primary and specialty health services to adults, including cardiac care, cancer treatment, solid organ transplantation services, orthopedics, and neuroscience services.

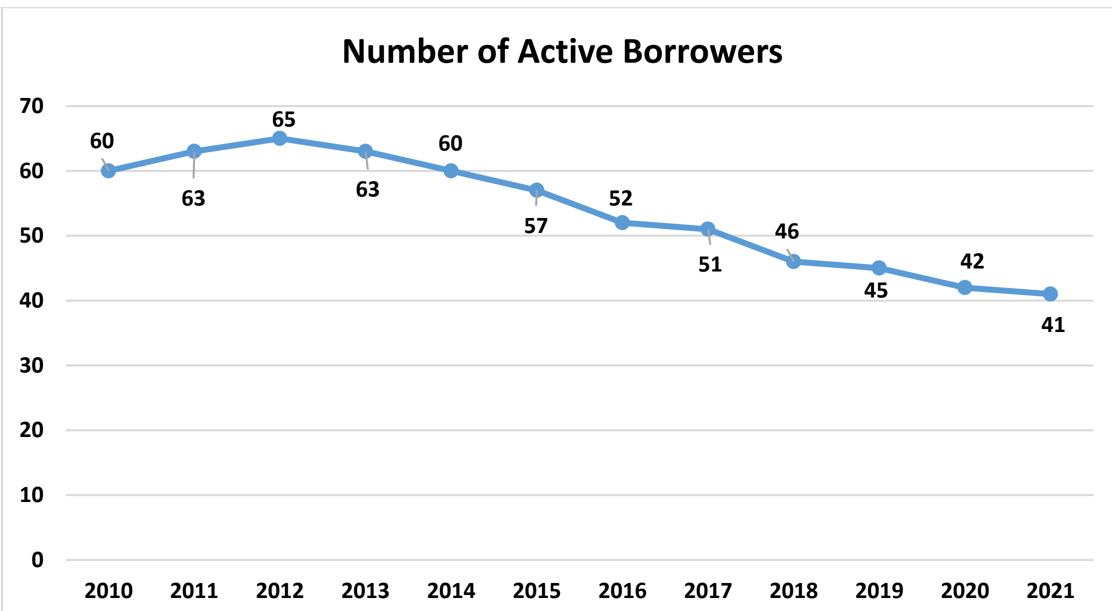
**Project Description:**

SHC issued tax-exempt bonds to reimburse the costs of various expenditures incurred from the new Stanford Hospital project, which officially opened its doors in November 2019. Formation of the new hospital began in 2012 and cost approximately $2.1 billion to complete over the life of the project. The finished hospital is an 824,000-square-foot facility that accommodates 368 all-private patient rooms, 28 flexible surgical and interventional operating rooms, a 40,000-square-foot imaging department, and a 39,000-square-foot emergency department.

**Aerial Photo of the New Stanford Hospital—Photo Courtesy of Stanford Health Care**

# Program Analysis

From 2010 through 2021, CHFFA has experienced a steady decline in the number of active borrowers. One possible explanation for the downward trend may be that some borrowers have merged to become a single larger unit. Another possible explanation may also be due to a decreasing spread between tax-exempt and taxable interest rates, which negates the benefit of tax-exempt financing and leads to borrowers issuing their own corporate taxable bonds. In 2021 alone, CHFFA borrowers issued approximately $3.3 billion in corporate taxable bonds on their own behalf rather than using tax-exempt conduit financing. Lastly, another possible explanation of the decline in active borrowers appears to be that borrowers are financing smaller issuances through a Joint Powers Authority (JPA). In 2021, JPAs issued 14 bonds at less than $50 million per issuance. In contrast, CHFFA's smallest issuance in 2021 was approximately $158 million. In 2021, JPAs issued a total of 18 bonds for approximately $1.1 billion in bond proceeds, compared to CHFFA's four bonds for approximately $1.6 billion.



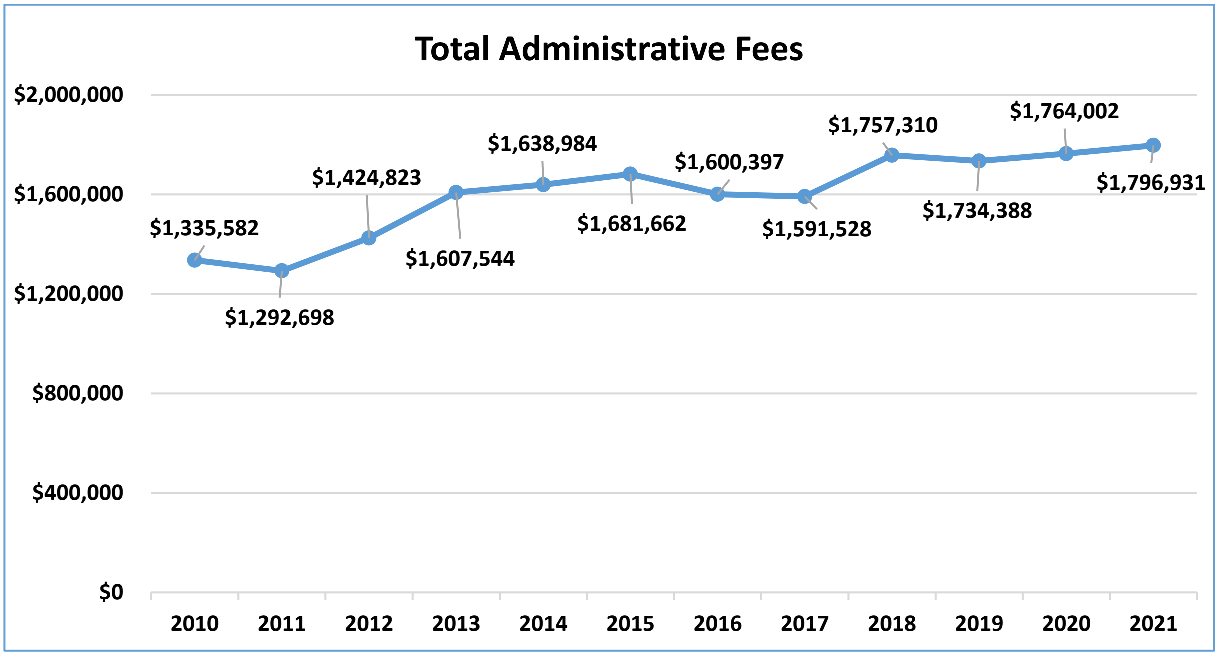
The two charts below display the various fees charged for the Bond Financing Program and the Tax-Exempt Equipment Financing Program.

## Bond Financing Program Fee Schedule

| | Private Health Facility with annual gross revenues of $2.5 million or greater | Private Health Facility with annual gross revenues of less than $2.5 million | Public Health Facility (City, County or District) |
|---|---|---|---|
| **Application Fee** | $0 | $0 | $0 |
| **Initial Fee** | 0.05% of aggregate amount of issue, up to a maximum of $100,000 | $1,000 | $1,000 |
| **Annual Administrative Fee** | 0.0175% of bonds outstanding (max. fee of $150,000) | The lesser of 0.0175% of bonds outstanding or $500 | The lesser of 0.0175% of bonds outstanding or $500 |

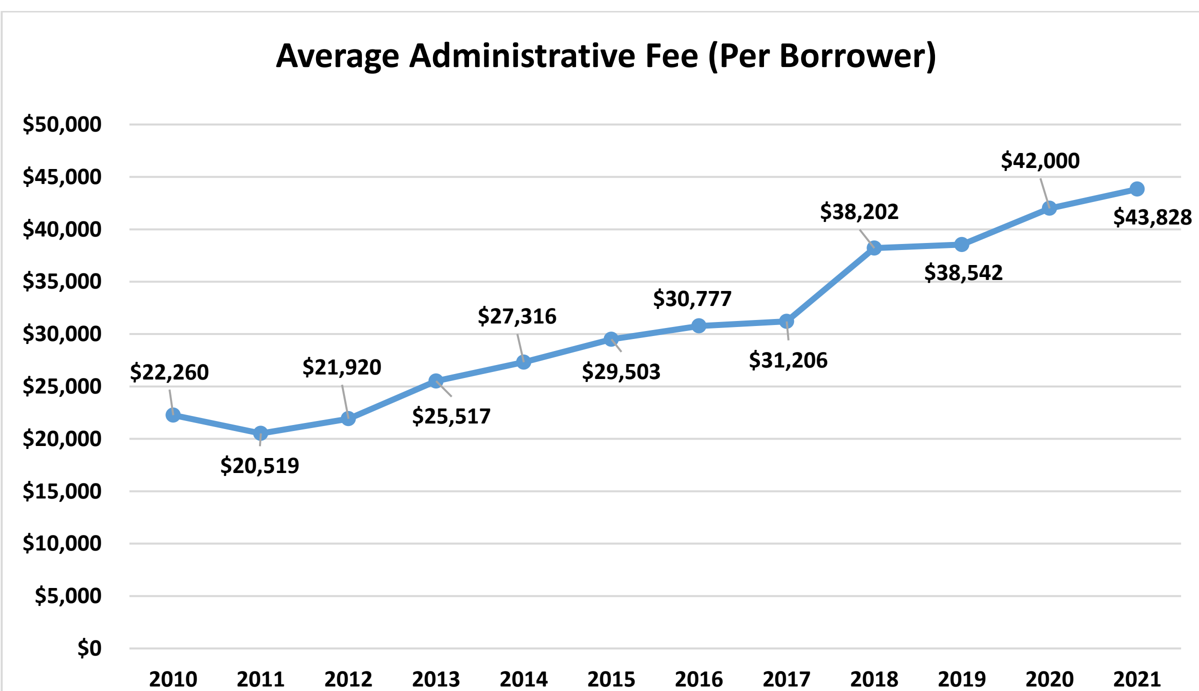
## Tax-Exempt Equipment Financing Program Fee Schedule

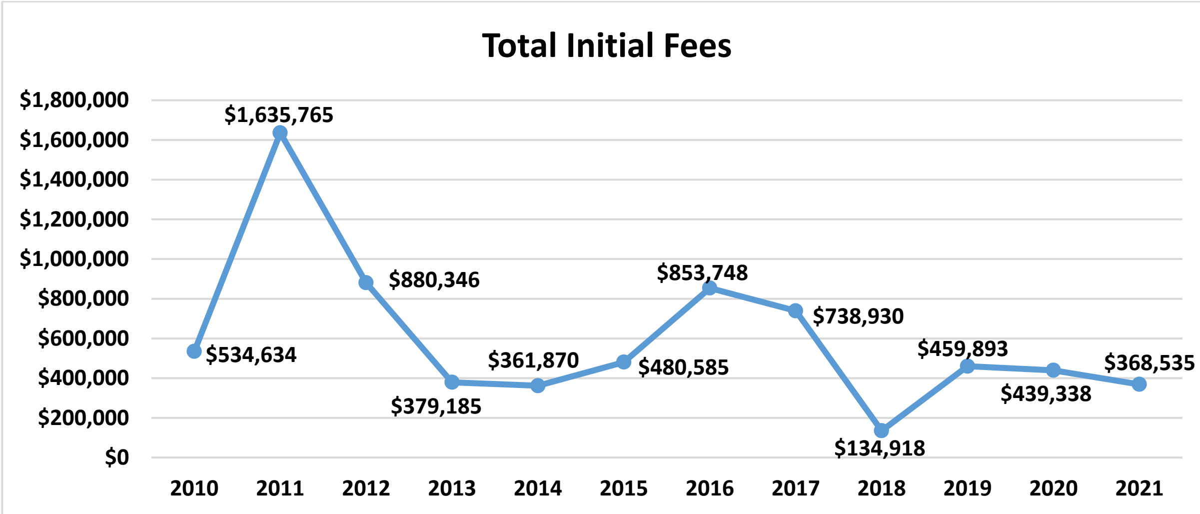
| | |
|---|---|
| **Application Fee** | $500 |
| **Initial Fee** | 0.05% of aggregate amount of issue |
| **Annual Administrative Fee** | $400 annually, as long as there is an outstanding loan balance |




On an annual basis, CHFFA collects administrative fees from borrowers with CHFFA bonds outstanding. In 2012, in order to remain competitive with JPAs, the administrative fee structure was changed from 0.02% to 0.0175% of the par amount outstanding, with a maximum fee of $150,000 annually.

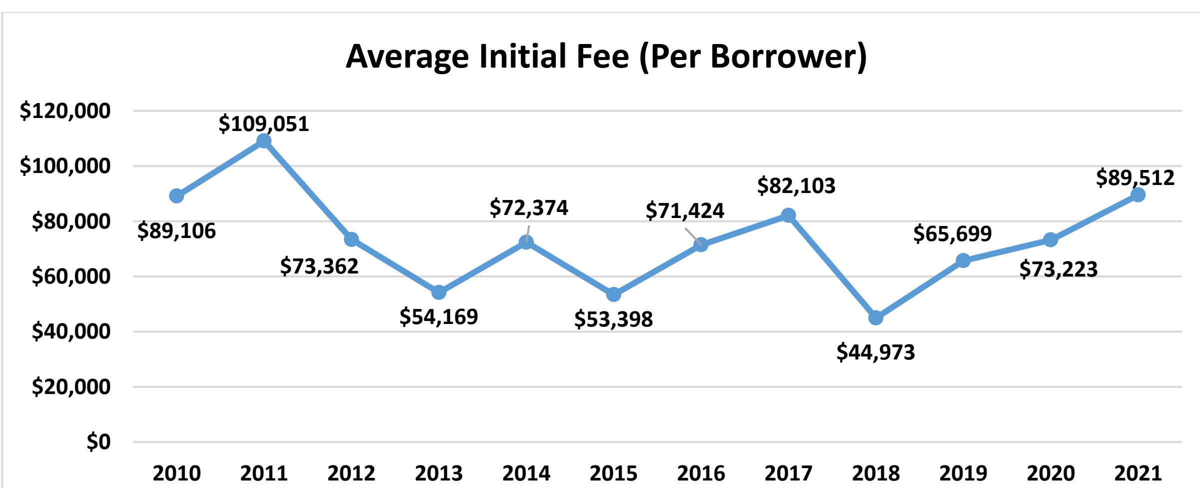
Although the number of active borrowers is trending downward, the amount CHFFA collects in annual administrative fees has steadily grown as the outstanding amount of bond proceeds continues to increase year-over-year. Likewise, the average annual fee per borrower has continued to increase, as fewer borrowers issued larger par amounts of bonds.






CHFFA also collects an initial fee for each bond issuance at the time of bond closing. Similar to the change in administrative fees, the fee structure was changed in 2012 from 0.075% of the par amount issued with a maximum fee of $300,000 to 0.05% with a maximum of $100,000. The effect of the maximum fee change is particularly evident in 2012, where the total fees collected were nearly half that of 2011, while only about $400 million less in bonds were issued during that year. Since changing the fee structure, CHFFA has averaged about $510,000 per year in initial fees.

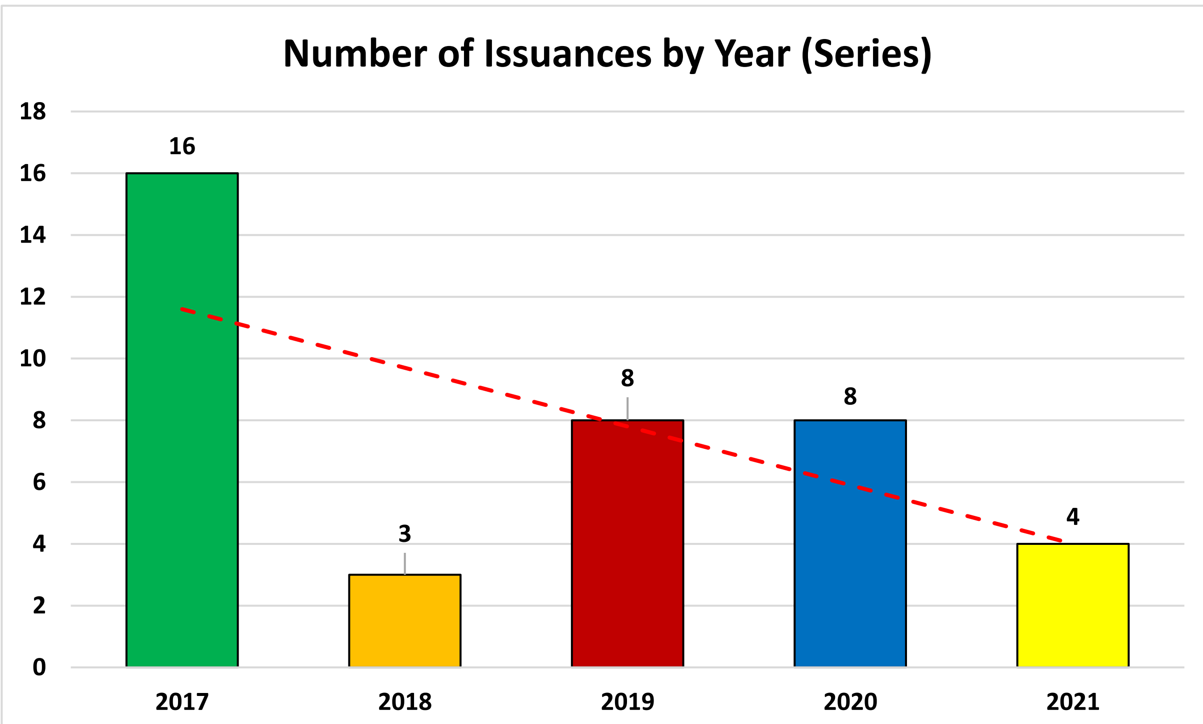
Because the total amount that CHFFA collects in initial fees is dependent on both the dollar amount and quantity of bonds issued in a given year, the amount of initial fees received is expected to be lower in years when fewer bonds are issued and higher in years when a larger number of bonds are issued. Correspondingly, the total initial fees collected has fluctuated year over year, as total amounts issued have varied. Although the par amount issued between calendar years 2019 – 2021 was relatively similar for each year, the total initial fees decreased by approximately 25%, primarily due to a bond that was issued in 2021 for just over $1 billion and charged only the maximum initial fee of $100,000. Although displaying a similar fluctuating pattern over the years, the average initial fee per borrower has trended significantly upwards from 2018 to 2021, with 2021 reaching the largest amount since 2011.



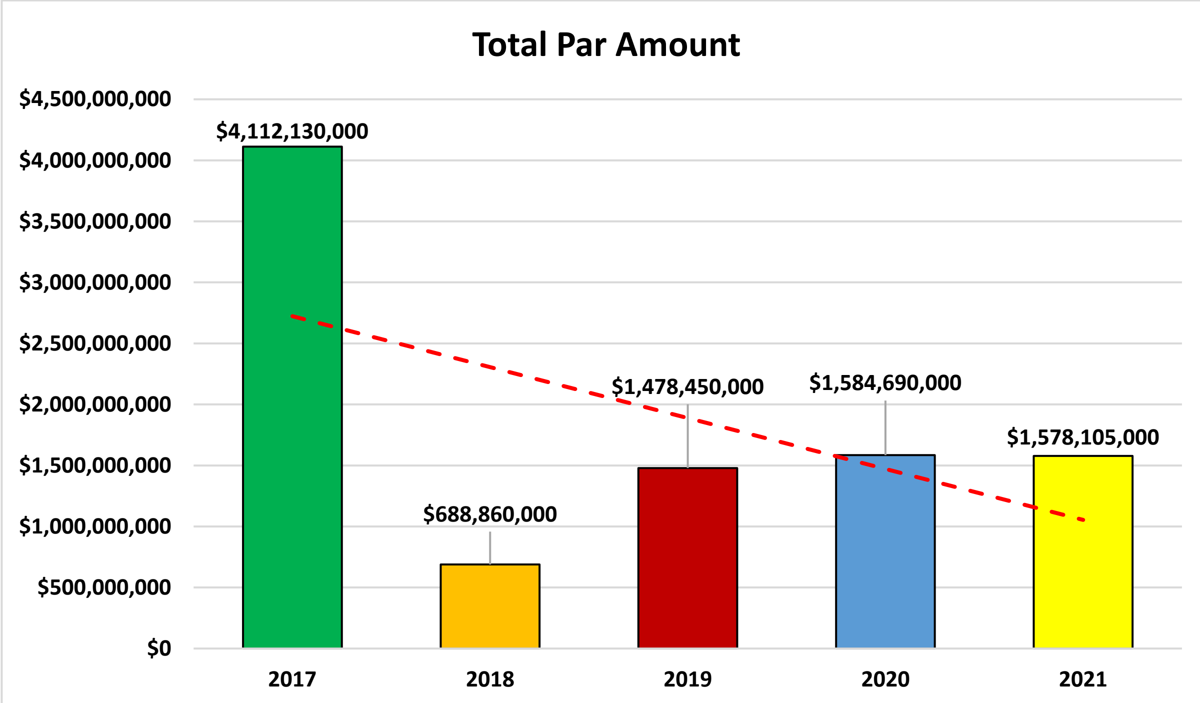
# Five-Year Trends

Although the number of bond issuances during calendar year 2021 was half of what was issued in calendar years 2019 and 2020, the total amount of bond proceeds issued did not appear to be significantly impacted.

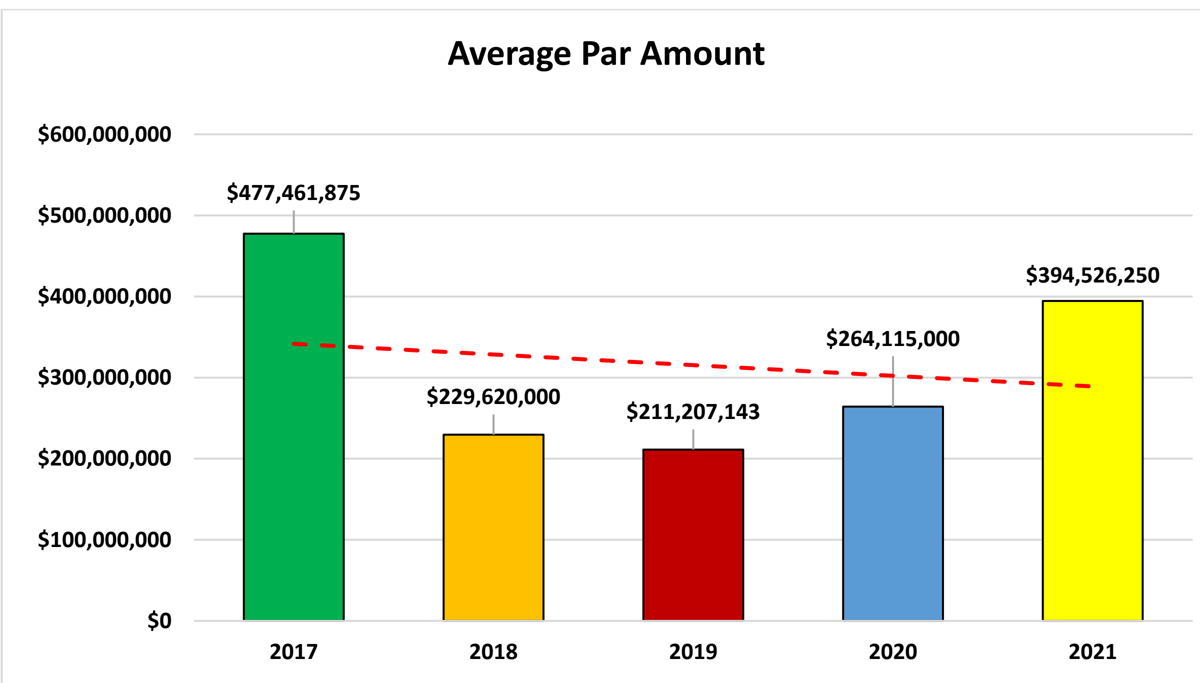
In December 2017, the Tax Cuts and Jobs Act (TCJA) was signed into law, which included a provision that eliminated the use of tax-exempt financing to advance refund private activity bonds. This elimination had a considerable impact on the number of bonds and dollar amounts issued through CHFFA, as well as on how the bond proceeds were used beginning in 2018 and is illustrated in these charts.



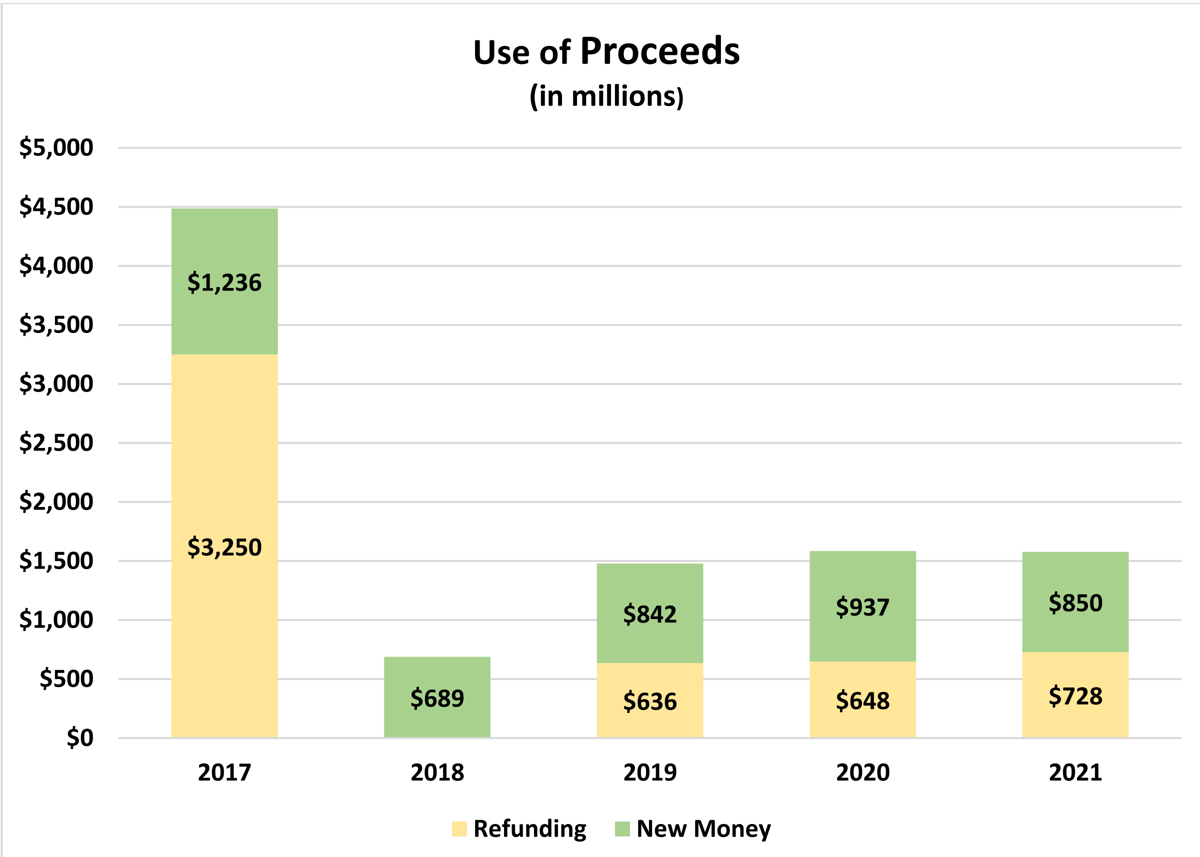

Although the number of annual bond issuances experienced a significant drop from 16 in 2017 to three in 2018, CHFFA rebounded to issue eight bonds each in 2019 and 2020 before issuing four bonds in 2021. The dollar amount of bond issuances, as shown in the following chart, shows a similar pattern, with CHFFA issuing bonds for nearly \$4.1 billion in 2017, then dropping to \$689 million in 2018, before rebounding to nearly \$1.5 billion, \$1.6 billion, and \$1.6 billion in calendar years 2019, 2020, and 2021, respectively.




As more organizations have merged throughout the years, it appears that CHFFA has issued fewer bonds, but has issued a larger dollar amount per bond. Over the five-year review period, CHFFA has experienced some variance in the number of bonds issued, but relative stability or even growth in the past four years in the average par amount issued per bond. Although the amount issued in recent years appears to be just a fraction of what was issued in 2017, the average par amount issued per bond is nearing the 2017 amount.



The chart below further illustrates how the TCJA affected a borrower's ability to advance refund. Prior to the TCJA, CHFFA issued refunding bonds in the amount of approximately $3.3 billion in calendar year 2017. In calendar year 2018, refunding bonds issued through CHFFA dropped to zero, reflecting the TCJA impact. It does appear the initial shock of the TCJA is waning as illustrated in the chart below. From 2018 through 2021, the amount of refunding bonds issued has trended upwards, $636 million, $648 million, and $728 million, respectively, indicating that borrowers are once again issuing refunding bonds.

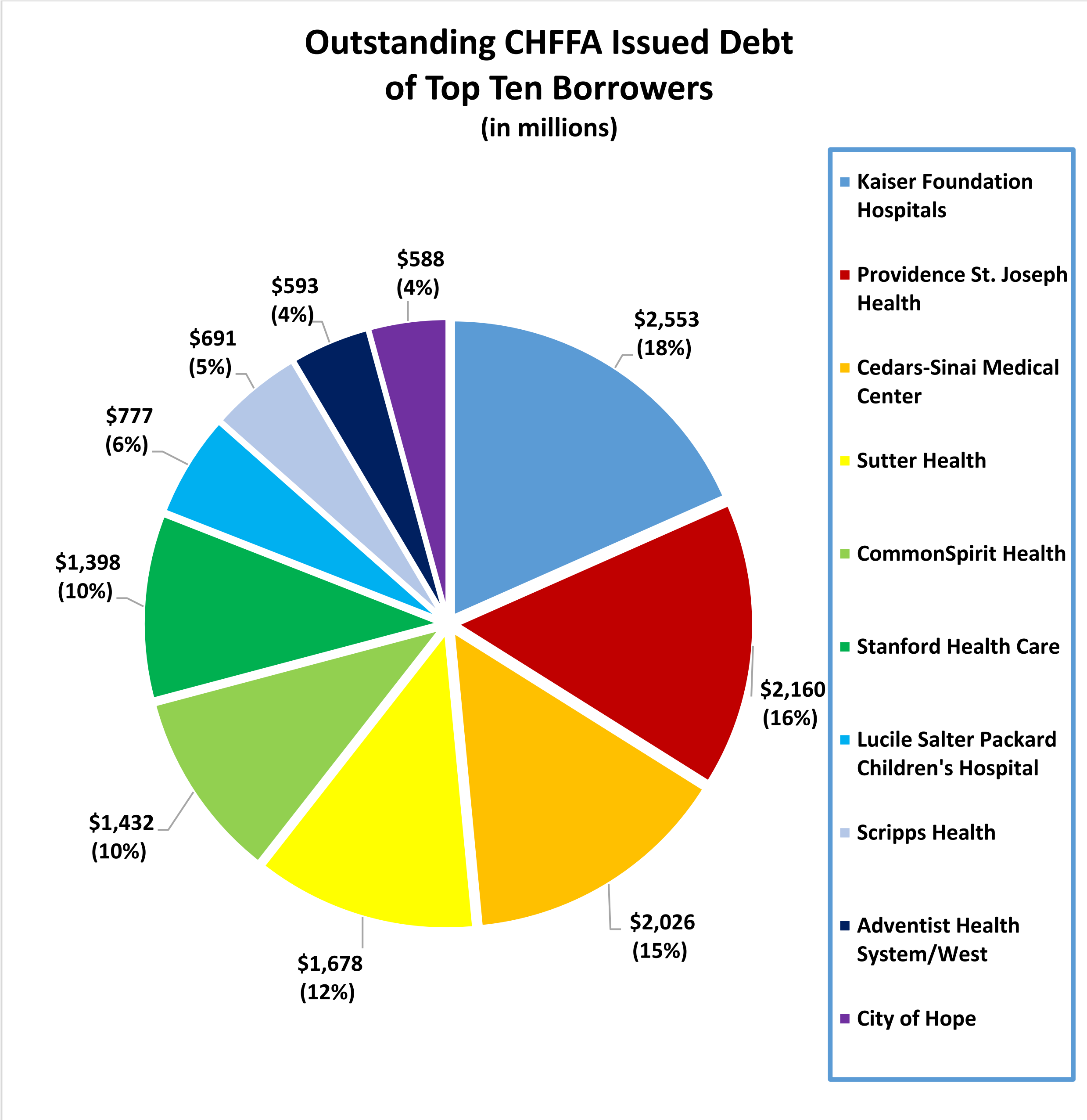



In 2017, CHFFA issued over $1.2 billion in new money projects, which was then reduced by half to $689 million in 2018 and has risen since to $842 million in 2019, $937 million in 2020, and $850 million in 2021. The amount of new money issued is largely dependent on the capital plans, economic outlook, and needs of the individual borrowers.

# Top Ten Borrowers

Below is a chart of CHFFA's top ten borrowers, in descending order of total amount of bonds outstanding. A further breakdown of dollar amount and total share of debt can be seen in the following pie chart. Although frequency of issuance varies, each of the top ten borrowers have had at least one new issuance in the past six calendar years. CHFFA has been working with several of its top ten borrowers for nearly four decades and is proud to continually serve as their go-to issuer for conduit bond financings. As of December 31, 2021, CHFFA's top ten borrowers were responsible for approximately 82% of the outstanding CHFFA issued debt.

| Borrower's Name | First CHFFA Issuance | Most Recent CHFFA Issuance |
|---|---|---|
| Kaiser Foundation Hospitals | 1983 | 2017 |
| Providence St. Joseph Health | 1983 | 2019 |
| Cedars-Sinai Medical Center | 1987 | 2021 |
| Sutter Health | 1983 | 2018 |
| CommonSpirit Health (formerly Dignity Health) | 1989 | 2020 |
| Stanford Health Care (formerly Stanford Hospital and Clinics) | 1984 | 2021 |
| Lucile Salter Packard Children's Hospital | 2003 | 2021 |
| Scripps Health | 1985 | 2019 |
| Adventist Health System/West | 1987 | 2016 |
| City of Hope | 2000 | 2019 |


Outstanding CHFFA Issued Debt
of Top Ten Borrowers
(in millions)
$2,553 (18%)
$2,160 (16%)
$2,026 (15%)
$1,678 (12%)
$1,432 (10%)
$1,398 (10%)
$777 (6%)
$691 (5%)
$593 (4%)
$588 (4%)
Kaiser Foundation Hospitals
Providence St. Joseph Health
Cedars-Sinai Medical Center
Sutter Health
CommonSpirit Health
Stanford Health Care
Lucile Salter Packard Children's Hospital
Scripps Health
Adventist Health System/West
City of Hope