

**CHFFA BOND FINANCING PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Childrens Hospital Los Angeles ("CHLA") 4650 Sunset Boulevard Los Angeles, CA 90027 Los Angeles County</p> <p>Projects Sites: 4546, 4551, 4584, 4601, 4650 and 4661 Sunset Boulevard; 4616 DeLongpre Avenue and 4600 Maubert, Los Angeles, California</p> <p>Facility Types: Acute care Hospital/Children's Hospital</p> <p>Prior Borrower: Yes (date of last issue 1991)</p>	<p>Amount Requested: \$52,000,000</p> <p>Date Requested: April 29, 2010</p> <p>Requested Loan Term: Up to 40 years¹</p> <p>Resolution Number: 355</p>																				
<p>Background: Incorporated in 1901, CHLA is a California nonprofit public benefit corporation operating a 286-bed acute care hospital, various outpatient clinics and related facilities for the care and treatment of sick and injured children.</p>																					
<p>Prior Authorization and Revised Plan of Finance: On February 25, 2010, the Authority approved Resolution No. 352, in an amount not to exceed \$265,000,000 (the "Series 2010A Bonds") to refund, on a current basis, all or a portion of outstanding previously issued California Statewide Communities Development Authority (CSCDA) Certificates of Participation Series 1999, Insured Revenue Bonds 2004 Series A and B and Variable Rate Revenue Bonds 2008 Series A, B and C and to finance portions of the construction, improvement and equipping of CHLA's new inpatient tower. The new Series 2010A Bonds are expected to be issued as fixed rate bonds, and CHLA has obtained a commitment to insure the Series 2010A Bonds from Assured Guaranty Municipal Corp., which is rated AAA (negative outlook) by S&P and Aa3 (negative outlook) by Moody's. With this current request, CHLA is not requesting additional bond proceeds. Rather, CHLA seeks only to revise a portion of its plan of finance to include a variable rate demand component (the "Series 2010B Bonds").</p>																					
<p>Use of Proceeds: CHLA is requesting approval for the issuance of variable rate bonds to refund, on a current basis, a portion of outstanding previously issued CSCDA Variable Rate Revenue Bonds 2008 Series A, B and C. Together with the Series 2010A Bonds, this will allow CHLA to refund its entire Series 2008 Bonds.</p>																					
<p style="text-align: center;">Type of Issue: Negotiated public offering with variable rate demand bonds</p> <p style="text-align: center;">Credit Enhancement: Letter of Credit provided by Bank of America, N.A.</p> <p style="text-align: center;">Expected Credit Rating: A+/A-1 by S&P and Aa3/VMIG by Moody's based on the Bank of America letter of credit</p> <p style="text-align: center;">Financing Team: See Exhibit 1 (page 13)</p>																					
<p>Financial Overview: CHLA's income statement appears to show operating improvement over the review period. CHLA's balance sheet appears substantially leveraged. CHLA exhibits adequate liquidity and marginal debt service coverage.</p>																					
<p>Net Patient Service Revenue (FYE June 30, 2009):</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>Payor Source</u></th> <th style="text-align: right;"><u>Percent</u></th> </tr> </thead> <tbody> <tr> <td>Medi-Cal</td> <td style="text-align: right;">54.9%</td> </tr> <tr> <td>Managed Care</td> <td style="text-align: right;">28.8%</td> </tr> <tr> <td>DSH</td> <td style="text-align: right;">12.0%</td> </tr> <tr> <td>Other</td> <td style="text-align: right;">4.0%</td> </tr> <tr> <td>Medicare</td> <td style="text-align: right;"><u>0.3%</u></td> </tr> <tr> <td>Total</td> <td style="text-align: right;"><u>100.0%</u></td> </tr> </tbody> </table>		<u>Payor Source</u>	<u>Percent</u>	Medi-Cal	54.9%	Managed Care	28.8%	DSH	12.0%	Other	4.0%	Medicare	<u>0.3%</u>	Total	<u>100.0%</u>						
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<p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the applicant.</p>																					
<p>Staff Recommendation: Staff recommends the Authority approve Resolution Number 355 in an amount not to exceed \$52,000,000 for Childrens Hospital Los Angeles subject to a bond rating of least a "BBB" rating by a nationally recognized rating agency. Macias Gini & O'Connell, LLP, the Authority's financial analyst, has reviewed all relevant financial documentation submitted by Childrens Hospital Los Angeles and has advised of its concurrence with the Authority's staff recommendations.</p>																					

¹ The Authority's calculations are based on a 30 year schedule. If the final financing schedule includes 40 year bonds, debt service coverage ratios will likely improve.

STAFF SUMMARY AND RECOMMENDATION

Childrens Hospital Los Angeles (“CHLA”)

April 29, 2010

Resolution Number: 355

I. GUIDELINE EXCEPTIONS:

At the February 25, 2010 Authority meeting, the Authority approved certain guideline exceptions for CHLA, including the following:

- Allow CHLA to comply with its master indenture requirements of maintaining a debt service coverage ratio of 1.10x, rather than the debt service coverage ratio of 1.25x suggested by Authority guidelines;
- Allow CHLA to comply with its master indenture requirement of calculating debt service coverage using an “annual debt service” calculation rather than the “maximum annual debt service” suggested by Authority guidelines;
- Allow CHLA to publicly market the bonds rather than the private placement suggested by the Authority guidelines for BBB rated borrowers;
- Allow CHLA to market the bonds to all investors, rather than exclusively to “Qualified Institutional Buyers” (QIB) as suggested by Authority guidelines for BBB rated borrowers; and
- Allow CHLA to market the bonds in minimum of \$5,000 denominations, rather than the minimum denominations of \$100,000 for BBB+ rated borrowers and \$250,000 denominations for BBB rated borrowers.

CHLA requests the same guideline exceptions apply to this bond transaction as well even though they will unlikely be necessary or utilized². The proposed Series 2010B Bonds are expected to be offered as variable rate demand bonds in denominations of \$100,000 with a letter of credit provided by Bank of America, N.A., (which means the Series 2010B Bonds are expected to be rated based on the credit rating of Bank of America, N.A. as reflected on the face sheet of this staff report). CHLA nevertheless requests the exceptions out of an abundance of caution in the event the letter of credit is not ultimately extended.

² It is likely the above guideline exceptions granted by the board at the February 25, 2010 meeting for the Series 2010A Bonds will also not be utilized as, subsequent to the prior approval, CHLA obtained a commitment to insure the Series 2010A Bonds from Assured Guaranty Municipal Corporation (which means that the Series 2010A Bonds are expected to be rated AAA (negative outlook) by S&P and Aa3 (negative outlook) by Moody’s based on the credit rating of Assured Guaranty Municipal Corporation). The guideline exceptions will nevertheless apply in the event this commitment is withdrawn.

II. PURPOSE OF FINANCING: CHLA intends to restructure its variable rate debt exposure with the Series 2010B Bonds to extend the average life of such indebtedness and reduce the debt service requirements associated with this debt. The Series 2010B Bonds are expected to be issued as part of the same plan of financing as the Series 2010A Bonds that were previously authorized as fixed rate bonds by the Authority.

Refunding of a portion of the Series 2008 CSCDA Bonds..... \$50,000,000

CSCDA 2008 Series A, B & C Variable Rate Revenue Bonds

A portion of the CSCDA Series 2008 A, B and C Bonds are expected to be refunded on a current basis with the Series 2010A Bonds, and a portion of the CSCDA Series 2008 A, B and C Bonds are expected to be refunded on a current basis with the Series 2010B Bonds. Series 2008 A and B bear interest at a variable weekly rate, and Series 2008 C bears interest at a daily rate. Daily interest rates on the Series 2008 Bonds have ranged from 0.08% to 9.15% per annum, and weekly interest rates have ranged from 0.12% to 7.05% per annum. The Series 2008 Bonds are secured with a letter of credit provided by Bank of America, which is set to expire in July 2011. The Series 2008 Bonds were issued to refund all outstanding Series 2002 Bonds, refund a portion of the previously issued Series 2004B Bonds, and pay the costs of issuance.

Letter of Credit 1,870,000

Underwriter's Expense 130,000

Total Uses of Funds..... \$52,000,000

III. FINANCIAL STATEMENTS AND ANALYSIS:

Childrens Hospital Los Angeles

Statement of Activities

(in thousands)

For the Year Ended June 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenues:			
Net patient service revenue	\$ 399,654	\$ 372,489	\$ 344,663
Grants, contract, and other	107,917	98,579	83,923
Unrestricted gifts and bequests	28,291	27,072	25,585
Investment income used for operations	16,552	13,027	13,191
Net assets released from restrictions	33,133	32,052	30,292
Total revenue	<u>585,547</u>	<u>543,219</u>	<u>497,654</u>
Expenses:			
Salaries and employee benefits	309,027	285,511	258,084
Professional fees and purchased services	114,910	104,477	106,619
Supplies	73,457	73,758	65,168
Provisions for doubtful accounts	7,117	9,926	11,506
Utilities	9,365	7,567	7,678
Rent	6,689	6,103	6,307
Insurance	3,638	3,464	3,031
Travel, dues, and subscriptions	4,366	4,513	3,531
Equipment	3,669	4,425	1,847
Other	13,347	13,407	14,634
Total program expenses before depreciation, amortization, and interest	<u>545,585</u>	<u>513,151</u>	<u>478,405</u>
Excess of revenues over expenses	<u>39,962</u>	<u>30,068</u>	<u>19,249</u>
Depreciation, amortization and interest:			
Depreciation and amortization	40,655	43,755	40,778
Interest	15,322	16,507	13,119
Total depreciation, amortization and interest	<u>55,977</u>	<u>60,262</u>	<u>53,897</u>
Deficiency of revenue over expenses	(16,015)	(30,194)	(34,648)
Other gains and losses:			
Net realized and unrealized (loss) gain on investments held in trading	(65,647)	28,014	-
Realized gains on investments	-	-	25,013
Other investments loss-net	(7,223)	(3,062)	(4,370)
Interest rate swap market loss	(4,096)	(3,832)	(94)
Other losses-net	(4,410)	(107)	(4)
Total other gains and (losses)	<u>(81,376)</u>	<u>21,013</u>	<u>20,545</u>
Deficiency of revenues over expenses and other gains and losses	(97,391)	(9,181)	(14,103)

(continued)

Childrens Hospital Los Angeles

Statement of Activities

(in thousands)

(continued)

	For the Year Ended June 30,		
	2009	2008	2007
Deficiency of revenues over expenses	(97,391)	(9,181)	(14,103)
Changes in unrealized gain on unrestricted investments available-for-sale	-	(56,166)	29,927
Proposition 61- construction revenue	-	33,043	20,556
FEMA grant revenue	-	14,016	19,557
Net assets released from restriction used for purchase of property and equipment	72,483	2,443	5,307
transfers and other	(4,096)	(2,381)	2,055
(Decrease) increase in unrestricted net assets	<u>(29,004)</u>	<u>(18,226)</u>	<u>63,299</u>
Temporarily restricted net assets			
Restricted grants, gifts, and bequests	33,750	44,431	43,943
Net investment income on restricted gifts and endowments	3,308	5,556	3,898
Net realized (loss) gain on sale of restricted investments	(8,479)	11,161	9,923
Net unrealized loss on unrestricted investments	(24,039)	(17,728)	12,338
Net assets released from restrictions used for operations, research, and education	(33,133)	(32,052)	(30,292)
Net assets released from restriction used for purchase of property and equipment	(72,483)	(2,443)	(5,307)
Change in value of split-interest agreements	(93)	(34)	393
Reclassification of net assets	(107)	277	(32)
(Decrease) increase in temporarily restricted net assets	<u>(101,276)</u>	<u>9,168</u>	<u>34,864</u>
Permanently restricted net assets			
Contributions	3,986	1,621	3,679
Change in value of split-interest agreements	43	113	
Reclassification of net assets	3	(1,301)	(124)
Increase in permanently restricted net assets	<u>4,032</u>	<u>433</u>	<u>3,555</u>
Change in net assets	(126,248)	(8,625)	101,718
Net assets, beginning of year	<u>884,251</u>	<u>892,876</u>	<u>791,158</u>
Net assets, end of year	<u><u>\$ 758,003</u></u>	<u><u>\$ 884,251</u></u>	<u><u>\$ 892,876</u></u>

Childrens Hospital Los Angeles
Financial Position
(in thousands)

	As of June 30,		
	2009	2008	2007
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 11,430	\$ 19,458	\$ 8,203
Patient accounts receivable, net	74,629	72,225	82,630
Current portion of pledges receivable	26,325	21,530	23,430
Securities lent under securities lending program	18,332	41,549	45,348
Collateral received under securities lending program	18,805	42,365	46,417
Grants receivable	5,495	7,714	10,362
Receivables under government programs	4,841	-	3,216
Current portion of trustee-held funds	8,276	16,936	3,567
Restricted cash- Proposition 61 Funds	-	-	13,755
Other current assets	22,198	21,442	21,083
Total current assets	<u>190,331</u>	<u>243,219</u>	<u>258,011</u>
Assets limited as to use:			
Investments	408,232	560,818	509,367
Unitrust investments	3,826	4,468	5,184
Other restricted board-designated investments	-	-	67,096
Trustee-held funds-net of amount required to meet current obligations	13,205	88,533	193,774
Total assets limited to use-Net of current portion	<u>425,263</u>	<u>653,819</u>	<u>775,421</u>
Pledges receivable-net of current portion	38,532	52,723	50,189
Interest rate swap	-	-	1,716
Other assets	23,602	22,227	23,600
Property, plant and equipment	720,693	580,236	447,492
Total assets	<u>\$ 1,398,421</u>	<u>\$ 1,552,224</u>	<u>\$ 1,556,429</u>

(continued)

Childrens Hospital Los Angeles
Financial Position
(in thousands)
(continued)

	As of June 30,		
	2009	2008	2007
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable and accrued expenses	\$ 42,218	\$ 60,790	\$ 46,366
Salaries, wages, and related liabilities	32,606	31,490	30,146
Payable under securities lending program	18,805	42,365	46,417
Payable under government and state programs	-	1,371	-
Proposition 61- advance	-	-	13,755
Current portion of long-term debt	10,630	7,035	4,390
Total current liabilities	<u>104,259</u>	<u>143,051</u>	<u>141,074</u>
Long-term debt - net of current portion	487,525	494,853	502,031
Liability under antitrust agreement	2,517	2,651	2,849
Interest rate swaps	6,212	2,116	-
Other noncurrent liabilities	39,905	25,302	17,599
Total liabilities	<u>640,418</u>	<u>667,973</u>	<u>663,553</u>
Net assets:			
Unrestricted:			
Operating	179,526	115,294	112,365
Board-designated	316,369	409,605	430,760
Total unrestricted net assets	<u>495,895</u>	<u>524,899</u>	<u>543,125</u>
Temporarily restricted	121,125	222,401	213,233
Permanently restricted	140,983	136,951	136,518
Total net assets	<u>758,003</u>	<u>884,251</u>	<u>892,876</u>
TOTAL LIABILITIES AND NET ASSETS:	<u>\$ 1,398,421</u>	<u>\$ 1,552,224</u>	<u>\$ 1,556,429</u>

Financial Ratios:

	Proforma (a)			
	FYE June 30, 2009			
Operating debt service coverage (x)	1.67	1.79	1.44	1.11
Debt/Unrestricted Net Assets (x)	1.11	1.02	0.96	1.00
Operating Margin (%)		(2.74)	(5.56)	(6.96)
Current Ratio (x)		1.83	1.70	1.80

^(a) Recalculates FY 2009 audited results to include the impact of this proposed financing.

Financial Discussion:

CHLA's income statement appears to show operating improvement over the review period.

Particular Facts to Note:

- CHLA's income statement reflects improving operations, as exhibited by the deficiency of revenues over expenses of only \$16 million for FY 2009 versus \$34 million in FY 2007.
- CHLA has seen a steady increase in revenue from \$498 million in fiscal year 2007 to \$586 million in fiscal year 2009. In fiscal year 2009, 68% total revenue consisted of net patient service revenue.
- Program expenses experienced an increase as a result of a response to the increase in revenue in fiscal years 2007 to 2009 (an increase of nearly 6%). The increase in program expenses was most notably in salaries and employees benefits, an increase of 9%. CHLA's revenue increased while expenses were kept in line.
- CHLA continues to implement both operating and strategic initiatives to improve performance. Additionally, CHLA has implemented a freeze on merit increases for a year, as well as salary reductions for senior management. This is reflected in a slight decrease in salaries and employees benefits.
- CHLA has developed and continues to refine short-term and long-term strategies to address challenges that will better position the hospital in the long-term. Short-term strategies include: cost containment, improving revenue cycle performance and improved payer contracting. Long-term strategies include: increased volume, improved operational efficiency and improved throughput from the new patient tower.
- CHLA operating debt service coverage is adequate at 1.79x for fiscal year 2009, along with an adequate operating proforma debt service coverage of 1.67x.

While CHLA's balance sheet appears significantly leveraged, it also appears to exhibit adequate liquidity supported by its current ratio.

Particular Facts to Note:

- CHLA is significantly leveraged with a debt-to-unrestricted net assets ratio of 1.02x. CHLA maintains adequate liquidity, with a current ratio of 1.83x. A relatively small portion of liquid assets are in cash and cash equivalents. CHLA management expects to improve cash flow by utilizing cost containment measures through a combination of short-term and long-term strategies.
- Patient accounts receivables decreased from \$83 million in fiscal year 2007 to \$74 million in fiscal year 2009, despite higher volumes and utilization. Over the review period, CHLA investment in capital expenditures increased property, plant and equipment by approximately \$273 million funded by primarily liquidating a sizable portion of its investment portfolio.

- The balance sheet reports a significant decrease in current liabilities of 26% as a result of gradual withdraw from a securities lending program.
- CHLA is in the final phase of a large capital project that includes a new patient tower. Receiving fund from Proposition 3 funds began in December 2009, which should reimburse cash outlays for construction activity that occurred prior to and during fiscal year 2009.

Interim Financials for Six Months Ended December 31, 2009

Particular Facts to Note:

- The current interim period indicates an increase in total revenues compared to interim numbers for the six months ended December 31, 2009. CHLA indicates the increase for the interim period is the result of strong growth in patient service revenue (7%) as well as increases in unrestricted gifts and bequests (22%). Program expenses increased 5% compared to interim numbers for December 31, 2009. CHLA's income statement shows improvement for the six months ended December 31, 2009.
- Although the interim period shows a positive trend in cash flow, CHLA intends to improve its cash flow further by reducing expenses through cost containment and enhanced revenue cycle performance. CHLA has improved its cash position to approximately \$22 million as of December 31, 2009. CHLA total assets increased, including property, plant and equipment.

IV. BACKGROUND:

Childrens Hospital Los Angeles (the “Corporation”), incorporated in 1901, is a California nonprofit public benefit corporation. The Corporation is classified as a 501(c)(3) organization by the Internal Revenue Service. The Corporation operates a 286-bed acute care hospital, approximately 31 hospital-based outpatient clinic programs and related facilities for the care and treatment of sick and injured children ranging in age from newborn through 21 years, with nearly 50% of the inpatient admissions being children under four years of age. The Corporation’s facilities serve as a referral resource for critically ill and seriously injured children in the Southwestern United States. Nearly two-thirds of the children admitted to the Corporation’s inpatient specialty care units are transferred from other hospitals. The Corporation maintains 46 intensive care beds, composed of 20 pediatric intensive care beds, 15 cardiac intensive care beds and 11 intensive care bone marrow transplantation beds, in addition to 40 neonatal intensive care beds, that attract pediatric patients from throughout the United States. In addition, the Corporation’s 24-hour emergency room department has been designated by the County of Los Angeles as one of two Level I pediatric trauma centers and the only one dedicated solely to children.

The Corporation is the sole Member of the Obligated Group.

Licensure, Certification and Accreditation

The Corporation receives accreditation from The Joint Commission. The Corporation was last surveyed in June 2009 by The Joint Commission and received accreditation for the customary 39 month period. The Corporation is licensed by the State of California Department of Public Health, Licensing and Certification Division, and is a member of, among other organizations, the California Hospital Association, the California Children’s Hospital Association, and the Healthcare Association of Southern California.

Governance

The Bylaws of the Corporation state there are two classes of membership on the Board of Trustees: active and honorary. Honorary members are not counted in determining the maximum number of active members and do not have voting privileges. The Bylaws also state there will be no fewer than 60 nor more than 90 active members of the Board of Trustees of the Corporation.

Active members consist of those elected and those who are appointed by virtue of holding designated positions. Elected members hold office for three-year terms and, unless an exception is granted, may hold up to five terms. Members are divided into three nearly equal staggered classes with one class being elected each year. Appointed members are the President and Chief Executive Officer, the Vice President of Surgery, the Vice President of Pediatrics, the Chairman of the Medical Staff, the Chief Nursing Officer, the Chair of the board of directors of Childrens Hospital Los Angeles Medical Group (formerly University Childrens Medical Group), and the Dean of the Keck School of Medicine of the University of Southern California.

V. UTILIZATION STATISTICS:

The following table shows utilization statistics of CHLA for the fiscal years ended June 30, 2009, 2008 and 2007:

	Fiscal Year Ended June 30,		
	2009	2008	2007
Licensed Beds	286	286	286
Admissions	10,920	10,784	11,115
Patient Days	89,297	90,429	88,367
Average Daily Census	245	247	242
Average Length of Stay (days)	8	8	8
Inpatient Surgery Procedures	6,405	6,339	6,115
Outpatient Surgery Procedures	9,056	7,782	7,176
Emergency Room Visits	66,129	62,058	64,788
Outpatient Visits	221,785	220,714	200,706

VI. OUTSTANDING DEBT:

(in thousands)

Bond Issue Name	Original Issue Amount	Amount Outstanding* As of June 30, 2009	Estimated Amount Outstanding after Proposed Financing
Existing Long-Term Debt:			
CSCDA, Series 2008 A, B, C	\$150,000	\$150,000	\$0
CSCDA, Series 2007	170,000	170,646	170,646
CSCDA, Series 2004 A, B	100,925	56,950	0
CSCDA, Series 1999 Certificates of Participation	109,175	103,549	96,549
CSCDA, Series 1993 Certificates of Participation	103,780	17,010	17,010
CSCDA, Series 2009A**	30,000		30,000
Proposed:			
CHFFA Bonds 2010A***		N/A	137,105
CHFFA Bonds 2010B***		N/A	50,180
TOTAL DEBT		\$498,155	\$501,490

*Includes current-portion of long-term debt.

**CSCDA, Series 2009A closed in December 2009 subsequent to the FY 2009 audit.

***Although the requested authorization for the Series 2010A Bonds was for a not to exceed amount of \$265,000,000 and the requested authorization for the Series 2010B Bonds is for a not to exceed amount of \$52,000,000, based on CHLA's revised plan of finance, the current estimated par amount of the fixed rate Series 2010A Bonds is \$137,105,000 and the current estimated par amount of the variable rate Series 2010B Bonds is \$50,180,000.

VII. DUE DILIGENCE:

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

- **Section 15438.5(a) of the Act (Savings Pass Through):** CHLA properly completed and submitted the “Pass-Through Savings Certification,” in addition to a narrative explaining how it intends to pass through savings.
- **Section 15491.1 of the Act (Community Service Requirement):** CHLA properly completed and submitted this certification and indicated that Medi-Cal and Medicare patients are accepted.
- **Compliance with Seismic Regulations:** CHLA properly completed and submitted a description of its seismic requirements.
- **Compliance with Section 15455(b) of the Act (California Environmental Quality Act):** CHLA properly submitted documentation to the Authority demonstrating the proposed project has either complied with Division 13 (commencing with Section 21000) of the Public Resources Code, or is otherwise not a project under that division.
- **Religious Due Diligence.**
- **Legal Review.**

EXHIBIT 1

Childrens Hospital Los Angeles Financing Team

Corporation Counsel: Jones Day
Financial Advisor: Shattuck Hammond Partners
Bond Counsel: Orrick, Herrington & Sutcliffe LLP
Underwriters: Bank of America Merrill Lynch
Citigroup
Underwriters' Counsel: Sidley Austin LLP
Bond and Master Trustee: The Bank of New York Mellon Trust
Company, N.A.
Trustee's Counsel: Davis Wright Tremaine
Letter of Credit Bank: Bank of America, N.A.
Bank Counsel: Chapman and Cutler LLP