

**AGENDA**  
**REGULAR MEETING OF THE**  
**EL CAMINO HOSPITAL BOARD OF DIRECTORS**  
**Wednesday, March 8, 2017 – 5:45 pm**  
Conference Rooms E, F & G (ground floor)  
2500 Grant Road, Mountain View, CA 94040

**MISSION:** To be an innovative, publicly accountable, and locally controlled comprehensive healthcare organization which cares for the sick, relieves suffering, and provides quality, cost competitive services to improve the health and well-being of our community.

AGENDA ITEM	PRESENTED BY		ESTIMATED TIMES
<b>1. CALL TO ORDER / ROLL CALL</b>	Neal Cohen, MD, Board Chair		<b>5:45 – 5:47 pm</b>
<b>2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES</b>	Neal Cohen, MD, Board Chair		<b>5:47 – 5:48</b>
<b>3. BOARD RECOGNITION</b> <i>Resolution 2017-02</i> The Board will recognize individual(s) who enhance the experience of the Hospital's patients and the community. <a href="#">ATTACHMENT 3</a>	Donald Sibery, Interim CEO	<i>public comment</i>	<b>motion required</b> <b>5:45 – 5:53</b>
<b>4. QUALITY COMMITTEE REPORT</b> <a href="#">ATTACHMENT 4</a>	David Reeder, Quality Committee Chair		<b>information</b> <b>5:53 – 6:03</b>
<b>5. FY17 PERIOD 7 FINANCIALS</b> <a href="#">ATTACHMENT 5</a>	Iftikhar Hussain, CFO		<b>information</b> <b>6:03 – 6:13</b>
<b>6. RESOLUTION 2017-03</b> Adopting the 2017 Plan of Finance, Approving Transactions for the Funding of New Projects at the Mountain View Campus, and Paying Costs of Issuance Plus a Capitalized Interest Amount Not to Exceed \$325,000,000 a. Market Update and Plan of Finance b. Draft Combined <i>Resolution 2017-03</i> <a href="#">ATTACHMENT 6</a>	Iftikhar Hussain, CFO; Chad Kenan, Citigroup; Jennifer Brown, Ponder & Co.	<i>public comment</i>	<b>motion required</b> <b>6:13 – 6:23</b>
<b>7. COMMUNITY BENEFIT MID-YEAR REPORT (METRICS, GOALS, AUDIT)</b> <a href="#">ATTACHMENT 7</a>	Barbara Avery, Director, Community Benefit; Melanie Espino and Jennifer Van Stelle, Actionable Insight		<b>information</b> <b>6:23 – 6:38</b>
<b>8. GOVERNANCE COMMITTEE REPORT</b> <a href="#">ATTACHMENT 8</a>	Peter Fung, MD, Governance Committee Chair		<b>information</b> <b>6:38 – 6:43</b>
<b>9. PUBLIC COMMUNICATION</b> a. Oral Comments <i>This opportunity is provided for persons in the audience to make a brief statement, not to exceed 3 minutes on issues or concerns not covered by the agenda.</i> b. Written Correspondence	Neal Cohen, MD, Board Chair		<b>information</b> <b>6:43 – 6:46</b>
<b>10. ADJOURN TO CLOSED SESSION</b>	Neal Cohen, MD, Board Chair		<b>motion required</b> <b>6:46 – 6:47</b>

A copy of the agenda for the Regular Meeting will be posted and distributed at least seventy two (72) hours prior to the meeting. In observance of the Americans with Disabilities Act, please notify us at (650) 988-7504 prior to the meeting so that we may provide the agenda in alternative formats or make disability-related modifications and accommodations.

AGENDA ITEM	PRESENTED BY		ESTIMATED TIMES
<b>11. POTENTIAL CONFLICT OF INTEREST DISCLOSURES</b>	Neal Cohen, MD, Board Chair		<b>6:47 – 6:48</b>
<b>12. CONSENT CALENDAR</b> <i>Any Board Member may remove an item for discussion before a motion is made.</i>  <b>Approval</b> <i>Gov't Code Section 54957.2:</i> a. Minutes of the Closed Session of the Hospital Board Meeting (February 8, 2017) b. Minutes of the Closed Session of the Special Meeting to Conduct a Study Session of the Hospital Board (February 15, 2017) <b>Reviewed and Approved by the Executive Compensation Committee</b> <i>Gov't Code Section 54957 and 54957.6 for report and discussion on personnel matters:</i> c. Revised FY17 Incentive Goals: VP, Corporate & Community Health Services; President, CONCERN:EAP d. FY17 Incentive Goals: Chief Medical Officer e. Minutes of the Closed Session of the Executive Compensation Committee Meeting (November 16, 2016)	Neal Cohen, MD, Board Chair		<b>motion required</b> <b>6:48 – 6:50</b>
<b>13.</b> <i>Health and Safety Code Section 32155,</i> Report of the Medical Staff; deliberations concerning reports on Medical Staff quality assurance matters: - Medical Staff Report	Rebecca Fazilat, MD, Mountain View Chief of Staff; J. Augusto Bastidas, MD, Los Gatos Chief of Staff		<b>motion required</b> <b>6:50 – 7:00</b>
<b>14.</b> <i>Health and Safety Code Section 32155,</i> Report of the Medical Staff; deliberations concerning reports on Medical Staff quality assurance matters: - Organizational Clinical Risks	Daniel Shin, MD, Medical Director of Quality & Physician Services		<b>discussion</b> <b>7:00 – 7:05</b>
<b>15.</b> <i>Gov't Code Section 54956(d)(2)</i> – conference with legal counsel – pending or threatened litigation: - Physician Transaction Compliance Education	Mary Rotunno, General Counsel; Diane Wigglesworth, Sr. Director, Corporate Compliance		<b>information</b> <b>7:05 – 7:25</b>
<b>16.</b> Discussion involving <i>Gov't Code Section 54957 and 54957.6</i> for report and discussion on personnel matters and <i>Health and Safety Code 32106(b)</i> for report involving health care facility trade secrets: - Informational Items	Donald Sibery, Interim CEO		<b>information</b> <b>7:25 – 7:30</b>
<b>17.</b> Discussion involving <i>Gov't Code Section 54957</i> for report and discussion on personnel matters and <i>Health and Safety Code 32106(b)</i> for report involving health care facility trade secrets: - CEO Search Committee Report	Lanhee Chen, CEO Search Committee Chair		<b>discussion</b> <b>7:30 – 7:35</b>

AGENDA ITEM	PRESENTED BY		ESTIMATED TIMES
18. Report involving <i>Gov't Code Section 54957</i> for discussion and report on personnel performance matters: - Executive Session	Neal Cohen, MD, Board Chair		<b>discussion</b> <b>7:35 – 7:40</b>
19. <b>ADJOURN TO OPEN SESSION</b>	Neal Cohen, MD, Board Chair		<b>motion required</b> <b>7:40 – 7:41</b>
20. <b>RECONVENE OPEN SESSION / REPORT OUT</b> To report any required disclosures regarding permissible actions taken during Closed Session.	Neal Cohen, MD, Board Chair		<b>7:41 – 7:42</b>
21. <b>CONSENT CALENDAR</b> <i>Any Board Member or member of the public may remove an item for discussion before a motion is made.</i> <b>Approval</b> a. <a href="#">Minutes of the Open Session of the Hospital Board Meeting (February 8, 2017)</a> b. <a href="#">Minutes of the Open Session of the Special Meeting to Conduct a Study Session of the Hospital Board (February 15, 2017)</a> <i>Reviewed and Approved by the Executive Compensation Committee</i> c. <a href="#">Appointment of Committee Member</a> d. <a href="#">Minutes of the Open Session of the Executive Compensation Committee Meeting (November 16, 2016)</a> <i>Reviewed and Approved by the Medical Executive Committee</i> e. <a href="#">Medical Staff Report</a>	Neal Cohen, MD, Board Chair	<i>public comment</i>	<b>motion required</b> <b>7:42 – 7:44</b>
22. <b>INFORMATIONAL ITEMS</b> a. <a href="#">CEO Report</a>	Donald Sibery, Interim CEO		<b>information</b> <b>7:44 – 7:46</b>
23. <b>BOARD COMMENTS</b>	Neal Cohen, MD, Board Chair		<b>information</b> <b>7:46 – 7:49</b>
24. <b>ADJOURNMENT</b>	Neal Cohen, MD, Board Chair		<b>motion required</b> <b>7:49 – 7:50 pm</b>

**Upcoming Regular Meetings**

- April 12, 2017
- May 10, 2017
- June 14, 2017
- June 28, 2017

**Joint Meeting**

- May 31, 2017 (*Joint with Finance Committee*)
- June 14, 2017 (*Joint with Compliance Committee*)

# EL CAMINO HOSPITAL BOARD

RESOLUTION 2017 - 02

## RESOLUTION OF THE BOARD OF DIRECTORS OF EL CAMINO HOSPITAL REGARDING RECOGNITION OF SERVICE TO THE COMMUNITY

**WHEREAS**, the Board of Directors of El Camino Hospital values and wishes to recognize the contribution of individuals who enhance the experience of the hospital's patients, their families, the community and the staff, as well as individuals who in their efforts exemplify El Camino Hospital's mission and values.

**WHEREAS**, the Board wishes to honor and acknowledge the 50th Anniversary Service Awards Recognition Celebration Committee for their work on the 2017 Service Awards. This celebration was a time to acknowledge those who have played an important part of El Camino Hospital's success and to reflect on the accomplishments of the past year.

Achieving the quality of care provided at El Camino Hospital does not happen without a lot of hard work, dedication to patients, and people who are willing to consistently go above and beyond what is expected. The committee played a key role in creating an opportunity for the organization and its leaders to recognize the excellence of others. The notion of employees celebrating employees is what makes El Camino Hospital an exceptional resource for the community and a great place to work.

This year's Service Awards Recognition Celebration honored 155 long-term employees. 40 of those honored celebrated thirty or more years of service at the hospital. In addition, 57 individuals and 10 teams of employees and physicians were nominated in five award categories. The diversity and sheer number of nominees were indicative of the wide range of talent and commitment to putting patients first that El Camino Hospital is known for. The committee has a lot to be proud of for executing a memorable recognition event for all nominees and awardees. Each committee member went above and beyond what was expected and brought their skill, expertise and talent together to create a memorable evening that honored others.

**WHEREAS**, the Board would like to publically acknowledge the 50th Anniversary Service Awards Recognition Celebration Committee for their skill, expertise and talent to create an excellent recognition event.

**NOW THEREFORE BE IT RESOLVED** that the Board does formally and unanimously pay tribute to:

Theresa Bednarek	Kaitlyn Browne	JoEllen Firchow	Kathryn Fisk
Monica Frankel	Vicky Lawson	Sammi Lowe	Kelsey Martinez
Hijinio Reynoso	Lorelei Rivers	Glinda Rodriguez	Tamara Stafford

**FOR THEIR WORK OF CELEBRATING OTHERS.**

**IN WITNESS THEREOF**, I have here unto set my hand this **8TH DAY OF MARCH, 2017.**

**EL CAMINO HOSPITAL BOARD OF DIRECTORS:**

Lanhee Chen, JD, PhD  
Dennis Chiu, JD  
Neal Cohen, MD

Jeffrey Davis, MD  
Peter Fung, MD  
Julia Miller

David Reeder  
John Zoglin

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**PETER FUNG, MD**  
**SECRETARY/TREASURER,**  
**EL CAMINO HOSPITAL BOARD OF DIRECTORS**



## ECH BOARD MEETING AGENDA ITEM COVER SHEET

<b>Item:</b>	Quality, Patient Care and Patient Experience Committee (“Quality Committee”) Report El Camino Hospital Board of Directors March 8, 2017
<b>Responsible party:</b>	David Reeder, Quality Committee Chair
<b>Action requested:</b>	For Information
<b>Background:</b>	The Quality Committee meets 10 times per year. The Committee last met on February 27, 2017 and meets next on April 3, 2017.
<b>Board Advisory Committee(s) that reviewed the issue and recommendation, if any:</b>	None.
<b>Summary and session objectives:</b>	
<b>Progress Against Goals:</b>	The Committee is on track to achieve its FY17 targets.
<b>Summary of February 27, 2017 Meeting:</b>	<ul style="list-style-type: none"> <li>- <u>Interventional Pulmonology Presentation</u>: Ganesh Krishna, MD, Medical Director of Interventional Pulmonology Services, gave an overview of the training program, clinical trials, IP registry, and publications of Interventional Pulmonology. He further highlighted that ECH provides one of the widest spectrums of minimally invasive pulmonary procedures in the world, experience high volume, have several clinical trials and grants, feature publications in reputed journals, are a model program for academic institutions, are performing better than neighborhood academic hospitals, have referrals from out of state, and provide an immersion program for outside physicians in several areas.</li> <li>- <u>FY17 Quality Dashboard</u>: Catherine Carson, Senior Director of Patient Safety and Quality Assurance, presented the newly annotated FY17 Quality Dashboard to the Committee. She reported that seven metrics remain stable; the only exceptions being Length of Stay possibly due to the severe flu season, Patient Falls related to lapses in adherence to policies, and Responsiveness of Staff may have been due to increased workload within the Patient Experience Department due to recent staff turnover. She further reported that El Camino Hospital received a 4-star rating on the CMS Hospital Compare Report. She noted that the most common rating nationwide is 3 and that the only other local hospitals to receive a 4-star rating were Stanford and Sequoia.</li> <li>- <u>Greeley Peer Review Update</u>: Dave Francisco, MD, Chairman of the Greeley Subcommittee, reviewed the final report and proposed changes for Peer Review with the Committee. He detailed the identified deficits, process redesign, practitioner performance expectations, revised peer review model, department level action items, and administrative level actions.</li> </ul>

## ECH BOARD MEETING AGENDA ITEM COVER SHEET

	<p>- <u>CMO Report</u>: William Faber, MD, Chief Medical Officer, briefly updated the Committee on the current status of the Quality Department and various areas of focus. Dr. Faber announced the addition of Raquel Barnett as the Interim Director of the Medical Staff Office, and that seven other positions have been filled in Clinical Effectiveness and the Medical Staff Office. He further reported that we attested to the completion of our Joint Commission Intracycle Review, and received high recognition for our Bariatric Program.</p>
	<p><b>Suggested discussion questions:</b> None.</p>
	<p><b>Proposed Board motion, if any:</b> None.</p>
	<p><b>LIST OF ATTACHMENTS:</b></p> <ol style="list-style-type: none"><li>1. FY17 Quality Dashboard</li></ol>

## Quality and Safety Dashboard (Monthly)

Date Reports Run: 1/6/2017		Baseline	FY17 Goal	Trend	Comments	
<b>SAFETY EVENTS</b>						
	Performance	FY2016	FY2017			
1	<p><b>Patient Falls</b> Med / Surg / CC Falls / 1,000 CALNOC Pt Days</p> <p>Date Period: December 2016</p>	15/5631	2.66	1.51	1.39 (goal for FY 16)	<p>Of the 15 falls in December, 2 were assisted, with 1 slight injury (elbow abrasion). 7 falls related to policy lapses; no bed alarm, wrong alarm zone, left alone in BR. Message to Mgrs/staff: Engage bed/chair alarms always; set bed alarm zone correctly; never leave the patient alone in the bathroom; use "rescue" equipment such as Fall Prevention Chair; and use visual monitoring, PSA when available. Falls Team is reviewing Fall Risk Assessment in use.</p>
2	<p>★Organizational Goal</p> <p><b>Pain reassessment within 60 mins after pain med administration</b> Errors / 1000 Adj Total Patient Days</p>	8172/10107	80.9%	56.3% (Jan-Jun 2016)	75% (min) 80% (mid) stretch goal=90%	<p>New report built in ICARE to capture reassessment data, with weekly team focus on results by department. Recognition for units achieving 99-100% compliance daily. Nursing Mgrs. Taught how to run these reports in January.</p>
3	<p><b>Medication Errors (Overall: reached to patients and near miss)</b> Errors / 1000 Adj Total Patient Days</p> <p>Date Period: December 2016</p>	29/13269	2.19	2.68	0.00	<p>Decreases in 2016 due to correction of ICARE issues, and a focus on med errors in 3 groups meeting each month. Rate is stabilizing.</p>
<b>EFFICIENCY</b>						
	Performance	Jan-Jun 2016 (6-month avg)	FY 2017			
4	<p>★Organizational Goal</p> <p><b>Average Length of Stay (days)</b> (Medicare definition, MS-CC, ≥ 65, inpatient)</p> <p>Date Period: January 2017</p>	FYTD 2767 Jan 2017 318	4.67 5.34	4.78	4.87	<p>January increase in LOS due to severe flu season w/88 flu admissions of which many with underlying disease developed organ failure. In addition, many of these refused palliative care and have long lengths of stay.</p>
5	<p>★Organizational Goal</p> <p><b>30-Day Readmission (Rate, LOS-Focused)</b> (ALOS-Linked, All-Cause, Unplanned)</p> <p>Date Period: December 2016</p>	FYTD 270/2411 Dec 2016 56/477	FYTD 11.20 Dec 2016 11.74	11.53	At or below 12.24	<p>In December, the readmission rate returned below the goal and close to the average rate.</p>

Date Reports Run: 1/6/2017				Baseline	FY17 Goal	Trend	Comments
COMPLICATIONS		Performance		FY 2016	FY 2017		
6	<b>Surgical Site Infection (SSI)</b> SSI per 100 Surgical Procedures Date Period: November 2016	2/639	0.31	0.20	0.18 (goal for FY 16)		November: 2 cases: 1 Colon w/ resection and tumor debulking, developed abscess & perforated bowel. 1 Exp.Lag w/hernia repair, developed necrotic abd. Wound.
SERVICE		Performance		FY 2016	FY 2017		
7	<b>Communication with Nurses</b> (HCAHPS composite score, top box) Date Period: Nov 2016	187/228	81.8%	78.0%	78.5%		Trending up over last 4 months, may be related to increased communication by nurses regarding pain reassessment.
8	<b>Responsiveness of Hospital Staff</b> (HCAHPS composite score, top box) Date Period: Nov 2016	137/201	68.2%	64.9%	66.8%		Turnover in Pt.Experience Dept may have impacted this, team distracted with increased responsibility and maynot have been as responsive as in past.
9	<span style="color: green;">★</span> <b>Organizational Goal</b> <b>Pain management</b> (HCAHPS composite score, top box) Date Period: Nov 2016	129/174	76.0%	72.5%	73% min 74% max 76% stretch		Lean A3 efforts to improve Pain Reassessment as well as new pain education brochures were implemented in November related to improved results.
10	<b>Communication About Medicines</b> (HCAHPS composite score, top box) Date Period: Nov 2016	93/133	70.0%	64.7%	68.3%		Results beginning to trend up, Pain Reassessment efforts should impact this measure, becoming stable.





**El Camino Hospital**

THE HOSPITAL OF SILICON VALLEY

## Summary of Financial Operations

Fiscal Year 2017 – Period 7  
7/1/2016 to 1/31/2017

Dashboard - ECH combined as of January 31, 2017<sup>(2)</sup>

	Annual					Month			YTD		
	2014	2015	2016	2017 Proj.	2017 Bud/Target	PY	CY	Bud/Target	PY	CY	Bud/Target
<b>Volume</b>											
Licensed Beds	443	443	443	443	443	443	443	443	443	443	443
ADC	238	246	242	237	245	253	257	260	237	235	241
Adjusted Discharges	22,206	22,342	22,499	23,008	22,992	1,886	2,208	1,932	13,038	13,421	13,523
Total Discharges	19,427	19,637	19,367	19,527	19,781	1,652	1,806	1,678	11,265	11,391	11,612
<b>Outpatient</b>											
ED	46,056	49,130	49,927	47,813	51,258	4,195	4,319	4,346	28,235	27,891	30,075
Procedural Cases											
OP Surg	6,444	6,479	6,053	6,552	6,427	489	542	545	3,651	3,822	3,771
Endo	2,492	2,520	2,322	2,139	2,479	156	180	210	1,369	1,248	1,455
Interventional	1,706	1,878	1,970	1,975	2,323	179	150	197	1,213	1,152	1,363
All Other	69,458	68,052	79,656	85,596	84,566	6,744	7,204	7,170	46,146	49,931	49,618
<b>Financial Performance (\$000s)</b>											
Net Revenues	721,123	746,645	772,020	810,619	789,585	61,534	68,826	66,217	441,806	472,861	454,966
Operating Expenses	669,680	689,631	743,044	730,066	764,828	62,492	60,181	63,932	430,123	425,872	440,591
Operating Income \$	70,305	78,120	52,613	107,015	49,817	1,116	9,347	4,339	25,682	62,425	28,988
Operating Margin	9.5%	10.2%	6.6%	12.8%	6.1%	1.8%	13.4%	6.4%	5.6%	12.8%	6.2%
EBITDA \$	125,254	128,002	108,554	160,612	109,890	5,756	13,776	9,489	56,248	93,690	62,220
EBITDA %	16.9%	16.7%	13.6%	19.2%	13.5%	9.0%	19.8%	13.9%	12.3%	19.2%	13.3%
IP Margin <sup>1</sup>	-3.2%	-3.9%	-8.7%	-6.9%	-6.1%	-15.9%	-15.4%	-6.1%	-11.6%	-6.9%	-6.1%
OP Margin <sup>1</sup>	25.2%	26.7%	26.7%	32.8%	26.4%	17.7%	29.0%	26.4%	25.0%	32.8%	26.4%
<b>Payor Mix</b>											
Medicare	44.6%	46.2%	46.6%	47.4%	46.4%	49.2%	51.2%	46.4%	45.4%	47.4%	46.4%
Medi-Cal	6.0%	6.6%	7.4%	7.2%	6.5%	7.2%	7.5%	6.5%	7.7%	7.2%	6.5%
Commercial IP	25.4%	24.2%	23.2%	22.7%	24.0%	22.2%	20.6%	24.0%	24.1%	22.7%	24.0%
Commercial OP	18.6%	18.7%	18.7%	20.2%	19.0%	19.1%	18.2%	19.0%	19.9%	20.2%	19.1%
Total Commercial	44.0%	42.9%	41.9%	42.9%	43.0%	41.3%	38.8%	43.0%	44.0%	42.9%	43.1%
Other	5.4%	4.3%	4.1%	2.5%	4.1%	2.3%	2.5%	4.1%	2.9%	2.5%	4.1%
<b>Cost</b>											
Employees	2,435.6	2,452.4	2,542.8	2,479.8	2,547.7	2,587.5	2,527.1	2,578.3	2,616.5	2,479.8	2,547.7
Hrs/APD	29.31	30.45	30.35	30.37	31.03	31.01	29.45	29.46	32.48	30.37	31.03
<b>Balance Sheet</b>											
Net Days in AR	50.9	43.6	53.7	49.0	48.0	53.7	49.0	48.0	53.7	49.0	48.0
Days Cash	382	401	361	408	266	361	408	266	361	408	266
Debt to Capitalization	12.6%	13.6%	13.8%	12.8%	17.3%	13.8%	12.8%	17.3%	13.8%	12.8%	17.3%
MADS	9.5	8.9	6.1	15.5	9.3	6.1	15.5	9.3	6.1	15.5	9.3
<b>Affiliates - Net Income (\$000s)</b>											
Hosp	118,906	94,787	43,043	149,016	67,032	(14,838)	21,384	5,068	(8,147)	86,926	52,836
Concern	1,862	1,202	1,823	1,249	2,604	258	255	219	1,372	728	1,440
ECSC	(5)	(41)	(282)	(92)	0	2	(1)	0	17	(54)	0
Foundation	3,264	710	982	2,871	(450)	(268)	147	(122)	(334)	1,675	(267)
SVMD	32	106	156	326	0	(2)	200	(1)	(12)	190	198

**Inpatient Volume:**

- o January inpatient discharges exceed budget and PY same period; YTD discharge budget gap is narrowed to 1.4%.
- o The late flu season is the main reason for jump in General Medicine discharges
- o Other services show a modest increase in case volume including Orthopedics and Urology cases.

**Outpatient Volume:**

- o Overall YTD outpatient volume is 2.6% below budget but higher than PY.

**Operating Income:**

- o Operating Income was ahead of budget by \$5.0M for the month and \$33.4M YTD . The main contributing factors to a strong financial in January include:
  - o \$3.8M lower operating expense due to better productivity helped by high volume
  - o better mix of surgical and outpatient cases
- o LG posted a net loss of \$1.1M for January due to higher Medicare mix in both IP and OP and lower in PPO cases.
- o January's revenue include, a \$2.2M loss for BPSI program. This loss covers 3 years.
- o This partially offset by the \$814K Medi-Cal managed care supplemental payment.
- o Net AR increase in January due to slowdown in cash payments during the holidays.
- o Total cash on hand is at all time high of 408 days in Jan.

(1) Due to timing of month end costing, In Patient and Out Patient Operating Margin % for FYTD 2017 are one month in arrears

(2) Green - Equal to or better than budget

Yellow - Unfav vs budget by up to 5%

Red - Greater than 5% unfav variance from budget

\* The FY2017 budget presented excludes 2016 bonds cost of issuance and interest expense since the issuance was delayed.

# Budget Variances

\$ in Thousands	Month to Date (MTD)			Year to Date (YTD)		
	Detail	Net Income Impact	% Net Revenue	Detail	Net Income Impact	% Net Revenue
Net Revenue (FY2017 Budget/FY2017 Actual)						
	68,271	69,528		469,578	488,297	
<b>Budgeted Hospital Operations FY2017</b>		<b>4,339</b>	<b>6.4%</b>		<b>28,988</b>	<b>6.2%</b>
<b>Net Revenue</b>		1,257	1.8%		18,719	3.8%
* Rev cycle improvements	2,610			9,714		
* Medi-Cal Supplemental	814			1,127		
* Inter Govt Transfer (IGT)	0			6,535		
* Prime Medi-Cal	0			3,510		
* BPCI Settlement	(2,167)			(2,167)		
<b>Labor and Benefit Expense Change</b>		3,801	5.5%		9,793	2.0%
* Improve Productivity & flexing down staffing during holidays	3,784			15,216		
* Pay-for-Performance Bonus Accrual	(403)			(2,850)		
* Repricing of PTO Bank	0			404		
* Old employee WC settlement	0			(432)		
* Ratification Bonus to PRN	0			(2,600)		
* Severance Pay	0			(365)		
* One time UH expense reduction	420			420		
<b>Professional Fees &amp; Purchased Services</b>		(145)	-0.2%		142	0.0%
* Physician Fees	180			857		
* Consulting Fee including LG Surgery Intrim Director, LG Rehab purchase service expense.	(307)			(1,415)		
* Purchased Services mainly due to backfill for vacant IT positions	(347)			(2,195)		
* Repairs and Maintenance Fees	329			2,894		
<b>Supplies</b>		(171)	-0.2%		3,161	0.6%
* Drug Exp (due to higher Infusion Center volume; but offset by higher gross revenue)	(336)			(1,466)		
* Medical Supplies	152			3,144		
* Misc Net Supplies (Food/Volumes)	13			1,483		
<b>Other Expenses</b>		(456)	-0.7%		(345)	-0.1%
* Leases & Rental Fees (Rental Lease Costs)	(232)			(307)		
* Utilities & Telephone (continue on routine PG&E accrual but no payment yet)	5			315		
* Other G&A	(228)			(244)		
* MD Income Guarantee forgiveness	0			(109)		
<b>Depreciation &amp; Interest</b>		721	1.0%		1,968	0.4%
* Depreciation (Ongoing depreciation on the Old 2nd & 3rd Fl & GL improvement projects)	717			1,809		
* Interest Expense	4			159		
<b>Actual Hospital Operations FY2017</b>		<b>9,347</b>	<b>13.4%</b>		<b>62,425</b>	<b>12.8%</b>

# El Camino Hospital (\$000s)

7 month ending 1/31/2017

PERIOD 7 FY 2016	PERIOD 7 FY 2017	PERIOD 7 Budget 2017	Variance Fav (Unfav)	Var%	\$000s	YTD FY 2016	YTD FY 2017	YTD Budget 2017	Variance Fav (Unfav)	Var%
<b>OPERATING REVENUE</b>										
227,307	268,834	245,584	23,249	9.5%	<b>Gross Revenue</b>	1,579,008	1,719,213	1,687,131	32,082	1.9%
(165,773)	(200,008)	(179,367)	(20,641)	1.0%	<b>Deductions</b>	(1,137,202)	(1,246,351)	(1,232,164)	(14,187)	1.2%
<b>61,534</b>	<b>68,826</b>	<b>66,217</b>	<b>2,609</b>	<b>3.9%</b>	<b>Net Patient Revenue</b>	<b>441,806</b>	<b>472,861</b>	<b>454,966</b>	<b>17,895</b>	<b>3.9%</b>
2,073	702	2,054	(1,352)	-65.8%	<b>Other Operating Revenue</b>	14,000	15,436	14,612	824	5.6%
<b>63,607</b>	<b>69,528</b>	<b>68,271</b>	<b>1,257</b>	<b>1.8%</b>	<b>Total Operating Revenue</b>	<b>455,805</b>	<b>488,297</b>	<b>469,578</b>	<b>18,719</b>	<b>4.0%</b>
<b>OPERATING EXPENSE</b>										
38,775	35,920	39,721	3,801	9.6%	<b>Salaries &amp; Wages</b>	252,089	258,173	267,967	9,793	3.7%
8,335	9,650	9,479	(171)	-1.8%	<b>Supplies</b>	66,691	65,356	68,517	3,161	4.6%
8,514	7,763	7,618	(145)	-1.9%	<b>Fees &amp; Purchased Services</b>	57,190	54,659	54,801	142	0.3%
2,242	2,420	1,964	(456)	-23.2%	<b>Other Operating Expense</b>	23,588	16,418	16,073	(345)	-2.1%
449	444	448	4	0.9%	<b>Interest</b>	3,143	2,979	3,137	159	5.1%
4,192	3,984	4,702	717	15.3%	<b>Depreciation</b>	27,422	28,286	30,095	1,809	6.0%
<b>62,507</b>	<b>60,181</b>	<b>63,932</b>	<b>3,751</b>	<b>5.9%</b>	<b>Total Operating Expense</b>	<b>430,123</b>	<b>425,872</b>	<b>440,591</b>	<b>14,719</b>	<b>3.3%</b>
<b>1,100</b>	<b>9,347</b>	<b>4,339</b>	<b>5,007</b>	<b>115.4%</b>	<b>Net Operating Income/(Loss)</b>	<b>25,682</b>	<b>62,425</b>	<b>28,988</b>	<b>33,438</b>	<b>115.4%</b>
(15,835)	12,046	729	11,317	1552.6%	<b>Non Operating Income</b>	(32,997)	24,497	5,102	19,395	380.1%
<b>(14,735)</b>	<b>21,393</b>	<b>5,068</b>	<b>16,325</b>	<b>322.1%</b>	<b>Net Income(Loss)</b>	<b>(7,315)</b>	<b>86,923</b>	<b>34,090</b>	<b>52,833</b>	<b>155.0%</b>
9.0%	19.8%	13.9%	5.9%		<b>EBITDA</b>	12.3%	19.2%	13.3%	5.9%	
1.7%	13.4%	6.4%	7.1%		<b>Operating Margin</b>	5.6%	12.8%	6.2%	6.6%	
-23.2%	30.8%	7.4%	23.3%		<b>Net Margin</b>	-1.6%	17.8%	7.3%	10.5%	

## Non Operating Items and Net Income by Affiliate

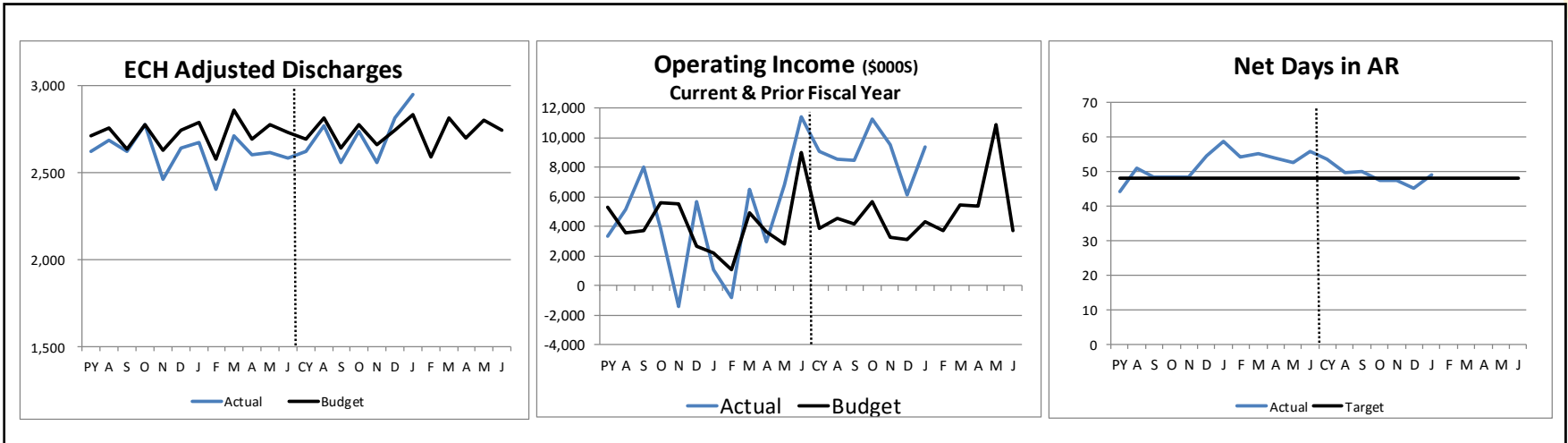
\$ in thousands

	Period 7 - Month			Period 7 - FYTD		
	Actual	Budget	Variance	Actual	Budget	Variance
<b>El Camino Hospital Income (Loss) from Operations</b>						
Mountain View	10,429	3,584	6,845	61,067	22,227	38,840
Los Gatos	(1,082)	755	(1,837)	1,358	6,760	(5,402)
<b>Sub Total - El Camino Hospital, excl. Affiliates</b>	<b>9,347</b>	<b>4,339</b>	<b>5,007</b>	<b>62,425</b>	<b>28,988</b>	<b>33,438</b>
<b>Operating Margin %</b>	<b>13.4%</b>	<b>6.4%</b>		<b>12.8%</b>	<b>6.2%</b>	
<b>El Camino Hospital Non Operating Income</b>						
Investments	12,747	1,512	11,235	26,158	10,582	15,576
Swap Adjustments	(35)	0	(35)	3,399	0	3,399
Community Benefit	(62)	(283)	221	(2,116)	(1,983)	(133)
Other	(604)	(499)	(105)	(2,944)	(3,496)	552
<b>Sub Total - Non Operating Income</b>	<b>12,046</b>	<b>729</b>	<b>11,317</b>	<b>24,497</b>	<b>5,102</b>	<b>19,395</b>
<b>El Camino Hospital Net Income (Loss)</b>	<b>21,393</b>	<b>5,068</b>	<b>16,325</b>	<b>86,923</b>	<b>34,090</b>	<b>52,833</b>
<b>ECH Net Margin %</b>	<b>30.8%</b>	<b>7.4%</b>		<b>17.8%</b>	<b>7.3%</b>	
Concern	255	219	37	728	1,440	(711)
ECSC	(1)	0	(1)	(54)	0	(54)
Foundation	147	(122)	269	1,675	(267)	1,941
Silicon Valley Medical Development	200	(1)	201	190	(7)	198
<b>Net Income Hospital Affiliates</b>	<b>601</b>	<b>95</b>	<b>506</b>	<b>2,540</b>	<b>1,166</b>	<b>1,374</b>
<b>Total Net Income Hospital &amp; Affiliates</b>	<b>21,993</b>	<b>5,163</b>	<b>16,830</b>	<b>89,462</b>	<b>35,256</b>	<b>54,207</b>

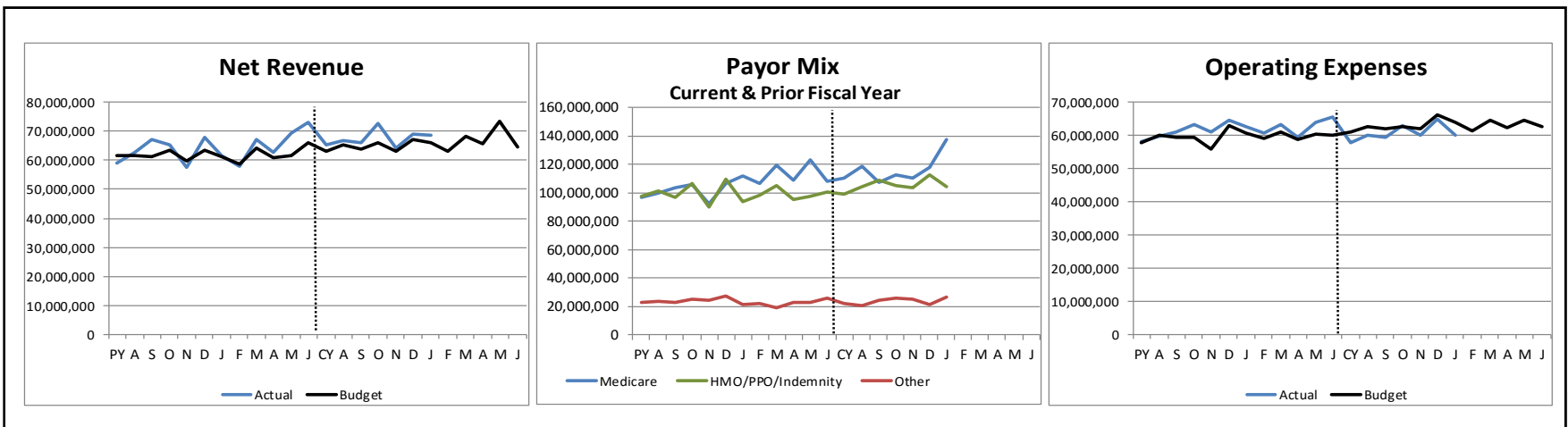
Swap gain due to rise in interest rates  
Favorable variance in Other due to lower losses at SVMD

Higher Foundation income due to high unrestricted donations and investment income

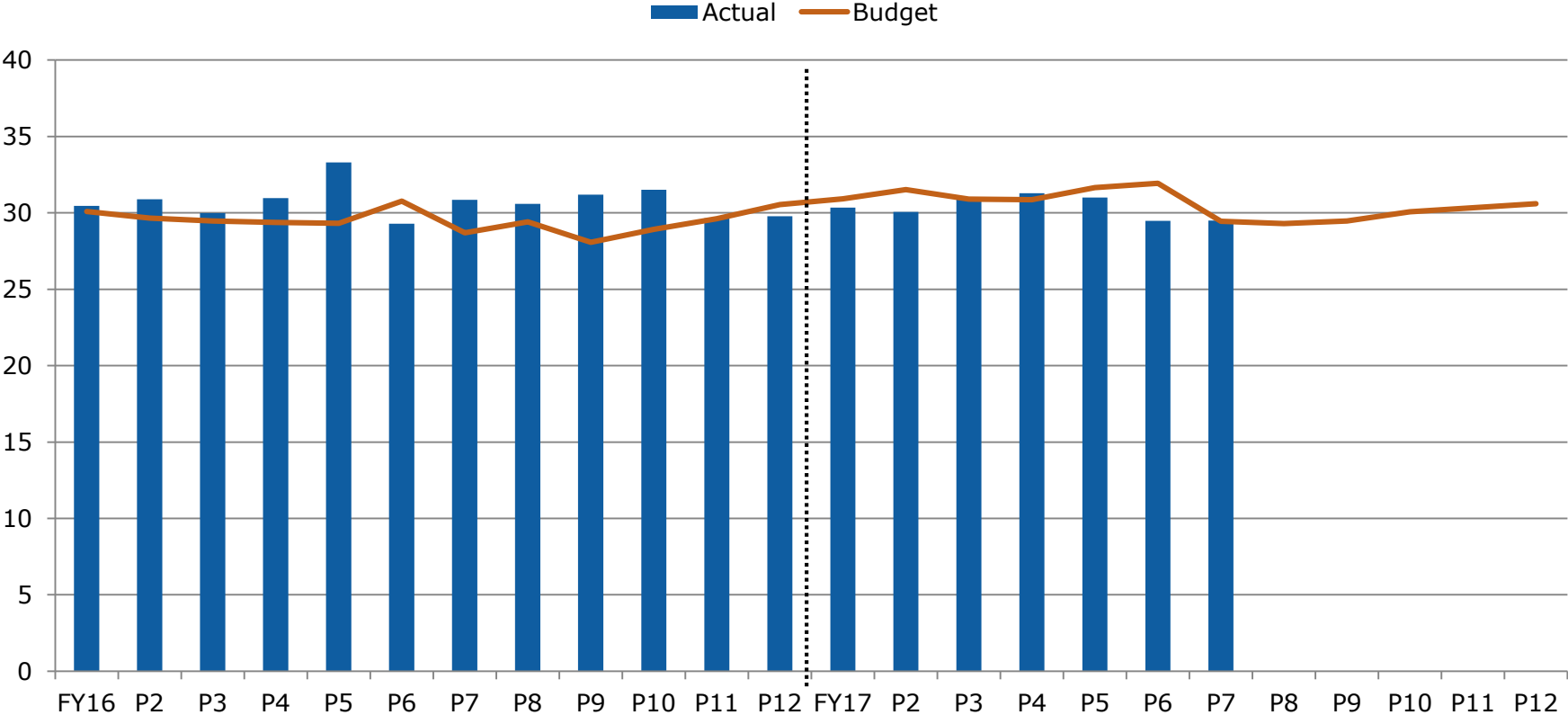
# Monthly Financial Trends



January volume is strong due to flu season.  
 Operating expenses lower than budgeted in January

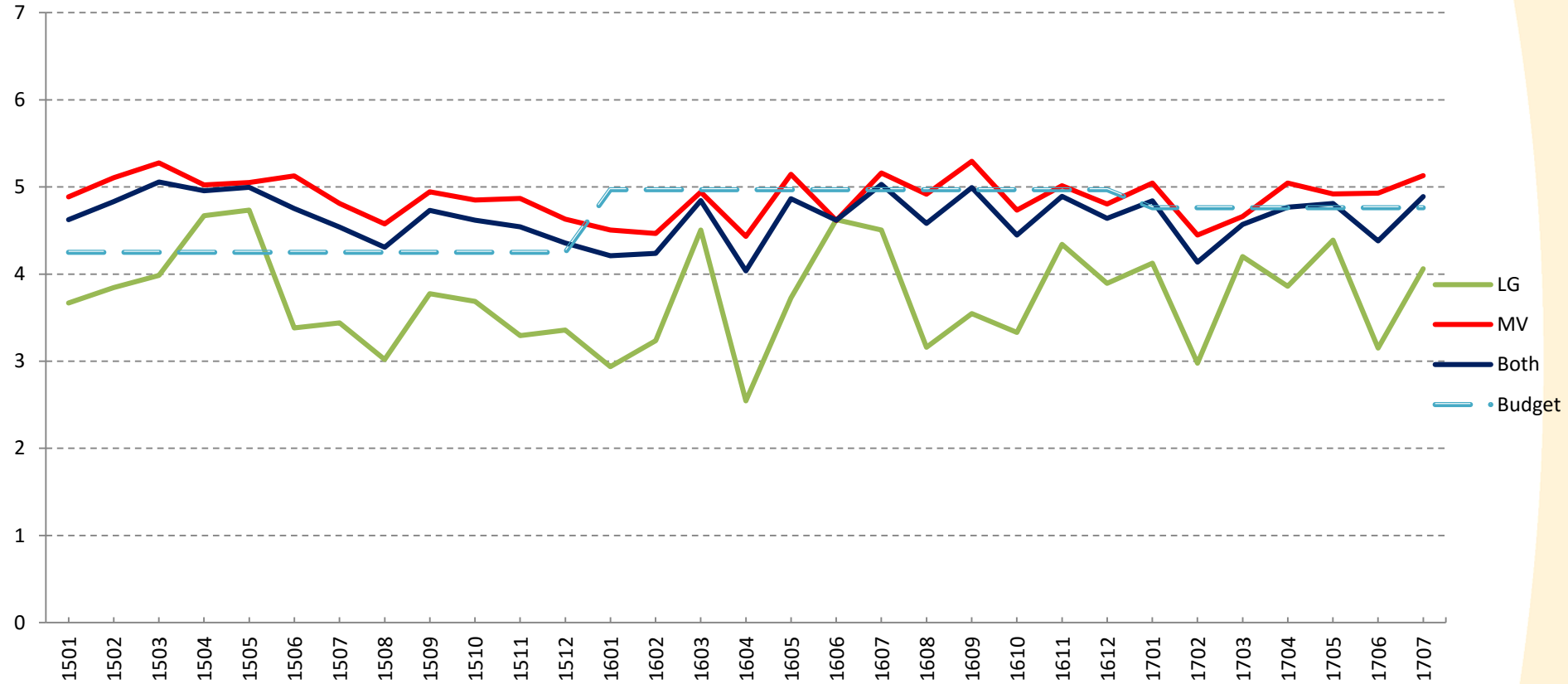


# Worked Hours per Adjusted Patient Day



Productivity has improved after EPIC go-live and is favorable compared to budget.

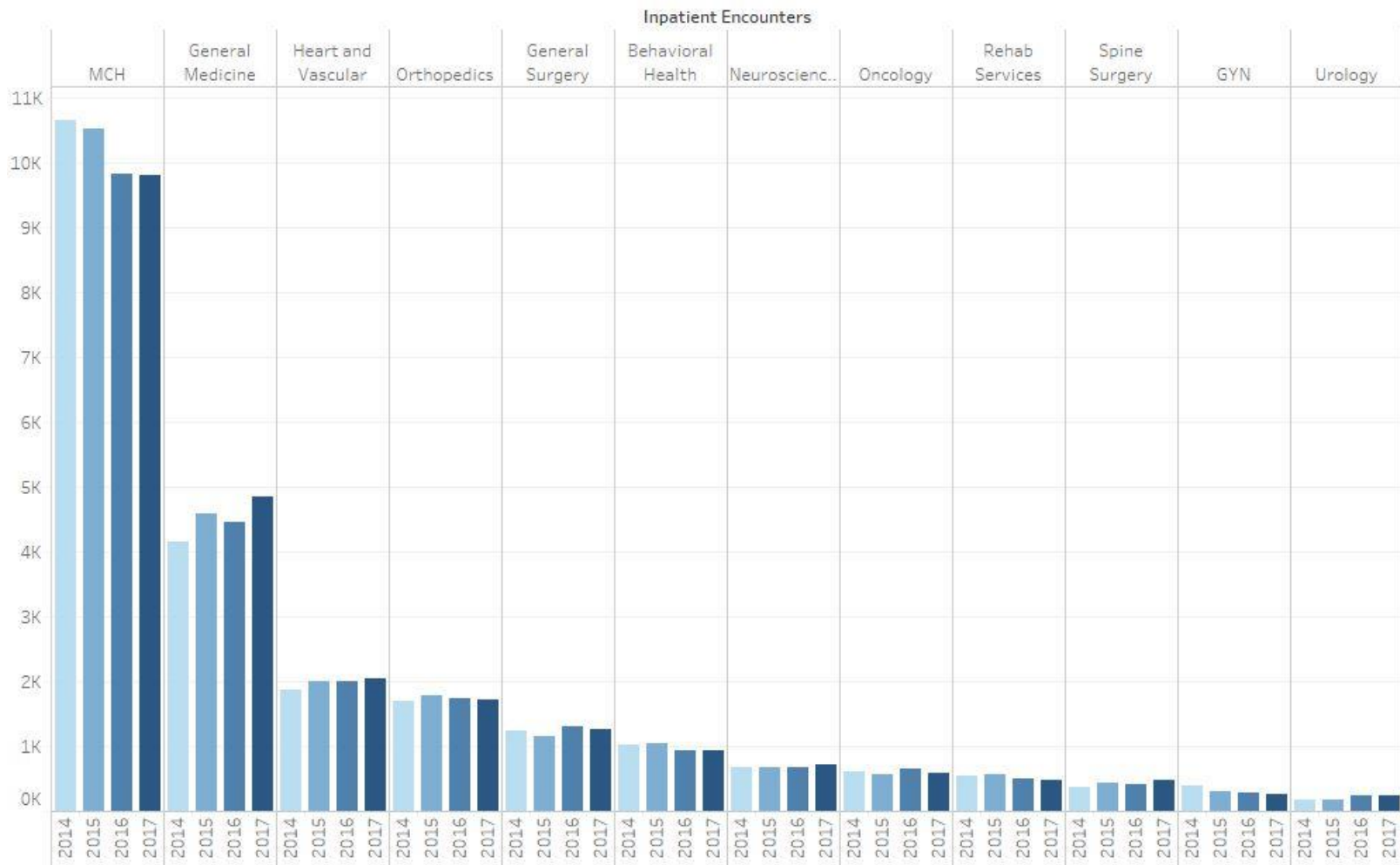
# Medicare ALOS



•ALOS increased slightly in January due to outlier cases.

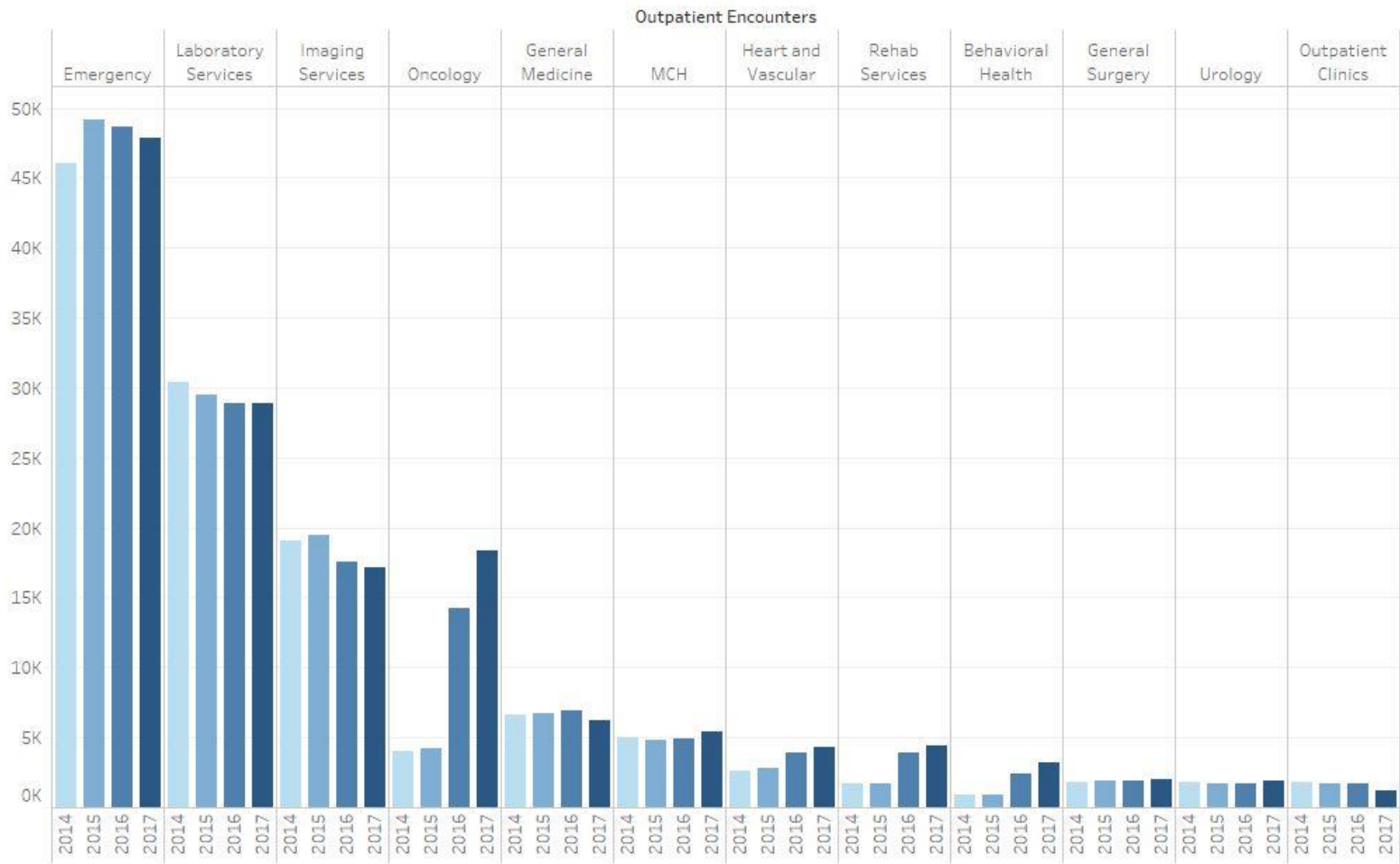


## El Camino Hospital Volume Annual Trends – Inpatient FY 2017 is annualized



- General Medicine experienced significant volume increases in January
- MCH volume recovered slightly from December with increases in vaginal deliveries and decreases in C-sections

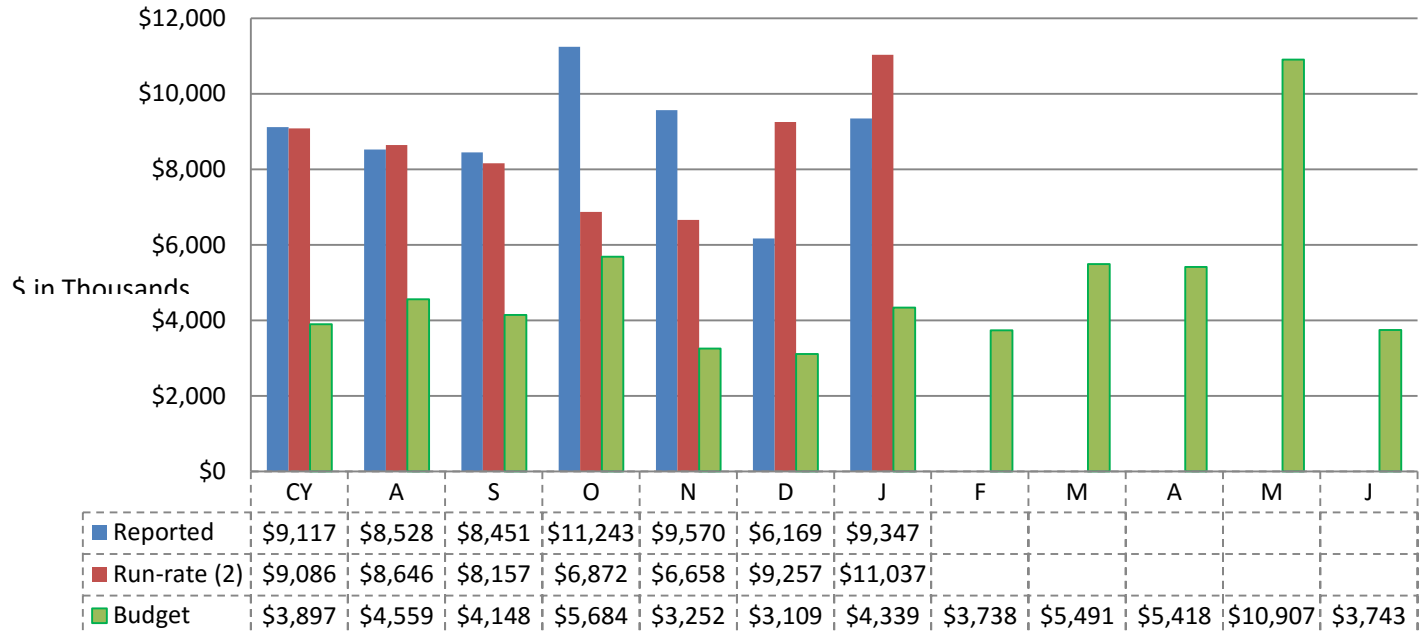
## El Camino Hospital Volume Annual Trends – Outpatient FY 2017 is annualized



- Emergency room encounters increased 5% from the previous month.
- Infusion Center continues to report strong volume growth.

# ECH Operating Margin

Run rate is booked operating income adjusted for material non-recurring transactions



## FY 2017 Actual Run Rate Adjustments (in thousands)

		J	A	S	O	N	D	J	F	M	A	M	J
<b>Revenue Adjustments</b>	RAC Release	\$76	\$1	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	Insurance Overpayment Release Spine	\$0	\$0	-\$61	-\$145	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	Mcare Settlmt/Appeal/Tent Settlmt/PIP	-\$100	\$158	-\$71	-\$67	\$0	\$0	-\$2,101	\$0	\$0	\$0	\$0	\$0
	LPCH Adjstmt	-\$8	-\$41	-\$19	-\$25	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	Medi-Cal Supplemental	\$0	\$0	\$0	\$0	\$0	-\$312	\$814	\$0	\$0	\$0	\$0	\$0
	Tricare	\$0	\$0	-\$144	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	SVPMG Quarterly Payment	\$0	\$0	\$0	\$0	\$0	-\$199	\$0	\$0	\$0	\$0	\$0	\$0
	IGT Supplemental	\$0	\$0	\$0	-\$6,535	-\$3,510	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	<b>Total</b>	<b>-\$31</b>	<b>\$118</b>	<b>-\$295</b>	<b>-\$6,771</b>	<b>-\$3,510</b>	<b>-\$512</b>	<b>-\$1,287</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Expense Adjustments</b>	Pay-For-Performance Bonus	\$0	\$0	\$0	\$0	\$0	\$2,400	\$403	\$0	\$0	\$0	\$0	\$0
	Ratification Bonus	\$0	\$0	\$0	\$2,400	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	Inst & Minor Med Equipment	\$0	\$0	\$0	\$0	\$598	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	Worker's Comp Settlement	\$0	\$0	\$0	\$0	\$0	\$700	\$0	\$0	\$0	\$0	\$0	\$0
	Other Purchased Services	\$0	\$0	\$0	\$0	\$0	\$500	\$0	\$0	\$0	\$0	\$0	\$0
	<b>Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$2,400</b>	<b>\$598</b>	<b>\$3,600</b>	<b>\$403</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

# El Camino Hospital Investment Committee Scorecard

December 31, 2016

Key Performance Indicator	Status	El Camino		Benchmark		El Camino		Benchmark		FY17	Expectation
		El Camino	Benchmark	El Camino	Benchmark	El Camino	Benchmark	Year-end Budget	Per Asset Allocation		
<b>Investment Performance</b>											
		4Q 2016		Fiscal Year-to-date		4y 2m Since Inception (annualized)					May 2016
Surplus cash balance & op. cash (millions)		\$801.9	–	–	–	–	–	\$657.2	–		–
Surplus cash return	■	0.0%	0.3%	2.9%	3.1%	4.6%	4.6%	4.0%	5.2%		
Cash balance plan balance (millions)		\$227.9	–	–	–	–	–	\$220.6	–		–
Cash balance plan return	■	-0.2%	0.6%	3.4%	3.8%	7.0%	6.6%	6.0%	5.8%		
403(b) plan balance (millions)		\$362.4	–	–	–	–	–	–	–		–
<b>Risk vs. Return</b>											
		3-year				4y 2m Since Inception (annualized)					May 2016
Surplus cash Sharpe ratio	■	0.67	0.76	–	–	1.06	1.05	–	0.55		
Net of fee return	■	3.1%	3.6%	–	–	4.6%	4.6%	–	5.2%		
Standard deviation	■	4.5%	4.6%	–	–	4.3%	4.3%	–	8.6%		
Cash balance Sharpe ratio	■	0.65	0.69	–	–	1.18	1.15	–	0.49		
Net of fee return	■	3.8%	4.0%	–	–	7.0%	6.6%	–	5.8%		
Standard deviation	■	6.0%	5.8%	–	–	5.8%	5.6%	–	10.7%		
<b>Asset Allocation</b>											
		4Q 2016									
Surplus cash absolute variances to target	■	7.5%	< 10%	–	–	–	–	–	–		–
Cash balance absolute variances to target	■	5.7%	< 10%	–	–	–	–	–	–		–
<b>Manager Compliance</b>											
		4Q 2016									
Surplus cash manager flags	■	18	< 19 Green < 23 Yellow	–	–	–	–	–	–		–
Cash balance plan manager flags	■	21	< 20 Green < 25 Yellow	–	–	–	–	–	–		–

# El Camino Hospital

## Capital Spending (in millions)

Category	Detail	Approved	Total			FY 17 Proj Spend	FY 17 YTD Spent
			Total Estimated Cost of Project	Authorized Active	Spent from Inception		
<b>CIP</b>	EPIC Upgrade			6.1	2.0	6.1	2.0
<b>IT Hardware, Software, Equipment*</b>				5.4	0.3	5.4	0.3
<b>Medical &amp; Non Medical Equipment FY 16**</b>				4.3	0.0	4.3	0.0
<b>Medical &amp; Non Medical Equipment FY 17</b>				10.3	1.1	10.3	1.1
<b>Facility Projects</b>							
	1307 LG Upgrades	FY13	17.3	17.3	12.0	3.3	2.0
	1219 LG Spine OR	FY13	4.1	4.1	2.6	2.7	1.3
	1414 Integrated MOB	FY15	275.0	247.0	30.0	58.2	16.2
	1413 North Drive Parking Expansion	FY15	24.5	24.5	6.9	19.7	5.3
	1245 Behavioral Health Bldg	FY16	91.5	72.5	10.8	17.9	3.5
	1248 LG Imaging Phase II (CT & Gen Rad)	FY16	8.8	8.8	2.8	8.1	3.1
	1313/1224 LG Rehab HVAC System & Structural	FY16	3.7	3.7	3.0	1.6	1.2
	1502 Cabling & Wireless Upgrades	FY16	2.8	2.8	2.4	1.0	0.3
	1425 IMOB Preparation Project - Old Main	FY16	3.0	3.0	2.5	2.5	1.8
	1430 Women's Hospital Expansion	FY16	91.0	0.0	0.0	0.8	0.0
	1422 CUP Upgrade	FY16	9.0	7.5	1.5	4.0	0.5
	1503 Willow Pavilion Tomosynthesis	FY16	1.3	1.3	0.2	1.2	0.1
	1519/1314 LG Electrical Systems Upgrade	FY16	1.2	0.0	0.0	0.0	0.0
	1347 LG Central Sterile Upgrades	FY15	3.7	0.2	0.3	0.4	0.0
	1508 LG NICU 4 Bed Expansion	FY16	7.0	0.5	0.2	0.2	0.2
	1520 Facilities Planning Allowance	FY16	0.6	0.0	0.0	0.0	0.0
New to FP 3	1525 New Main Lab Upgrades		1.6	0.4	0.3	2.6	0.3
New to FP 3	1515 ED Remodel Triage/Psych Observation	FY16	1.6	0.0	0.0	0.6	0.0
New to FP 3	Site Signage and Other Improvements		1.0	0.0	0.0	0.1	0.0
New to FP 3	IR Room #6 Development		2.6	0.0	0.0	0.2	0.0
New to FP 3	1602 JW House (Patient Family Residence)		2.5	0.0	0.0	0.0	0.0
New to FP 3	1507 LG IR Upgrades		1.1	0.0	0.0	0.0	0.0
New to FP 3	LG Building Infrastructure Upgrades		1.5	0.0	0.0	0.0	0.0
New to FP 3	1421 LG MOB Improvements (17)		5.0	0.9	0.7	1.7	0.1
	All Other Projects under \$1M		8.6	6.7	4.6	4.1	1.7
			569.9	401.2	80.7	131.0	37.7
<b>GRAND TOTAL</b>				<b>427.3</b>		<b>157.0</b>	<b>41.1</b>

# El Camino Hospital

## Capital Spending – Facility Projects (in millions)

	(\$ in ,000)	Approved	A - FY17 Budgeted (Board packet)	D - FY17 Projected Spent	Variance from Budget
<b>Mountain View Campus Master Plan Projects</b>					
1245	BHS Replacement	FY16	30,000	17,890	12,110
1413	North Dr Parking Structure Expansion	FY15	20,500	19,651	849
1414	Integrated Medical Office Building	FY15	101,500	58,230	43,270
1422	CUP Upgrades	FY16	5,000	4,025	975
1430	Womens Hosp Expansion	FY16	5,500	800	4,700
<b>Sub-Total</b>			<b>162,500</b>	<b>100,596</b>	<b>61,904</b>
<b>Other Capital Facilities Projects (Active/Budgeted)</b>					
0					
0					
1501	Womens Hosp NPC Closeout <sup>(1)</sup>	FY16	327	595	(268)
1425	IMOB Preparation Project - Old Main		1,000	2,466	(1,466)
1502	Cabling and Wireless upgrades <sup>(1)</sup>	FY16	400	1,010	(610)
1525	New Main Lab Upgrades		1,200	2,575	(1,375)
1515	ED Remodel Triage / Psych Observation		1,400	600	800
1415	Signage & Wayfinding		300	425	(125)
1416	Digital Directories <sup>(1)</sup>	FY15	-	108	(108)
1503	Breast Imaging Tomography (Excludes \$1M Equip) <sup>(1)</sup>	FY16	300	1,228	(928)
1316	Willow Pavilion FA Sys and Equip Upgrades		800	100	700
1423	MV MOB TI Allowance <sup>(1)</sup>	FY16	-	419	(419)
1520	Facilities Planning Allowance		300	-	300
1523	MV Melchor Suite 309 TI's <sup>(1)</sup>	FY16	-	76	(76)
	Furniture Systems Inventory		250	250	0
	Site Signage & Other Improvements		200	100	100
	MV Equipment & Infrastructure Upgrades (17)		300	-	300
	IR Room #6 Development		500	200	300
1602	JW House (Patient Family Residence)		500	-	500
<b>MV Capital Projects Sub-Total</b>			<b>7,777</b>	<b>10,153</b>	<b>(2,376)</b>
0					
1219	LG Spine Room Expansion - OR 4	FY13	3,100	2,717	383
1313	LG Rehab HVAC Upgrades (CIP# 1313 / 1224)	FY15	400	1,643	(1,243)
1248	LG Imaging & Sterile Processing		7,250	8,100	(850)
1307	LG Upgrades - Major	FY13	7,300	3,266	4,034
1327	LG Rehab Building Upgrades		500	100	400
1346	LG Surgical Lights OR's 5, 6 & 7 <sup>(1)</sup>	FY15	-	154	(154)
1347	LG Central Sterile Upgrades		-	40	(40)
1421	LG MOB Improvements		150	219	(69)
1507	LG IR Upgrades		800	-	800
1508	LG NICU 4 Bed Expansion		5,000	247	4,753
1600	LG 825 Pollard - Aspire Phase 2 <sup>(1)</sup>	FY16	-	500	(500)
1519	LG Electrical Systems Upgrade	FY16			
	LG Building Infrastructure Improvements		1,200	-	1,200
	LG Facilities Planning		500	-	500
	LG MOB Improvements (17)		4,000	1,500	2,500
<b>LG Capital Projects Sub-Total</b>			<b>30,200</b>	<b>18,487</b>	<b>11,713</b>
0					
	Primary Care Clinic (TI's Only)		1,600	1,400	200
	Urgent Care Clinics (TI's Only)		2,400	-	2,400
<b>Other Strategic Capital Project Sub-Total</b>			<b>4,000</b>	<b>1,400</b>	<b>2,600</b>
0					
<b>Grand Total Facilities Projects</b>			<b>204,477</b>	<b>130,636</b>	<b>73,841</b>

<sup>(1)</sup> Approved Spending prior to FY17

# Balance Sheet (in thousands)

## ASSETS

	Audited	
	January 31, 2017	June 30, 2016
<b>CURRENT ASSETS</b>		
(1) Cash	88,983	59,169
Short Term Investments	118,444	105,284
(2) Patient Accounts Receivable, net	104,815	120,960
Other Accounts and Notes Receivable	2,493	4,369
(3) Intercompany Receivables	1,310	2,200
(4) Inventories and Prepays	45,667	39,678
<b>Total Current Assets</b>	<b>361,713</b>	<b>331,660</b>
<b>BOARD DESIGNATED ASSETS</b>		
Plant & Equipment Fund	121,973	119,650
(5) Women's Hospital Expansion	9,298	-
Operational Reserve Fund	100,196	100,196
Community Benefit Fund	12,854	13,037
Workers Compensation Reserve Fund	23,118	22,309
Postretirement Health/Life Reserve Fund	19,203	18,256
PTO Liability Fund	21,874	22,984
Malpractice Reserve Fund	1,800	1,800
Catastrophic Reserves Fund	15,756	14,125
<b>Total Board Designated Assets</b>	<b>326,071</b>	<b>312,358</b>
(6) <b>FUNDS HELD BY TRUSTEE</b>	<b>25,410</b>	<b>30,841</b>
<b>LONG TERM INVESTMENTS</b>	<b>221,582</b>	<b>207,597</b>
<b>INVESTMENTS IN AFFILIATES</b>	<b>32,129</b>	<b>31,627</b>
<b>PROPERTY AND EQUIPMENT</b>		
Fixed Assets at Cost	1,181,729	1,171,372
Less: Accumulated Depreciation	(512,495)	(485,856)
Construction in Progress	77,442	46,009
<b>Property, Plant &amp; Equipment - Net</b>	<b>746,675</b>	<b>731,525</b>
<b>DEFERRED OUTFLOWS</b>	29,464	29,814
<b>RESTRICTED ASSETS - CASH</b>	0	-
<b>TOTAL ASSETS</b>	<b>1,743,045</b>	<b>1,675,422</b>

## LIABILITIES AND FUND BALANCE

	Audited	
	January 31, 2017	June 30, 2016
<b>CURRENT LIABILITIES</b>		
(7) Accounts Payable	20,822	28,519
(8) Salaries and Related Liabilities	16,431	22,992
Accrued PTO	21,874	22,984
Worker's Comp Reserve	2,300	2,300
Third Party Settlements	13,242	11,314
Intercompany Payables	32	105
Malpractice Reserves	1,969	1,936
Bonds Payable - Current	3,735	3,635
(9) Bond Interest Payable	1,340	5,459
Other Liabilities	8,076	10,478
<b>Total Current Liabilities</b>	<b>86,930</b>	<b>106,830</b>
<b>LONG TERM LIABILITIES</b>		
Post Retirement Benefits	19,203	18,256
Worker's Comp Reserve	20,818	20,009
Other L/T Obligation (Asbestos)	3,701	3,637
Other L/T Liabilities (IT/Medl Leases)	-	-
Bond Payable	219,445	225,857
<b>Total Long Term Liabilities</b>	<b>263,167</b>	<b>267,759</b>
<b>DEFERRED INFLOW OF RESOURCES</b>	2,892	2,892
<b>FUND BALANCE/CAPITAL ACCOUNTS</b>		
Unrestricted	1,063,985	985,583
Board Designated	326,071	312,358
Restricted	0	-
(10) <b>Total Fund Bal &amp; Capital Accts</b>	<b>1,390,056</b>	<b>1,297,941</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>1,743,045</b>	<b>1,675,422</b>

## El Camino Hospital Comparative Balance Sheet Variances and Footnotes <sup>(1)</sup>

- (1) The increase in cash is due allowing for immediate cash to be available for the recent significant construction projects that have started in MV campus.
- (2) The decrease is primarily due to the significant cash payments the Patient Accounts team has brought in during the four months, two months were in excess of \$70M where the projected budgeted was approximately \$63M per month.
- (3) The decrease is just a timing issue of intercompany payments from one quarter to another. Normally at a fiscal year end, they are higher due to the books being held open for a longer period of time in preparation for audit.
- (4) The increase is principally due to two quarterly pension contributions of \$2.6M each since July 1, 2016.
- (5) A new item, the District allocated its FY 2014 and FY 2015 Capital Appropriation Funds in support of future renovations to the Women's Hospital when the IMOB is completed and those floors become for patient care.
- (6) The decrease is due to additional withdraws from the 2015A Project Fund for the renovations at the Los Gatos campus.
- (7) The decrease is due significant General Contractor payments being accrued at year end, that were subsequently relieved during the first quarter of fiscal year 2017.
- (8) The decrease is due to timing of the release of the bi-weekly payroll liabilities, at June 30 there were 12/14's accrual on the books, at January 31 it was down to 3/14's.
- (9) The decrease is due a semi-annual 2015A bond interest payment made in January, 2017.
- (10) The increase is due to this fiscal year's P&L affect (\$64M from Operations and \$24M for Non-Operations – primarily due to unrealized investment gain), and the transfer from the District in support of the future Women's Hospital renovations.

<sup>(1)</sup> Hospital entity only, excludes controlled affiliates



# APPENDIX

# El Camino Hospital – Mountain View (\$000s)

7 months ending 1/31/2017

PERIOD 7 FY 2016	PERIOD 7 FY 2017	PERIOD 7 Budget 2017	Variance Fav (Unfav)	Var%	\$000s	YTD FY 2016	YTD FY 2017	YTD Budget 2017	Variance Fav (Unfav)	Var%
<b>OPERATING REVENUE</b>										
187,196	220,743	200,942	19,800	9.9%	<b>Gross Revenue</b>	1,287,286	1,413,282	1,373,904	39,378	2.9%
(130,246)	(162,494)	(147,053)	(15,441)	10.5%	<b>Deductions</b>	(927,954)	(1,020,465)	(1,005,435)	(15,031)	1.5%
<b>56,950</b>	<b>58,248</b>	<b>53,889</b>	<b>4,359</b>	<b>8.1%</b>	<b>Net Patient Revenue</b>	<b>359,332</b>	<b>392,817</b>	<b>368,470</b>	<b>24,348</b>	<b>6.6%</b>
1,894	664	1,839	(1,175)	-63.9%	<b>Other Operating Revenue</b>	12,576	14,293	13,109	1,184	9.0%
<b>58,844</b>	<b>58,913</b>	<b>55,728</b>	<b>3,184</b>	<b>5.7%</b>	<b>Total Operating Revenue</b>	<b>371,908</b>	<b>407,110</b>	<b>381,579</b>	<b>25,531</b>	<b>6.7%</b>
<b>OPERATING EXPENSE</b>										
32,149	29,836	33,119	3,282	9.9%	<b>Salaries &amp; Wages</b>	209,763	214,818	223,035	8,217	3.7%
6,401	7,521	7,772	251	3.2%	<b>Supplies</b>	54,230	53,420	56,086	2,666	4.8%
7,178	6,378	6,395	17	0.3%	<b>Fees &amp; Purchased Services</b>	47,812	45,282	46,048	765	1.7%
715	822	404	(418)	-103.3%	<b>Other Operating Expense</b>	12,469	4,935	4,759	(176)	-3.7%
449	444	448	4	0.9%	<b>Interest</b>	3,143	2,979	3,137	159	5.1%
3,694	3,482	4,006	524	13.1%	<b>Depreciation</b>	23,941	24,609	26,287	1,677	6.4%
<b>50,586</b>	<b>48,483</b>	<b>52,144</b>	<b>3,660</b>	<b>7.0%</b>	<b>Total Operating Expense</b>	<b>351,357</b>	<b>346,043</b>	<b>359,351</b>	<b>13,308</b>	<b>3.7%</b>
<b>8,258</b>	<b>10,429</b>	<b>3,584</b>	<b>6,845</b>	<b>191.0%</b>	<b>Net Operating Income/(Loss)</b>	<b>20,551</b>	<b>61,067</b>	<b>22,227</b>	<b>38,840</b>	<b>174.7%</b>
(15,809)	12,046	729	11,317	1552.6%	<b>Non Operating Income</b>	(32,971)	24,508	5,102	19,405	380.3%
<b>(7,551)</b>	<b>22,475</b>	<b>4,313</b>	<b>18,162</b>	<b>421.1%</b>	<b>Net Income(Loss)</b>	<b>(12,421)</b>	<b>85,575</b>	<b>27,330</b>	<b>58,245</b>	<b>213.1%</b>
19.0%	22.2%	12.2%	10.1%		<b>EBITDA</b>	10.5%	19.6%	11.2%	8.4%	
14.0%	17.7%	6.4%	11.3%		<b>Operating Margin</b>	5.5%	15.0%	5.8%	9.2%	
-12.8%	38.1%	7.7%	30.4%		<b>Net Margin</b>	-3.3%	21.0%	7.2%	13.9%	

# El Camino Hospital – Los Gatos(\$000s)

7 months ending 1/31/2017

PERIOD 7 FY 2016	PERIOD 7 FY 2017	PERIOD 7 Budget 2017	Variance Fav (Unfav)	Var%	\$000s	YTD FY 2016	YTD FY 2017	YTD Budget 2017	Variance Fav (Unfav)	Var%
<b>OPERATING REVENUE</b>										
40,111	48,091	44,642	3,449	7.7%	<b>Gross Revenue</b>	291,722	305,930	313,226	(7,296)	-2.3%
(35,526)	(37,514)	(32,314)	(5,199)	16.1%	<b>Deductions</b>	(209,248)	(225,886)	(226,730)	844	-0.4%
<b>4,584</b>	<b>10,577</b>	<b>12,328</b>	<b>(1,750)</b>	<b>-14.2%</b>	<b>Net Patient Revenue</b>	<b>82,474</b>	<b>80,044</b>	<b>86,497</b>	<b>(6,452)</b>	<b>-7.5%</b>
179	38	215	(177)	-82.4%	<b>Other Operating Revenue</b>	1,424	1,143	1,503	(360)	-24.0%
<b>4,763</b>	<b>10,615</b>	<b>12,543</b>	<b>(1,928)</b>	<b>-15.4%</b>	<b>Total Operating Revenue</b>	<b>83,898</b>	<b>81,187</b>	<b>88,000</b>	<b>(6,813)</b>	<b>-7.7%</b>
<b>OPERATING EXPENSE</b>										
6,626	6,083	6,602	519	7.9%	<b>Salaries &amp; Wages</b>	42,327	43,356	44,932	1,576	3.5%
1,934	2,129	1,708	(422)	-24.7%	<b>Supplies</b>	12,461	11,936	12,431	495	4.0%
1,336	1,385	1,223	(162)	-13.2%	<b>Fees &amp; Purchased Services</b>	9,378	9,376	8,753	(623)	-7.1%
1,527	1,598	1,560	(38)	-2.4%	<b>Other Operating Expense</b>	11,119	11,483	11,314	(169)	-1.5%
0	0	0	0	0.0%	<b>Interest</b>	0	0	0	0	0.0%
497	503	696	193	27.7%	<b>Depreciation</b>	3,481	3,677	3,809	132	3.5%
<b>11,921</b>	<b>11,698</b>	<b>11,788</b>	<b>90</b>	<b>0.8%</b>	<b>Total Operating Expense</b>	<b>78,766</b>	<b>79,829</b>	<b>81,239</b>	<b>1,410</b>	<b>1.7%</b>
<b>(7,157)</b>	<b>(1,082)</b>	<b>755</b>	<b>(1,837)</b>	<b>-243.3%</b>	<b>Net Operating Income/(Loss)</b>	<b>5,132</b>	<b>1,358</b>	<b>6,760</b>	<b>(5,402)</b>	<b>-79.9%</b>
(26)	0	0	0	0.0%	<b>Non Operating Income</b>	(26)	(10)	0	(10)	0.0%
<b>(7,184)</b>	<b>(1,082)</b>	<b>755</b>	<b>(1,837)</b>	<b>-243.3%</b>	<b>Net Income(Loss)</b>	<b>5,106</b>	<b>1,347</b>	<b>6,760</b>	<b>(5,413)</b>	<b>-80.1%</b>
-113.6%	6.3%	21.5%	-15.2%		<b>EBITDA</b>	20.7%	17.0%	22.0%	-5.0%	
-150.3%	-10.2%	6.0%	-16.2%		<b>Operating Margin</b>	6.1%	1.7%	7.7%	-6.0%	
-150.8%	-10.2%	6.0%	-16.2%		<b>Net Margin</b>	6.1%	1.7%	7.7%	-6.0%	

## ECH BOARD MEETING AGENDA ITEM COVER SHEET

<b>Item:</b>	Resolution 2017-03 Adopting the 2017 Plan of Finance, Approving Transactions for the Funding of new projects at the Mountain View Campus, and Paying Costs of Issuance Plus a Capitalized Interest Amount Not to Exceed \$325,000,000  El Camino Hospital Board of Directors  March 8, 2017
<b>Responsible party:</b>	Iftikhar Hussain, Chief Financial Officer Chad Kenan, Director, Citibank Jennifer Brown, Managing Director, Ponder & Co.
<b>Action requested:</b>	For Approval
<p><b>Background:</b> The Series 2017 new money financing is designed to lock in a low cost of capital with a tax-exempt fixed rate borrowing through the issuance of Revenue Bonds. These bonds will finance all or portions of the North Parking Garage Expansion, Behavioral Health Building, Integrated Medical Office Building, Women’s Hospital Expansion, and Central Utility Plant Upgrades. The attached materials give an overview of the structure of the financing as well as the documents being drafted for the sale of the bonds.</p> <p>We recommend that, in reviewing the attached bond documents (which are still in draft form, but are substantially final), the Board focus on the following documents:</p> <ol style="list-style-type: none"> <li>1. Appendix A – This tells the story of ECH and needs to reflect all factual information that investors will need to make a decision to buy ECH bonds.</li> <li>2. Official Statement – This describes the structure of the deal. The key area of focus in here should be the “Risks” section. This is where we try and capture all health industry risks that would be relevant to investors that are evaluating ECH Bonds.</li> <li>3. Continuing Disclosure Agreement – This is the same as 2015 but should be read again as these are the items that ECH has to report to the market on a timely basis should they occur.</li> </ol>	
<p><b>Board Advisory Committees that reviewed the issue and recommendation, if any:</b></p> <p>At the January 30, 2017 Joint Meeting of the Finance Committee and the Investment Committee, management advised the Committees that it intended to pursue the 2017 Plan of Finance as expeditiously as possible to lock in low interest rates before they rise further. The Committee members present indicated that it was not necessary to bring the 2017 Plan back to the Finance Committee prior to seeking Board approval.</p>	
<p><b>Summary and session objectives:</b> Obtain approval of Resolution 2017-03.</p>	
<p><b>Proposed Board motion, if any:</b></p> <p>To approve Resolution 2017-03 adopting the 2017 Plan of Finance, approving transactions for the funding of new projects at the Mountain View campus and paying costs of issuance plus a capitalized interest account not to exceed \$325,000,000.</p>	

## ECH BOARD MEETING AGENDA ITEM COVER SHEET

### LIST OF ATTACHMENTS:

1. Series 2017A&B PowerPoint Presentation
2. Draft Resolution 2017-03
3. Draft Tax Certificate
4. Draft Preliminary Official Statement
5. Draft Loan Agreement
6. Draft Bond Indenture
7. Draft Supplemental Master Indenture
8. Draft Appendix A
9. Draft Continuing Disclosure Agreement
10. Draft Bond Purchase Contract

March 8, 2017

# El Camino Hospital Board Meeting – Series 2017



# Executive Summary

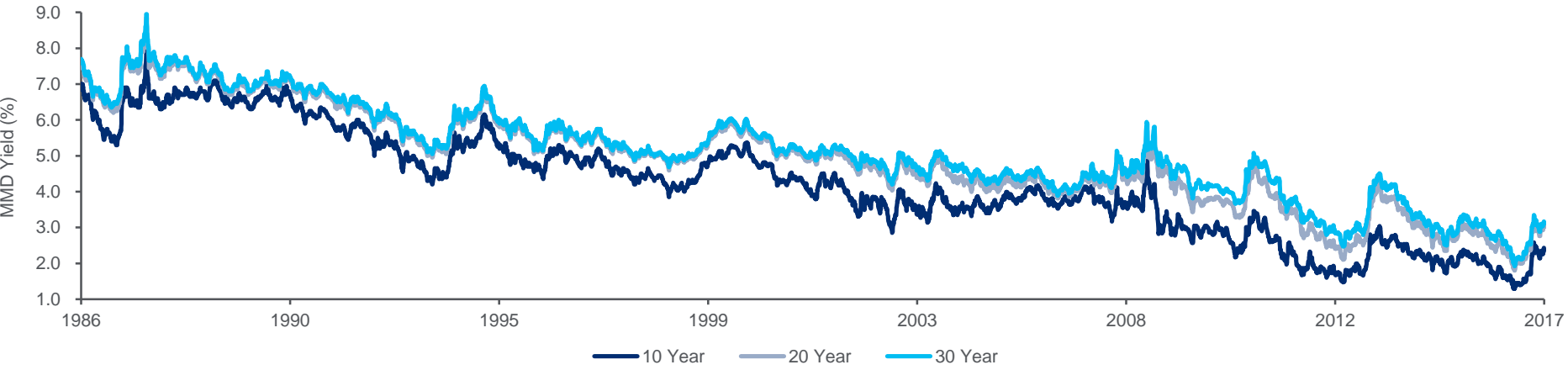
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- El Camino Hospital originally priced the Series 2016 bonds on October 26, 2016 but the transaction did not close as planned on November 15<sup>th</sup>
- When Donald Trump won the election on November 9<sup>th</sup>, the market became extremely volatile and interest rates increased dramatically for several days
- While rates have increased from their all time lows, the current interest rate is still very attractive on a historical basis
- ECH is interested in returning to the market with a 2017 plan and lock in historically low rates, capitalizing on all the work that originally went into the 2016 plan
- ECH, Citi, and Ponder have reassessed the plan of finance and next steps which are addressed in the following slides
- **The 2017 Revenue Bond plan of finance will fund \$290 million of tax-exempt projects**
- Once final approvals have been received, ECH will be able to market and sell the bonds within one week

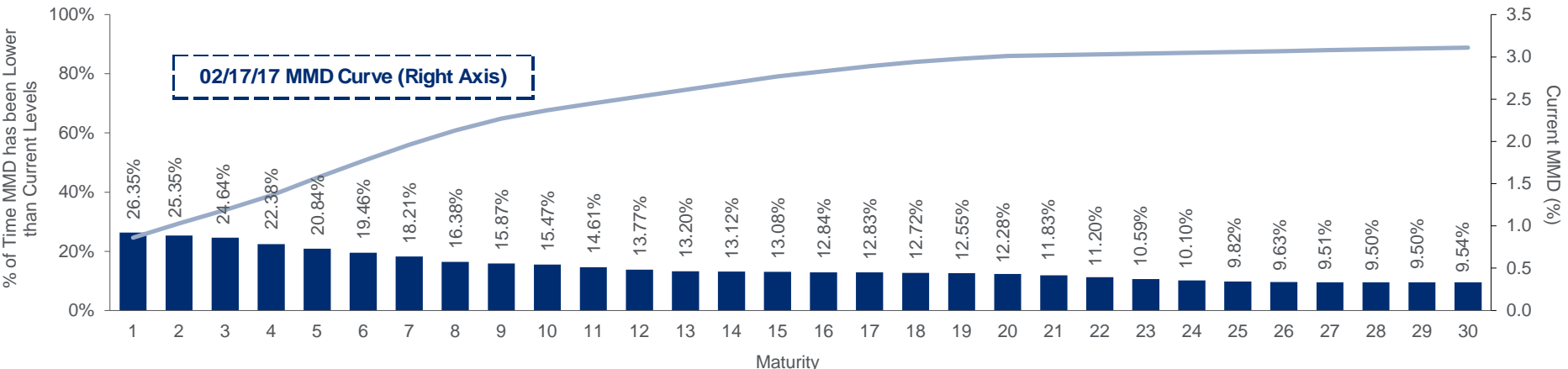
# MMD in Historical Context

Although MMD has ticked up recently from all time lows, from a historical perspective the current rate environment continues to be attractive to issuers, especially on the long end of the curve.

**AAA G.O. MMD Yields (June 1, 1986 – February 17, 2017)**



**% of Time MMD has been Lower Since 1986**



Source: Thomson Reuters, data as of February 17, 2017.





# Changes in MMD Since ECH Series 2016 Revenue Bond Pricing

As a result of record municipal issuance in the fall and reaction to the Presidential Election results, rates have picked up across the curve with significant volatility over the past month.

## 30 Year MMD Volatility - Since ECH Series 2016 Revenue Bond Pricing

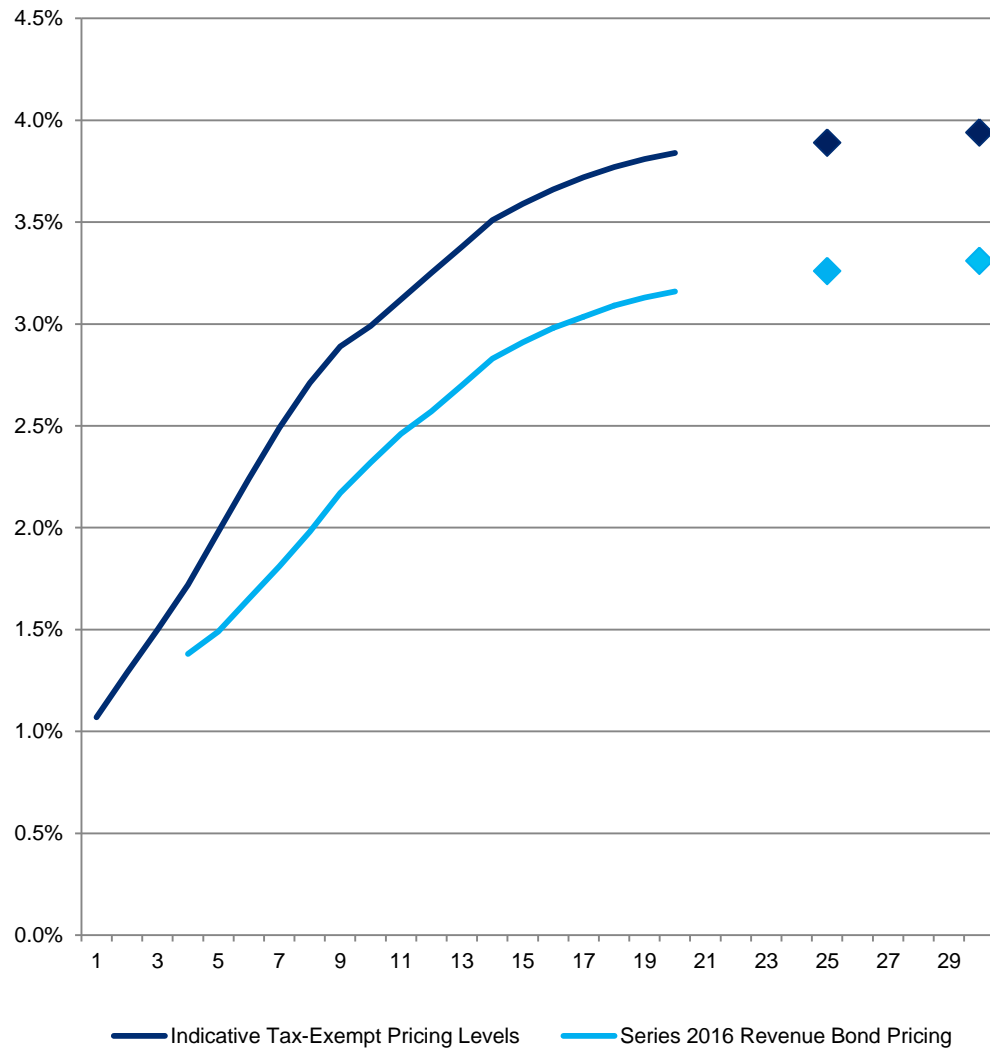


## Municipal Yield Changes

	October 26, 2016	February 23, 2017	Δ Since Series 2016 Revenue Bond Pricing
5-Year	1.12%	1.55%	+ 43bps
10-Year	1.72%	2.42%	+ 70bps
30-Year	2.55%	3.09%	+ 54bps

Source: Thomson Reuters, data as of February 17, 2017.

# ECH Indicative Tax-Exempt Revenue Bond Pricing Levels



## Traditional Fixed Rate Scale

Term	Coupon	MMD (2/23/17)	YTC Spread to MMD	Yield-to-Call
1	5.00%	0.82%	0.25%	1.07%
2	5.00%	0.99%	0.30%	1.29%
3	5.00%	1.15%	0.35%	1.50%
4	5.00%	1.32%	0.40%	1.72%
5	5.00%	1.53%	0.45%	1.98%
6	5.00%	1.74%	0.50%	2.24%
7	5.00%	1.94%	0.55%	2.49%
8	5.00%	2.11%	0.60%	2.71%
9	5.00%	2.24%	0.65%	2.89%
10	5.00%	2.34%	0.65%	2.99%
11	5.00%	2.42%	0.70%	3.12%
12	5.00%	2.50%	0.75%	3.25%
13	5.00%	2.58%	0.80%	3.38%
14	5.00%	2.66%	0.85%	3.51%
15	5.00%	2.74%	0.85%	3.59%
20	5.00%	2.99%	0.85%	3.84%
25	5.00%	3.04%	0.85%	3.89%
30	5.00%	3.09%	0.85%	3.94%

# Decisions Supporting the Series 2016 Plan of Finance

- ECH, Ponder and Citi evaluated the tradeoff between risk and reward to determine the appropriate use of financial products supporting the 2016 plan
- Due to the historically low interest rates ECH decided to issue the Series 2016 bonds as 100% traditional fixed rate debt
- ECH has the opportunity with the 2017 plan to reevaluate its decision and to confirm or change the original decision on the plan of finance

Term (Year)	Par Amount <sup>2</sup> (\$mm)	ECH Series 2016 Revenue Bond Pricing (10-26-16)	ECH Board Meeting (02-23-17)
		<b>Final Yield to Call</b>	<b>Indicative Yield to Call</b>
5	\$10.320	1.49%	1.98%
10	\$30.670	2.32%	2.34%
30	\$241.045	3.31%	3.94%

- With traditional fixed rates now having increased 63 bps<sup>1</sup> since the time of the 2016 Plan, ECH can elect to reissue as fixed rate bonds, or evaluate an alternative modes
- The Board and Management's rationale supporting the 2016 fixed rate plan of finance still hold true today

1) Based on 30-year MMD

2) Term 5 represents par amounts in years 1 – 5, Term 10 represents par amount in years 6 – 10, and Term 30 represents par amount in years 11 – 30

# History of El Camino Hospital Financings in the Past Decade

Transaction	Purpose	Par Amount	Call Dates	Original All-in TIC
<b>General Obligation Bonds</b>				
Series 2006CIB <sup>(1)</sup>	To construct new District facilities, altering, renovating and improving existing District facilities	\$101,460,000	2/1/2017 @ 100%	4.48%
Series 2006CAB <sup>(2)</sup>	To construct new District facilities, altering, renovating and improving existing District facilities	\$32,335,000	Non-callable	4.44%
Upcoming Series 2017 (General Obligation)	To refund the Series 2006 Current Interest Bonds	~\$94,560,000	2/1/2027 @ 100% (Expected)	3.77%
<b>Revenue Bonds</b>				
Series 2007ABC <b>(defeased)</b>	To refinance or reimburse the Corporation for certain capital expenditures at facilities owned or operated by the Corporation	\$147,525,000	8/1/2017 @ 100%	5.47%
Series 2009A	To finance or reimburse the Corporation for certain capital expenditures at facilities owned to operated by the Corporation	\$50,000,000	Any date @ 100%	4.77%
Series 2015A	To finance and refinance certain capital expenditures at facilities owned or operated by the Corporation and to advance refund the Series 2007ABC Bonds	\$160,455,000	2/1/2025 @ 100%	3.87%
Upcoming Series 2017 (Revenue)	To finance or refinance certain capital expenditures at facilities owned or operated by the Corporation	~\$284,940,000	2/1/2027 @ 100% (Expected)	4.31%

(1) "CIB" : Current Interest Bonds  
(2) "CAB" : Capital Appreciation Bonds  
(3) Upcoming Series 2017 All-in TIC is an estimate

# Eligible Project Spending

- New money bonds can be used to finance new tax-exempt eligible projects or to reimburse issuers for previous projects that were funded with cash
- ECH has the ability to be reimbursed for prior expenditures under the **Reimbursement Rule** 60 days prior to the adoption of the Reimbursement Resolution and until 18 months after the project is completed

Projects	Total Cost	Start of Construction	Expected Completion
Behavioral Health Building	\$91.5 million	Early 2016	2018
North Drive Parking Garage	\$24.5 million	Late 2015	Spring of 2017
Medical Office Building	\$275 million <sup>1</sup>	July 2016	2018
Women's Hospital	\$91 million	Early Planning Phase	To Be Determined

Given timing, funding for the Women's Hospital project can be deferred until a later date. However, ECH can maintain flexibility by initially including the project in the 2017 plan in case interest rate environment is favorable as the pricing date approaches.

Source: Latest Appendix A "Capital Facilities Expenditures" on page A-12

1) Only a portion of the MOB is eligible for tax-exempt financing

# Overview of 2017 Plan of Finance (Revenue Bonds only)

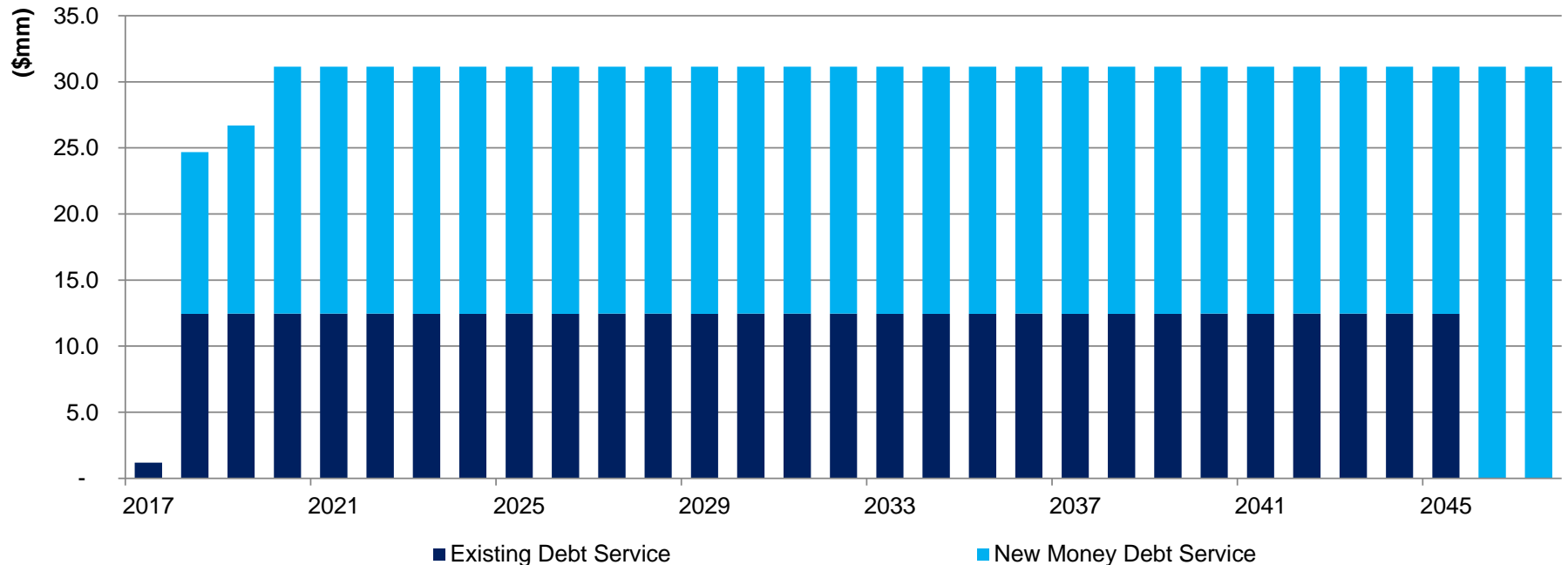
## Sources

Par Amount	\$ 284,940,000
Premium	29,808,063
<b>Total Sources</b>	<b>314,748,063</b>

## Uses

Project Fund	\$ 290,000,000
Capitalized Interest Fund	20,472,749
Cost of Issuance	4,274,100
Additional Proceeds	1,214
<b>Total Uses</b>	<b>314,748,063</b>

	Series 2017 Statistics	A+ Medians
Par Amount (\$ millions)	\$284.9	N/A
All-in TIC	4.30%	N/A
MADS (\$ millions)	\$31.2	N/A
EBITDA (\$ millions)	\$96.3	N/A
Debt to Capitalization	27.4%	29.0%
Operating Margin	4.8%	5.2%
Cash to Debt	137.6%	197.3%
MADS Coverage	3.1x	5.9x



Source: Company filings. Assumes rates as of 2/23/2017. Assumes COI of 1.5% of par. For illustration purposes only. Preliminary – Subject to Change Adjusted per rating agency methodology. Note: Only includes revenue bond indebtedness; excludes General Obligation bond indebtedness and tax revenues. Incremental debt assumes \$290 million fixed rate financing, wrapped around existing debt service, at tax-exempt borrowing rates as of 2/23/2017.

# Series 2017 Financing Timeline – Key Dates

- Receive Ratings (Week of March 6<sup>th</sup>)
- El Camino Hospital Board Meeting (March 8<sup>th</sup>)
- ECH District Special Board Meeting (March 8<sup>th</sup>)
- POS Mailing (March 9<sup>th</sup>)
- Investor Call (March 13<sup>th</sup>)
- GO Bond Pricing / Execute BPA (March 15<sup>th</sup>)
- Revenue Bond Pricing / Execute BPA (March 16<sup>th</sup>)
- Closing (March 22<sup>nd</sup>)

**Preliminary – Subject to Change**

# Appendix A. Overview of Transaction Structure and Financing Documents



# Overview of Bond and Disclosure Documents

Document	Role in Transaction
Official Statement	Disclosure document describing the bonds to potential purchasers.
Appendix A	Disclosure document describing El Camino. This is a section of the Official Statement and will be used to market the bonds.
Bond Purchase Agreement	Agreement by Citigroup to purchase the bonds in advance of closing.
Master Trust Indenture (MTI)	General terms and covenants for the Obligated Group.
Supplemental MTI	Specific terms and covenants relating to the Series 2017 bonds.
Bond Trust Agreement	Interest rate and payment mechanics for the Series 2017 bonds.
Loan Agreement	Agreement between the California Health Facilities Financing Authority (“CHFFA”) and El Camino where CHFFA loans the proceeds of the bonds to El Camino; El Camino is responsible for the repayment of bond proceeds.
Continuing Disclosure Agreement (CDA)	Agreement by El Camino to report annual and quarterly financial information as well as material events to bondholders.

Used to market bonds to potential investors

Agreements for continuing obligations of ECH, as it relates to the bonds while outstanding

# Overview of Financing Group Members

Party	Role in Transaction
Issuer (CHFFA)	Provides financial assistance to the borrower through loans funded by the issuance of tax-exempt bonds.
Borrower (El Camino Hospital)	Receives the proceeds of the bond issuance for financing of certain tax-exempt projects and / or refunding of tax-exempt bonds.
Borrower's Counsel (Buchalter Nemer)	Advises El Camino on the terms of the deal, and gives assurance that they have properly authorized the transactions and agreements and complied with all state and federal laws.
Bond Counsel (Orrick, Herrington & Sutcliffe)	A law firm retained by the Issuer and Borrower to provide a legal opinion that the issuer is authorized to issue the proposed securities, the issuer has met all legal requirements necessary for issuance, and interest on the proposed securities will be exempt from federal, state, and local income taxation. Typically, Bond Counsel prepares the authorizing resolutions of the Issuer and trust indenture. Bond Counsel also prepares the preliminary official and final official statements.
Financial Advisor (Ponder & Co.)	An independent consulting firm that advises El Camino on all financial matters pertaining to a proposed issue. A Financial Advisor does not serve as an Underwriter.
Underwriter (Citigroup Global Markets)	Serves as the dealer, which purchases the bonds from the Issuer through a negotiated sale. The underwriter also provides quantitative and analytical support directly to the Borrower as it relates to the financing and marketing plan and coordinates the working group.
Underwriter's Counsel (Stradling, Yocca Carlson & Rauth)	A law firm who is selected by the Underwriter to draft the bond purchase agreement. Underwriter's Counsel negotiates on behalf of the Underwriter.
Bond Trustee (Wells Fargo)	Manages all bond funds and passes through the Borrower's payments of principal and interest to investors.
Auditor (Moss Adams)	Compiles and examines the Borrower's financial statements and certain portions of Appendix A upon which the Auditor has expressed an opinion. Reports / audits a Borrower's financial position and the results of operations for a set period of time.
Rating Agencies (Moody's and Standard & Poor's)	Independently evaluates the credit quality of bonds. Ratings are intended to measure the probability of the timely repayment of principal and interest on municipal securities. El Camino Hospital's revenue bonds are currently rated 'A1' by Moody's and 'A+' by S&P.

# Appendix B. Current Debt Profile

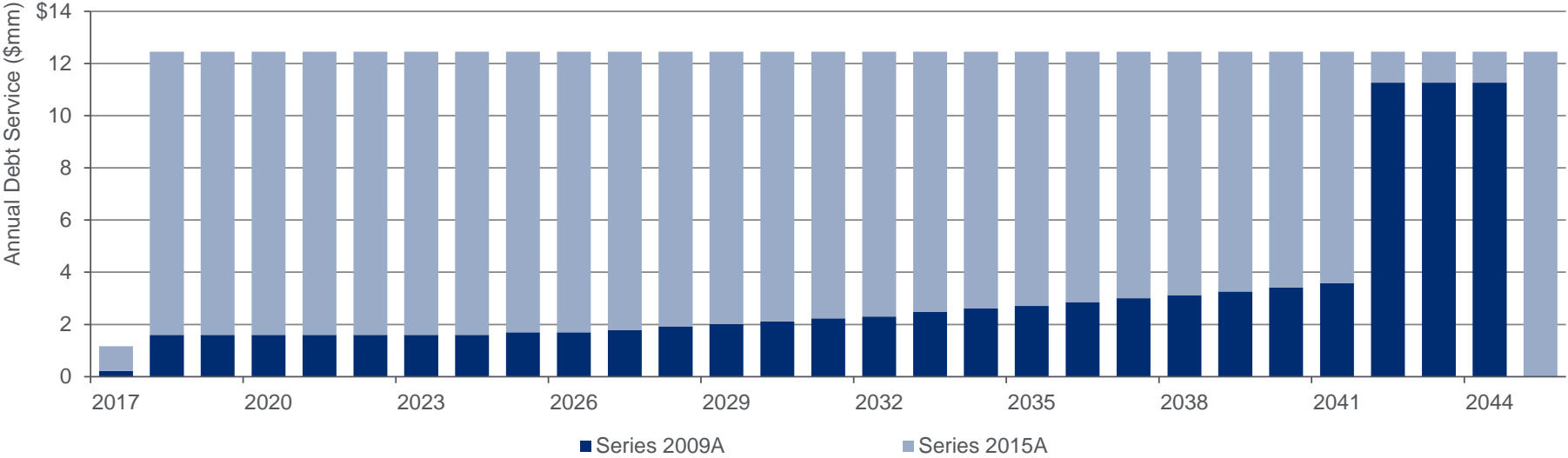
# Overview of Outstanding ECH Revenue Bonds

## Debt Outstanding By Series

Series	Par Outstanding	Structure	Call Feature	Enhancement	Average Coupon	Average Life	Final Maturity
Series 2015A	\$ 151,345,000	Fixed Rate	February 1, 2025 @ 100.0%	None	4.70%	15.3	2/1/2045
Series 2009A	50,000,000	Weekly VRDOs	Any Date @ 100.0%	Wells Fargo LOC (exp. 4/6/2017)	3.20%	24.0	2/1/2044
<b>TOTAL</b>	<b>\$ 201,345,000</b>				<b>4.33%</b>	<b>17.5</b>	

## Debt Service Landscape

MADS: \$12.5mm



Outstanding amounts as of February 2017. Source: Company filings.  
 Note: Only includes revenue bond indebtedness.  
 Series 2009A Weekly VRDOs assume Series 2007 fixed payor swap rate of 3.204%.  
 Aligned to 6/30 year-end.

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Citi works with its clients in greenhouse gas intensive industries to evaluate emerging risks from climate change and, where appropriate, to mitigate those risks.

efficiency, renewable energy and mitigation

## **Att. 06 02 Resolution 2017-03**

**EL CAMINO HOSPITAL**

**RESOLUTION NO. 2017-03**

**RESOLUTION OF THE BOARD OF DIRECTORS OF EL CAMINO HOSPITAL APPROVING THE ISSUANCE OF DEBT NOT TO EXCEED \$325 MILLION AGGREGATE PRINCIPAL AMOUNT; APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF DOCUMENTS IN CONNECTION WITH THE ISSUANCE OF THE DEBT; AND AUTHORIZING THE TAKING OF CERTAIN OTHER ACTIONS IN CONNECTION WITH THE ISSUANCE OF THE DEBT.**

WHEREAS, on November 8, 2006, the Board of Directors (“Board”) of El Camino Hospital (“Hospital”) duly passed and adopted Resolution 2006-13, approving a plan to obtain long-term financing for costs of the Hospital’s major facilities renovation and replacement project, and pursuant thereto, borrowed the proceeds of the sale of tax-exempt insured revenue bonds issued by Santa Clara County Financing Authority, a joint exercise of powers authority and entered into a master trust indenture dated as of March 1, 2007, (“Master Indenture”) as amended and supplemented, between the Hospital and Wells Fargo Bank, National Association, as master trustee;

WHEREAS, on October 12, 2016, the Board duly passed and adopted Resolution 2016-13, approving a plan to obtain additional long-term financing for certain proposed future projects to be undertaken on the Mountain View campus of the Hospital (the “Mountain View Projects”) (collectively, the “2016 Plan of Finance”);

WHEREAS, pursuant to the 2016 Plan of Finance, the Hospital will borrow the proceeds of the sale of tax-exempt insured revenue bonds in an aggregate principal amount not to exceed \$325 Million Dollars from the California Health Facilities Financing Authority (the “Authority”), for the Mountain View Projects and the Hospital expects that the Authority will issue the bonds in the aggregate principal amount not to exceed \$325 Million Dollars (the “2017 Bonds”), the proceeds of such bonds to be loaned to the Hospital for the Mountain View Projects, to pay premium, if any, to fund an interest reserve, if any, and to pay the costs of issuance of the 2017 Bonds and to establish a capitalized interest account;

WHEREAS, the obligations of the Hospital with respect to the 2017 Bonds will be evidenced and secured by (i) payments to be made by the Hospital pursuant to the loan agreement entered into with the Authority, dated as of March 16, 2017 (the “Loan Agreement”); (ii) the issuance of one or more obligations under the Master Indenture; and (iii) by a security interest in the Hospital’s Gross Revenues, as defined in the Master Indenture; and

WHEREAS, in connection with the execution and delivery of the 2017 Bonds and the authorization of the execution, delivery and performance of various agreements and the approval of other actions, agreements and documents is required, including the following, and such other certificates, agreements and actions as the Authorized Officers determine in their discretion to be necessary or advisable to carry out the 2016 Plan of Finance (documents listed below but not defined herein shall have the meanings ascribed to them in the attached Exhibit A):

- i. Execution and delivery of the Continuing Disclosure Agreement, the Tax Certificate and Agreement, the Loan Agreement, the Letter of Representations, Supplement No. 6 under the Master Indenture, and Obligation No. 6 under the Master Indenture, each in substantially the form presented (the “Executed Agreements”); and
- ii. Approval of the form of the Bond Purchase Contract and the Bond Indenture, each in substantially the form presented (the “Acknowledged Agreements”); and
- iii. Approval for distribution (including in preliminary form prior to the sale of the 2017 Bonds) and execution of the Official Statement, in substantially the form presented.

NOW, THEREFORE, BE IT:

RESOLVED, based on the foregoing, the Board hereby determines that the execution and delivery by the Authority of the 2017 Bonds and the Acknowledged Agreements and the execution and delivery by the Hospital of the Executed Agreements, the approval and acknowledgment by the Hospital of the Acknowledged Agreements, the approval of the execution and distribution by the Hospital of the Official Statement (including distribution in preliminary form), the granting (or continuation) by the Hospital of a security interest in the Gross Revenues, and the taking of all other actions to effect the 2016 Plan of Finance approved at this meeting and in this Resolution are necessary and desirable, in the best interests of the Hospital and in furtherance of its purposes.

RESOLVED, that each of the Chairperson, Vice-Chairperson, Secretary, Chief Executive Officer and Chief Financial Officer or any designee of any of them identified in writing to the Chairperson (each an “Authorized Officer”), in all cases acting singly, is hereby authorized to execute and deliver, approve or acknowledge, as applicable, each of the Executed Agreements, Acknowledged Agreements and Official Statement, for and in the name and on behalf of the Hospital, with such terms, conditions and provisions substantially in the form provided to the Board at this meeting, provided that the Authorized Officer executing each such document may approve such final changes and terms then set forth. Each Authorized Officer, in all cases acting singly, is further authorized to amend, or to approve the amendment of, for and in the name and on behalf of the Hospital any of the Executed Agreements, the Acknowledged Agreements or the Official Statement or any part of the transactions described herein or therein, all in a manner consistent with the terms thereof and with the Plan of Finance.

RESOLVED, that each Authorized Officer, in all cases acting singly, is hereby authorized to do any and all things to execute and deliver any and all documents, instruments and certificates, including signature certificates, no-litigation certificates and tax certificates, and to enter into any and all agreements necessary or advisable to carry out, give effect to and comply with the terms and intent of this Resolution, the Plan of Finance and the transactions contemplated by the Executed Agreements, the Acknowledged Agreements and the Official Statement and any part of the transactions described herein or therein. The Secretary of the Board is hereby authorized to attest any signature of an Authorized Officer on any of the documents, instruments, certificates and agreements authorized by this Resolution.



RESOLVED, that all actions heretofore taken by the officers, representatives or agents of the Hospital, including without limitation, the Authorized Officers, in connection with the issuance by the Authority of the 2017 Bonds, and the loan of the proceeds to the Hospital are hereby ratified, confirmed and approved, including the approval of the terms of the 2017 Bonds, including interest rates or methods for determining such rates, their maturities, redemption and other terms and other details.

Duly passed and adopted at a regular meeting held on this 8<sup>th</sup> day of March, 2017, by the following votes:

AYES:

NOES:

ABSENT:

ABSTAIN:

---

Peter Fung, MD  
Secretary, ECH Board of Directors

## **EXHIBIT A**

1. A BOND PURCHASE CONTRACT (the “Bond Purchase Contract”), between the Authority, the Treasurer of the State of California, as agent for sale, and Citigroup Global Markets Inc. (together with its successor and assigns, hereinafter referred to as “Citigroup”);
2. An OFFICIAL STATEMENT, relating to the 2017 Bonds (including the cover page and all appendices, exhibits, reports and statements included therein or attached thereto, the “Official Statement”);
3. A CONTINUING DISCLOSURE AGREEMENT, relating to the 2017 Bonds, between Hospital and Wells Fargo Bank, National Association, as dissemination agent, substantially in the form of Appendix E to the Official Statement;
4. A TAX CERTIFICATE AND AGREEMENT, relating to the 2017 Bonds, executed by Hospital and the Authority.
5. A BOND INDENTURE between the Authority and Wells Fargo Bank, National Association, as trustee (the “Bond Trustee”), relating to the 2017 Bonds (the “Bond Indenture”);
6. A LOAN AGREEMENT, relating to the 2017 Bonds (the “Loan Agreement”), between the Authority and Hospital under which the Authority will lend to Hospital the proceeds of the 2017 Bonds;
7. A LETTER OF REPRESENTATIONS, relating to the 2017 Bonds, in the form of Exhibit B to the Bond Purchase Contract, to be executed by Hospital and addressed to the Authority, the Treasurer of the State of California, as agent for sale, and Citigroup;
8. A SUPPLEMENTAL MASTER INDENTURE FOR OBLIGATION NO. 6, relating to the 2017 Bonds, between Hospital and the Master Trustee (“Supplement No. 6”), securing Hospital’s payments under the Loan Agreement; and
9. OBLIGATION NO. 6 in an aggregate amount not to exceed \$325 Million Dollars to evidence the joint and several obligation of the Obligated Group under the Master Indenture to make all payments required of Hospital under the Loan Agreement, relating to the 2017 Bonds.

## **Att. 06 03 Tax Certificate**

## TAX CERTIFICATE AND AGREEMENT

The California Health Facilities Financing Authority (the “*Issuer*”) and El Camino Hospital (the “*Borrower*”), a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the “*State*”), hereby enter into this Tax Certificate and Agreement (together with the Exhibits attached hereto, the “*Tax Agreement*”) in connection with the issuance by the Issuer of its Revenue Bonds (El Camino Hospital) Series 2017 (the “*Bonds*”), in the principal amount of \$[PAR]. The representations of facts and circumstances and covenants of the Issuer made herein are in furtherance of the covenants of the Issuer set forth in Section 6.06 of the Bond Indenture, dated as of March 1, 2017 (the “*Indenture*”), by and between the Issuer and Wells Fargo Bank, National Association, as bond trustee (the “*Trustee*”), and are in part made pursuant to Treasury Regulations §1.148-2(b)(2)(i). The representations of facts and circumstances and covenants of the Borrower made herein are in furtherance of the covenants of the Borrower set forth in Section 5.6 of the Loan Agreement, dated as of March 1, 2017 (the “*Loan Agreement*”), between the Borrower and the Issuer.

### I.

#### In General

**1.1 Purpose of Tax Agreement.** The Issuer and the Borrower are delivering this Tax Agreement to Orrick, Herrington & Sutcliffe LLP (“*Bond Counsel*”), with the understanding and acknowledgment that Bond Counsel will rely upon this Tax Agreement in rendering its opinion that interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “*Code*”).

**1.2 Delivery of the Bonds.** The Issuer is delivering the Bonds to Citigroup Global Markets Inc. (the “*Underwriter*”), in exchange for good funds on the date hereof.

**1.3 Authorization; Status of Authority.** The Authority is issuing the Bonds pursuant to the Indenture and the laws of the State of California (the “*State*”). The Authority is a public instrumentality of the State of California, created by the California Health Facilities Financing Authority Act (constituting Part 7.2 of Division 3 of Title 2 of the California Government Code), authorized to incur indebtedness on behalf of the State of California for the purpose of financing and refinancing various health facilities.

**1.4 Purpose for Bonds.** The Bonds are being issued to (i) finance a portion of the costs of construction of the capital projects set forth in *Exhibit A* (the “*Project*”), (ii) pay interest on all of the Bonds through June 1, 2017 and on 91.68% from June 2, 2017 through November 1, 2018, and (iii) pay the costs of issuing the Bonds.

**1.5 Separate Issue/Single Issue.** The Bonds were sold to the Underwriter on [Sale Date], 2017 (the “*Sale Date*”). All of the Bonds were sold pursuant to the same plan of financing and are expected to be paid out of substantially the same source of funds. No other governmental obligations which are expected to be paid out of substantially the same source of funds as the Bonds have been or will be sold pursuant to the same plan of the financing as the Bonds within

the 31-day period beginning 15 days before the Sale Date. On [GO Sale Date], 2017, the El Camino Health Care District (the “*District*”) sold its 2017 General Obligation Refunding Bonds (the “*GO Bonds*”), which are being delivered as of the Closing Date. The Bonds are expected to be paid out of revenues from the Borrower’s health care facilities and the GO Bonds are expected to be paid out of general obligation taxes collected by the District. Accordingly, Bond Counsel has advised that the Bonds and the GO Bonds are not part of the same issue for federal tax purposes.

**1.6 Definitions.** Unless the context otherwise requires, the following capitalized terms have the following meanings for purposes of this Tax Agreement:

***Available Construction Proceeds*** means all Sale Proceeds of the Bonds, less the amount of such proceeds used to pay costs of issuing the Bonds, plus all Investment Proceeds received, accrued or reasonably expected to be earned thereon. The Issuer and the Borrower reasonably expect that at least 75% of the Available Construction Proceeds will be used to pay for construction costs.

***Bona Fide Debt Service Funds*** has the meaning set forth in Section 3.4.2 herein.

***Bond Year*** means the period beginning on the Closing Date and ending on November 15, 2017 (unless the Borrower selects otherwise) and each succeeding one-year period (with the last Bond Year ending on the first date that none of the Bonds remains outstanding for federal tax purposes). The Issuer may (at the request of the Borrower), prior to the fifth anniversary of the Closing Date, select any date prior to the first anniversary of the Closing Date in lieu of the first anniversary of the Closing Date as the end of each Bond Year.

***Closing Date*** means March \_\_, 2017, the date of execution and delivery of the Bonds.

***Gross Proceeds*** has the meaning used in Treasury Regulations §1.148-1(b), and generally means all proceeds derived from or relating to the Bonds, including Investment Proceeds, Transferred Proceeds, amounts pledged to pay debt service on the Bonds (or pledged by Borrower to secure the payments to the Issuer under the Loan Agreement), and other amounts expected to be used to pay debt service on the Bonds.

***Investment Proceeds*** means investment earnings on (i) Sale Proceeds and (ii) Investment Proceeds.

***Investment Property*** means any security or obligation (other than a Tax-Exempt Obligation), any annuity contract, or any other investment-type property.

***Minor Portion*** means any amount of Gross Proceeds not greater than \$100,000 invested at an unrestricted yield pursuant to Section 148(e) of the Code.

***Net Proceeds*** means Sale Proceeds and Investment Proceeds thereon, less amounts deposited in a reasonably required reserve fund, if any.

**Nonprofit Corporation** means an organization recognized by and in good standing with the Internal Revenue Service as an organization described in Section 501(c)(3) of the Code, or corresponding provisions of prior law.

**Nonpurpose Investment** means any Investment Property in which Gross Proceeds are invested, other than the Loan Agreement.

**Opinion of Counsel** means a written opinion of nationally recognized bond counsel to the effect that the action or inaction will not impair the exclusion of interest on the Bonds from gross income for purposes of federal income taxation.

**Other Replacement Proceeds** shall have the meaning set forth in §1.148-1(c)(4) of the Treasury Regulations. Other Replacement Proceeds arise to the extent that the Issuer and the Borrower reasonably expect as of the Closing Date that the term of the Bonds is longer than is reasonably necessary for the governmental purpose of the Bonds and that there will be available amounts created (within the meaning of Treasury Regulation §1.148-6(d)(3)(iii)) during the period that the Bonds remain outstanding longer than necessary. Other Replacement Proceeds do not arise for the portion of the Bonds that is to be used to: (i) finance restricted working capital expenditures (within the meaning of Treasury Regulation §1.148-1(b)) if that portion of the Bonds is not outstanding longer than two years, (ii) finance or refinance capital projects (within the meaning of Treasury Regulation §1.148-1(b)) if the weighted average maturity of that portion of the Bonds does not exceed 120% of the average reasonably expected life of the financed capital projects, and (iii) refund a prior issue, provided that the weighted average maturity of such refunding issue does not exceed the remaining weighted average maturity of the prior issue and the issue of which the prior issue is a part satisfies §1.148-1(c)(4)(i)(B)(1) or §1.148-1(c)(4)(i)(B)(2) of the Treasury Regulations.

**Pledge Fund** shall have the meaning set forth in §1.148-1(c)(3) of the Treasury Regulations, and generally means any amount that is directly or indirectly pledged to pay principal or interest on the Bonds. A Pledge Fund need not be cast in any particular form but must provide a reasonable assurance to the Bondholders that such amounts will be available to pay principal or interest on the Bonds in the event that the Issuer or the Borrower encounters financial difficulties. A pledge to a guarantor of an issue is an indirect pledge to secure payment of principal or interest on an issue. An amount is also treated as pledged to pay principal or interest on the Bonds if it is held under an agreement to maintain the amount at a particular level for the direct or indirect benefit of the Bondholders, however, such amounts will not be treated as pledged if (i) the Issuer or the Borrower or a substantial beneficiary of the Bonds may grant rights in the amount that are superior to the rights of the Bondholders, or (ii) the amount is not in excess of the purpose for which it was established, the required level is tested no more frequently than every six (6) months, and the amount may be spent without any substantial restriction other than a requirement to replenish the amount by the next testing date.

**Preliminary Expenditures** means architectural, engineering, surveying, soil testing, costs of issuing the Bonds, and similar costs paid with respect to the Project in an aggregate amount not exceeding \$\_\_\_\_\_ (i.e., no more than 20% of the issue price of the Bonds). Preliminary Expenditures do not include land acquisition, site preparation or similar costs incident to the commencement of construction.

**Proceeds** means Sale Proceeds, Investment Proceeds and Transferred Proceeds.

**Qualified Equity** means amounts such as cash or revenues, grants, and donations, and not proceeds that are derived from a tax-exempt borrowing that are spent no earlier than the first date on which, pursuant to section 2.16 below, such expenditure would have been eligible for reimbursement with proceeds of the Bonds and no later than the date that the applicable component of the Project was placed in service.

**Rebate Requirement** means the amount of rebatable arbitrage earned with respect to Gross Proceeds which do not qualify for an exception from the requirements of Section 148(f)(2) of the Code as described in Section 5.4 of this Tax Agreement, computed as of the last day of any Bond Year pursuant to §1.148-3 of the Treasury Regulations.

**Related Person** means:

(i) In the case of an organization described in Section 501(c)(3) of the Code, any organization having common management and control with such corporation. This would include any other 501(c)(3) organization if both organizations have (a) significant common purposes and substantial common membership, or (b) directly or indirectly, substantial common direction.

(ii) In the case of a corporation, (A) an individual who owns directly or indirectly more than 50% in value of the outstanding stock of the corporation; (B) a partnership, if any partner owns more than 50% in value of both the outstanding stock of the corporation and the capital or profits or interests in the partnership; (C) a partnership that owns directly or indirectly more than 40% in value of the outstanding stock of the corporation; (D) another corporation, if that corporation owns more than 50% of the voting power or value of the corporation; (E) another corporation, if more than 50% of the voting power or value of its stock is owned by the corporation; (F) another corporation, if five or fewer individuals own stock possessing more than 50% of the voting power or value of both that corporation and the corporation; (G) an S corporation, if the same individual owns more than 50% in value of both the S corporation and the corporation; or (H) a trust or its grantor, either of which owns more than 50% in value of the outstanding stock of the corporation.

(iii) In the case of a partnership, (A) a partner that owns directly or indirectly more than 50% of the capital interest or the profits interest in such partnership; (B) another partnership, if the same person or persons own directly or indirectly more than 50% of the capital interest or the profits interest in both that partnership and the partnership; or (C) an S corporation, if the same person or persons own more than 50% of the capital interest or the profits interest in the partnership.

(iv) In the case of an individual, (A) members of the individual's family (including the individual's spouse, brothers, sisters, ancestors and lineal descendants); (B) a corporation more than 50% in value of the outstanding stock of which is owned directly or indirectly by or for such individual; (C) a partnership, if the individual owns directly or indirectly more than 50% of the capital interest or the profits interest in such partnership; or (D) a trust as to which the individual is either grantor or beneficiary, or which has the same grantor as a trust to which the individual is beneficiary.



**Replacement Proceeds** shall have the meaning set forth in §1.148-1(c)(1) of the Treasury Regulations, and generally means any Sinking Fund, Pledge Fund, or Other Replacement Proceeds to the extent that those funds or accounts are derived by or derived from a substantial beneficiary of the Bonds.

**Sale Proceeds** means \$\_\_\_\_\_.\_\_, which is the principal amount of the Bonds, plus original issue premium thereon (\$\_\_\_\_\_.\_\_).

**Short-Term Arrangement** means a lease, rental or other use of the facilities comprising the Project that is for a term not exceeding 50 days (or 100 days if the rates charged for such use are standardized and equally applied).

**Sinking Fund** shall have the meaning set forth in §1.148-1(c)(2) of the Treasury Regulations, and generally means a debt service fund, redemption fund, reserve fund, replacement fund or any similar fund to the extent that such fund is reasonably expected to be used directly or indirectly to pay principal or interest on the Bonds.

**Spendable Proceeds** means the net amount of proceeds (after payment of all expenses of issuing each such issue or portion thereof) received by the issuer thereof as a result of the sale of the Bonds minus the sum of (i) any amount invested as the Minor Portion so applicable; (ii) the amount of proceeds of the Bonds deposited in any reasonably required reserve or replacement fund; and (iii) the amount of proceeds to be expended within three years after the issue date of the Bonds in payment of principal of or interest on the Bonds.

**Tax-Exempt Obligation** means any obligation the interest on which is excludable from gross income under Section 103(a) of the Code, any interest in a regulated investment company the income of which is at least 95% excludable to the holder under Section 103(a) of the Code, and any certificate of indebtedness issued by the United States Treasury pursuant to the Demand Deposit State and Local Government Series program, but does not include any interest in a “specified private activity bond” within the meaning of Section 57(a)(5)(C) of the Code.

**Three-Year Temporary Period** means, as set forth in Treasury Regulations Section 1.148-2(e)(2), the three-year temporary period exception to the yield restriction requirement of Code Section 148(a), which exception applies to the Bonds only to the extent that the Borrower reasonably expects that (i) 85% of the Net Sale Proceeds of the Bonds are to be allocated to expenditures on capital projects by the end of the three-year period following the issue date; (ii) the Borrower will within six months of the issue date incur a substantial binding obligation to a third party to expend at least 5% of the Net Sale Proceeds of the issue on capital projects; and (iii) the allocation of the Net Sale Proceeds of the issue to expenditures will proceed with due diligence.

**1.7 Reliance on Other Parties.** Except as specifically set forth herein, the Issuer, in making the certifications and representations herein, is relying exclusively on the certifications and representations of the Borrower. The expectations of the Issuer and the Borrower concerning certain uses of the proceeds of the Bonds and the use and operation of the Project and other matters are based in whole or in part upon representations and certifications of other parties set forth in this Tax Agreement. Neither the Issuer nor the Borrower is aware of any facts or circumstances

that would cause either the Issuer or the Borrower to question the accuracy or reasonableness of any representation or certification made in this Tax Agreement.

## II.

### General Tax Matters

**2.1 Private Activity Bonds.** All of the proceeds of the Bonds will be loaned to the Borrower, which is not a state or a political subdivision of the State.

**2.2 Tax-Exempt Status of the Borrower.** The Borrower is an organization described in Section 501(c)(3) of the Code and is exempt from federal income tax under Section 501(a) of the Code, or corresponding provisions of prior law. The Borrower has received a determination letter confirming its status as a 501(c)(3) organization issued by the Internal Revenue Service, and such determination letter has not been modified, limited or revoked. The Borrower at all times shall, until the Bonds have been paid or redeemed, maintain its status as an organization described in Section 501(c)(3) of the Code and its exemption from federal income tax under Section 501(a) of the Code or corresponding provisions of future federal income tax laws. No proceedings are pending or, to the Borrower's knowledge, threatened in any way affecting the status of the Borrower as an organization described in Section 501(c)(3) of the Code, or which would subject any income of the Borrower to federal income taxation to such extent as would result in the loss of its tax-exempt status under Section 501(a) of the Code or the loss of the exclusion from gross income of interest payable with respect to the Bonds for federal income tax purposes under Section 103 of the Code.

**2.3 Ownership.** All of the facilities comprising the Project have been, are and are expected to be owned and operated by the Borrower. None of the other assets comprising the Project is expected to be, and, absent an Opinion of Counsel, none of such facilities will be, sold or otherwise disposed of, in whole or in part, except due to normal wear and tear and obsolescence after the term of the reasonably expected economic life to the Borrower of such assets, prior to the final maturity date of the Bonds. Bond Counsel has advised the Borrower that a change in ownership of the Project without an Opinion of Counsel may affect the tax status of the Bonds.

### **2.4 Qualified 501(c)(3) Bonds.**

(a) Subject to subsection (b) below, at least the greater of: (i) 95% of the Net Proceeds, including investment earnings thereon, or (ii) Net Proceeds less \$15,000,000, including investment earnings thereon, were and will be used to provide for activities directly related to the exempt purposes of the Borrower. For this purpose, any Sale Proceeds used to pay costs of issuing the Bonds are treated as not used for activities related to the exempt purposes of the Borrower.

(b) So long as the Bonds are outstanding, the Project will be used in such a manner that the statements in either (i) or (ii) below are accurate for such entire period:

(i) No more than the lesser of (A) 5% of the proceeds of the Bonds, or (B) \$15,000,000 of the proceeds of the Bonds, have been or will be used for Private Use, as hereinafter defined.

(ii) No more than the lesser of (A) 5% of the Bonds, or (B) \$15,000,000 will be directly or indirectly secured by or payable from the Private Use portion of the Project or from moneys derived therefrom.

For purposes of this Section, the term “*Private Use*” means any activity or activities which constitute a trade or business or group of trades or businesses, including any unrelated trade or business of a Nonprofit Corporation, other than any activity or activities substantially related to the exempt purpose of a Nonprofit Corporation. The term “Private Use” shall include the lease or rental of the Project, or any portion thereof, to third parties that are not Nonprofit Corporations using the Project in a manner substantially related to their exempt purpose, except for use that is pursuant to any Short-Term Arrangement or pursuant to an “incidental use” arrangement described in Treas. Reg. section 1.141-3(d)(5).

(c) The Borrower understands that an arrangement with any person or organization (other than a state or local governmental unit or another 501(c)(3) organization) which provides for such person or organization to manage, operate, or provide services with respect to the Project ( a “*Service Contract*”) can give rise to Private Use. The guidelines set forth in Revenue Procedure 2016-44, (the “*Guidelines*”) set forth situations where a service contract will be treated as not giving rise to a Private Use. Service Contracts that relate to the use or operation of the Project by physicians, professional corporations, or other “service providers,” as that term is used in the Guidelines (the “*Service Providers*”), will satisfy the Guidelines if, among other ways of satisfying the Guidelines, the requirements of each of the following requirements is satisfied:

(i) The compensation of the Service Provider under the contract must be reasonable for the services rendered.

(ii) The contract must not provide to the Service Provider a share of net profits from the operation of the Project. Compensation to the Service Provider will not be treated as providing a share of net profits if no element of the compensation takes into account, or is contingent upon, either the Project's net profits or both the Project's revenues and expenses for any fiscal period. For this purpose, the elements of the compensation are the eligibility for, the amount of, and the timing of the payment of the compensation. Further, solely for purposes of determining whether the amount of the compensation meets the requirements of this section 2.4(c)(ii), any reimbursements of actual and direct expenses paid by the Service Provider to unrelated parties are disregarded as compensation. Incentive compensation will not be treated as providing a share of net profits if the eligibility for the incentive compensation is determined by the Service Provider's performance in meeting one or more standards that measure quality of services, performance, or productivity, and the amount and the timing of the payment of the compensation meet the requirements of this section 2.4(c)(ii).

(iii) The contract must not, in substance, impose upon the Service Provider the burden of bearing any share of net losses from the operation of the Project. An arrangement will not be treated as requiring the Service Provider to bear a share of net losses if: (A) The determination of the amount of the Service

Provider's compensation and the amount of any expenses to be paid by the Service Provider (and not reimbursed), separately and collectively, do not take into account either the Project's net losses or both the Project's revenues and expenses for any fiscal period, and (B) The timing of the payment of compensation is not contingent upon the Project's net losses. For example, a Service Provider whose compensation is reduced by a stated dollar amount (or one of multiple stated dollar amounts) for failure to keep the Project's expenses below a specified target (or one of multiple specified targets) will not be treated as bearing a share of net losses as a result of this reduction.

(iv) The term of the contract, including renewal options, is not longer than the lesser of 30 years or 80 percent of the reasonably expected useful life of the financed property.

(v) The Service Contract requires the qualified user to approve:

A. The annual budget of the Project;

B. Capital expenditures with respect to the Project (for this purpose, a qualified user may show approval of capital expenditures for the Project by approving an annual budget for capital expenditures described by functional purpose and specific maximum amounts);

C. each disposition of property that is part of the Project;

D. rates charged for use of the Project (for this purpose, a qualified user may show approval of rates charged for use of the managed property be either expressly approving such rates (or the methodology for setting such rates) or by including in the Service Contract a requirement that the Service Provider charge rates that are reasonable and customary as specifically determined by an independent third party); and

E. the general nature and type of use of the Project (for example, the type of services).

(vi) The qualified user bears the risk of loss upon damage or destruction of the Project (for example, upon force majeure). A qualified user does not fail to meet this risk of loss requirement as a result of insuring against risk of loss through a third party or imposing upon the Service Provider a penalty for failure to operate the Project in accordance with the standards set forth in the Service Contract.

(vii) The Service Provider must agree that it is not entitled to and will not take any tax position that is inconsistent with being a Service Provider to the qualified user with respect to the Project.

(viii) The Service Provider may not have a role or relationship with the qualified user (or the Issuer) that, in effect, substantially limits the ability of the

qualified user to exercise its rights, including cancellation rights, under the Service Contract. Accordingly:

A. Not more than 20 percent of the voting power of the governing body of the qualified user (or the Issuer) in the aggregate may be vested in the Service Provider and its directors, officers, shareholders, partners, members and employees.

B. The governing body of the qualified user does not include the chief executive officer of the Service Provider or the chairperson (or equivalent executive) of the Service Provider's governing body.

C. The chief executive officer of the Service Provider is not the chief executive officer of the qualified user or any Related Person to the qualified user.

For purposes of this section 2.4(c)(viii), the phrase Service Provider includes Related Persons and the phrase "chief executive officer" includes a person with equivalent management responsibilities.

(d) The Borrower has not entered into, and will not enter into, any arrangement with any Person (other than a state or local governmental unit or another 501(c)(3) organization) pursuant to which basic research (a "**Basic Research Contract**") is conducted in any portion of the Project unless (a) even if such Basic Research Contract gives rise to Private Use, it would not cause the total amount of Private Use of the Project to exceed 5%, (b) the guidelines of Revenue Procedure 2007-47 are satisfied, or (c) the Borrower obtains a private letter ruling from the Internal Revenue Service or an Opinion of Bond Counsel which allows for a variation from the guidelines of Revenue Procedure 2007-47.

**2.5 No \$150,000,000 Limitation.** At least 95% of the proceeds of the Bonds will be used to finance or refinance capital expenditures made after August 6, 1997.

**2.6 Not Residential Rental Property for Family Units.** None of the Project contains any units with complete facilities for living, sleeping, eating, cooking, and sanitation.

**2.7 Useful Life.** The weighted average maturity of the Bonds is 19.1627 years. See *Exhibit C*. As set forth in *Exhibit A* attached hereto, 120% of the weighted average life of the Project is at least 46.50 years.

**2.8 Prohibited Facilities.** None of the proceeds of the Bonds will be used to finance or refinance any airplane, skybox or other private luxury box, facility primarily used for gambling, or any store the principal business of which is the sale of alcoholic beverages for consumption off premises.

**2.9 Public Hearing and Approval.** The Issuer caused to be published on October 3, 2016, in the *San Jose Mercury News*, a newspaper of general circulation within the County of Santa Clara and the *Sacramento Bee*, a notice of public hearing (the "**Notice**") to be held by the Issuer regarding the Project and the Issuer's proposed issuance of the Bonds to finance and

refinance the Project. A copy of the notice is attached hereto as *Exhibit D*. A duly noticed public hearing was held by the Issuer as provided in the Notice on October 19, 2016. At this hearing, all interested persons were invited and given an opportunity to comment upon the nature and location of the facilities comprising the Project and the financing and refinancing thereof with the proceeds of the Bonds. On October 25, 2016, the Treasurer of the State of California, as “applicable elected representative,” approved the issuance of the Bonds for the purpose of financing and refinancing the Project. Attached hereto as *Exhibit E* is a copy of the approval

**2.10 Costs of Issuance.** Sale Proceeds will be used to pay costs of issuing the Bonds, including underwriter’s discount. See Section 3.2.2 herein. Such amount does not exceed 2% of the issue price of the Bonds.

**2.11 Volume Cap.** Based upon representations of the Borrower set forth in this Tax Agreement, none of the Bonds is subject to the volume cap requirements of Section 146 of the Code.

**2.12 No Federal Guarantee.** Neither the Issuer nor the Borrower will, directly or indirectly, use or permit the use of or otherwise invest any proceeds of the Bonds or any other funds of the Issuer or the Borrower or take or omit to take any action that would cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code. In furtherance of this representation, warranty and covenant, neither the Issuer nor the Borrower will allow the payment of the principal or interest represented by the Bonds to be guaranteed (directly or indirectly) in whole or in part by the United States or any agency or instrumentality thereof. Neither the Issuer nor the Borrower will, except as provided in the next sentence, use 5% or more of the proceeds of the Bonds to make loans the payment of the principal or interest with respect to which are guaranteed (directly or indirectly) in whole or in part by the United States or any agency or instrumentality thereof, nor will the Issuer or the Borrower invest 5% or more of the proceeds of the Bonds in federally insured deposits or accounts. However, proceeds of the Bonds may be invested without regard to the limitation in this section as follows: investments qualifying for any temporary period; investments in the Bona Fide Debt Service Funds; investments in a reasonably required reserve and replacement fund; and investments in obligations issued by the United States Treasury or as otherwise provided by Section 149(b)(3) of the Code.

**2.13 Information Reporting.** Each of the Issuer and the Borrower certifies that it has reviewed the Internal Revenue Service Form 8038 to be filed in connection with the issuance of the Bonds, and believes that all of the information contained in the Form 8038 is true and complete. Such Form 8038 will be filed at the Internal Revenue Service Center, Ogden, Utah 84201 no later than the fifteenth day of the second calendar month following the close of the calendar year quarter in which the Bonds are issued (February 15, 2017).

**2.14 No Hedge Bonds.** The Borrower reasonably expected that more than 85% of the Spendable Proceeds will be expended for the governmental purpose of the Bonds before November 15, 2019. In addition, no more than 50% of such Spendable Proceeds will be invested in investment securities with a substantially guaranteed yield for four years or longer.

**2.15 Registered Form.** The Bonds are being issued in registered form.

**2.16 Reimbursement for Prior Expenditures.** For purposes of this Tax Certificate, Gross Proceeds will be treated as spent when they are or were used to pay or reimburse disbursements by the Borrower that are (i) capital expenditures, (ii) costs of issuing the Bonds, (iii) interest on the Bonds through the later of three years after the Closing Date or one year after the Project is placed in service, (iv) initial operating expenses directly associated with the Project (in aggregate amount not exceeding 5% of the Sale Proceeds), or (v) other miscellaneous expenditures described in Treasury Regulations Section 1.148-6(d)(3)(ii). The Corporation hereby certifies with respect to costs of the Project paid prior to the Closing Date which will be allocated and charged against the proceeds of the Bonds (the “Reimbursement Costs”) that all of the Reimbursement Costs were paid in anticipation of reimbursement out of proceeds of a borrowing either (i) less than 60 days before adoption of a declaration of intent done in accordance with a resolution by the Borrower to reimburse certain expenditures from the proceeds of indebtedness in the form contemplated by Treasury Regulations Section 1.150-2(e) (see reimbursement documentation attached hereto as *Exhibit F*) or (ii) for Preliminary Expenditures. All Reimbursement Costs (i) relate to portions of the Project which were placed in service no earlier than 18 months preceding the date of reimbursement and (ii) in no event were paid earlier than three years preceding the date hereof. The Borrower expects \$\_\_\_\_\_ of proceeds of the Bonds to be applied to Reimbursement Costs.

**2.17 Allocations of Proceeds to Expenditures.** Allocations of Proceeds of the Bonds must be made no later than 18 months after the date the facility to which the expenditure relates is completed and actually operating at substantially the level for which it was designed, but in all events not later than 60 days after the fifth bond year applicable to an issue of bonds. The Borrower will retain records of all allocations of proceeds to expenditures as provided in Section 2.18 herein.

The Issuer delegates to the Borrower the authority to allocate proceeds of the Bonds pursuant to any allocation and accounting method selected by the Borrower. The Borrower reasonably expects that it will allocate both Sale Proceeds and Qualified Equity to the construction costs of the Project. The Issuer and the Borrower intend that Qualified Equity allocated to the Project first be allocated to Private Use.

**2.18 Retention of Records.** The only records that the Issuer is obligated to retain are the transcripts for the Bonds. The Borrower covenants to maintain all records relating to the requirements of the Code and the representations, certifications and covenants set forth in this Tax Agreement until the date three years after the last outstanding Bonds have been retired. If any of the Bonds are refunded by tax-exempt bonds (the “*Refunding Bonds*”), the Borrower covenants to maintain all records required to be retained by this Section until the later of the date three years after the last outstanding Bonds have been retired or the date three years after the last Refunding Bonds have been retired. The records that must be retained include, but are not limited to:

**2.18.1** Basic records and documents relating to the Bonds (including the Indenture, the Loan Agreement, this Tax Agreement, the Form 8038 and the Opinion of Counsel);

**2.18.2** Documentation evidencing the expenditure of proceeds of the Bonds;

**2.18.3** Documentation pertaining to any investment of Bond proceeds in Nonpurpose Investments purchased with Gross Proceeds of the Bonds (including the purchase

date, purchase price, information establishing fair market value on the date such investment became a Nonpurpose Investment, any accrued interest paid, face amount, coupon rate, periodicity of interest payments, disposition price, any accrued interest received, disposition date, SLGs subscriptions, yield calculations for each class of investments, actual investment income received from the investment of proceeds, guaranteed investment contracts, and rebate calculations);

**2.18.4** Documentation evidencing use of the Project by public and private sources (i.e., copies of management contracts, research agreements, leases, etc.); and

**2.18.5** Documentation evidencing all sources of payment or security for the Bonds.

If the Internal Revenue Service issues further guidance concerning the retention of records, including guidance that would amend or alter the requirements of this Section, compliance with that guidance will constitute compliance with this Section.

**2.19 Replacement Proceeds; Earmarked Grants or Donations.** Replacement Proceeds are created when proceeds of the Bonds are used to, directly or indirectly, replace funds of the Borrower or any Related Person that (1) are or will be used directly or indirectly to acquire Investment Property reasonably expected to produce a yield materially higher than the yield on the Bonds and (2) have been earmarked to pay for all or a portion of the Project. The funds so replaced with Bond proceeds, including any donations, grants, or any other amounts, are considered “Replacement Proceeds.”

The term Replacement Proceeds applies to any grant or donation received by the Borrower or any Related Person to the extent there is a clear nexus between such grant or donation and its expenditure on all or a portion of the Project, either by way of actual restriction on the grant or donation, internal accounting designations with respect to such grant or donation or fundraising activities focusing exclusively on the funding of all or a portion of the Project. Such grants and donations include those that were solicited for specific components of the Project (collectively, the “*Donations*”). Accordingly, Replacement Proceeds result to the extent such Donations exceed the difference between the total cost of that particular component of the Project and the amount of Bond proceeds already expended on the same component.

The Borrower hereby covenants that once Replacement Proceeds have been created, they will be used to (i) promptly pay other costs of the Project that have not been financed with the proceeds of the Bonds or (ii) redeem Bonds at their earliest call date. To the extent such Replacement Proceeds are to be used to pay costs of the Project not being financed with Bond proceeds, such amounts shall be deposited in the Project Fund or otherwise tracked separately and be considered Gross Proceeds, including being subject to the same yield restrictions and yield limitations as Gross Proceeds. See Section 3.4.4 herein. To the extent that such Replacement Proceeds are to be used to redeem Bonds, the Borrower hereby further covenants that, pending their expenditure to pay the redemption price of the Bonds, such amounts will be invested at a yield not exceeding the yield on the Bonds, unless such amounts are reasonably expected to be held in a manner consistent with the provisions of Section 3.4.2 hereof (i.e., as bona fide debt service fund moneys).



**2.20 Post-Issuance Compliance.** The Issuer and the Borrower have covenanted to comply with certain requirements of the Code relating to the Rebate Requirement as discussed in Article V herein and relating to private use and/or unrelated trade or business use, and the Issuer intends to comply with these requirements through the obligation and undertaking by the Borrower to comply with these requirements (including, if necessary, the retention of a qualified rebate analyst and a post-issuance compliance expert), which the Borrower hereby acknowledges.

**2.21 No Pooling.** Neither the Issuer nor the Borrower will use the proceeds of the Bonds directly or indirectly to make or finance loans to two or more borrowers.

**2.22 Post-Issuance Compliance Undertaking.** The Borrower has covenanted herein and in the Loan Agreement to comply with certain requirements of the Code applicable to the Bonds (the “Post-Issuance Requirements”). Further, the Borrower covenants that it has adopted, or, if not, will promptly adopt, management practices and procedures to ensure the Borrower complies with the Post-Issuance Requirements with respect to the Bonds and that such procedures will include all of the requirements of the Issuer, as set forth in the Issuer’s post-issuance compliance procedures attached hereto as *Exhibit G*.

**2.23 Retention of Post-Issuance Compliance Expert.** The Corporation has retained the firm of Bond Logistix LLC to provide certain post-issuance tax compliance services that may be required from time to time with respect to the Bonds.

### III.

#### Arbitrage

**3.1 Reasonable Expectations.** This Article III sets forth the reasonable expectations, statements of fact and representations of the Issuer and the Borrower with respect to the amount and use of the proceeds of the Bonds and certain other funds.

**3.2 Allocation of Sale Proceeds.** Sale Proceeds are allocated as described in this Section. The pricing numbers relating to the Bonds are attached hereto as *Exhibit C*.

**3.2.1 Project Fund.** \$\_\_\_\_\_ will be deposited in the Project Fund and used to pay or reimburse costs of the Project.

**3.2.2 Capitalized Interest Fund.** \$\_\_\_\_\_ will be deposited in the Capitalized Interest Fund to pay interest on all of the Bonds through \_\_\_\_\_ 1, 2017 and on \_\_\_\_% of the Bonds from \_\_\_\_\_ 2, 2017 through \_\_\_\_\_ 1, 2018.

**3.2.3 Costs of Issuance.** Sale Proceeds in the amount of \$\_\_\_\_\_ are allocated to pay costs of issuing the Bonds, including Underwriter’s discount.

**3.3 No Overissuance.** The total proceeds to be received from the sale of the Bonds, together with all other funds made available by the Borrower, and anticipated investment earnings thereon, do not exceed the total of the amount necessary to finance the government purposes for which the Bonds are issued as described herein.

### 3.4 Funds and Accounts.

**3.4.1 General.** The following funds and accounts relating to the Bonds have been or will be established under the Indenture:

- Project Fund
- Revenue Fund
  - Interest Account
  - Principal Account
  - Sinking Account
- Redemption Fund
  - Optional Redemption Account
  - Special Redemption Account
- Costs of Issuance Fund
- Gross Revenue Fund (created under Master Indenture)
- Rebate Fund

Investment Proceeds allocable to amounts in all funds and accounts established for the Bonds shall be retained therein until expended for the purposes for which such funds and accounts were established or as otherwise permitted under this Tax Agreement.

### 3.4.2 Bona Fide Debt Service Funds.

(a) **Revenues.** The Bonds are limited obligations of the Issuer payable solely from Loan Repayments made by the Borrower under the Loan Agreement and Obligation No. 6 issued under the Master Indenture and certain other amounts including proceeds of the Bonds held in the funds and accounts established pursuant to the Indenture (other than the Rebate Fund to the extent of the Rebate Requirement). Loan Repayments consist principally of amounts received by the Issuer or the Trustee from or with respect to the Loan Agreement. Such payments are expected to be made by the Borrower from its current receipts, which are expected to be in excess in each year of the payments required to be made. Loan Repayments are expected to equal or exceed debt service on the Bonds during each applicable period ending on an Interest Payment Date.

(b) **Bona Fide Debt Service Funds.** The Revenue Fund (and all accounts therein) and the Redemption Fund (and all accounts therein) (collectively, the “*Bona Fide Debt Service Funds*”) will be used primarily to achieve a proper matching of revenues and debt service on the Bonds issued under the Indenture within each Bond Year. The Bona Fide Debt Service Funds will be depleted at least once a year except for a reasonable carryover amount in the aggregate not to exceed the greater of the prior Bond Year’s earnings on such fund or 1/12th of the prior Bond Year’s debt service on the Bonds. Amounts deposited to the Bona Fide Debt Service Funds will be spent within 13 months after the date of receipt by or on behalf of the Borrower and any amounts received from the investment or reinvestment of moneys held in such funds will be expended within 1 year after the date of accumulation thereof in such funds and accounts. To the extent that amounts in the Bona Fide Debt Service Funds are spent within the period and in the manner required by this Section, such amounts may be invested without regard to yield.

**3.4.3 Project Fund.** Funds deposited in the Project Fund will be used to pay the capital costs of the Project. No moneys in the Project Fund shall be used to pay Costs of Issuance or interest accruing on the Bonds. Any Sale Proceeds or Investment Proceeds remaining unspent on or after November 15, 2019, shall be invested either in (i) Investment Property with a yield not exceeding the yield on the Bonds, (ii) assets that are not treated as Investment Property (e.g., Tax-Exempt Bonds), or (iii) assets that satisfy the requirements for qualified yield reduction payments set forth in Treasury Regulations Section 1.148-5(c), subject to the limitation set forth in Section 1.148-10(b)(1)(ii). The Borrower expects to spend at least 85% of the Sale Proceeds deposited in the Project Fund within the 3-year period following the Closing Date. A substantially binding obligation to third parties to expend at least 5% of the Net Sale Proceeds of the Bonds will be incurred within 6 months of the Closing Date, and the completion of the Project (and the allocation of such Sale Proceeds to expenditures on the Project) will proceed with due diligence. Sale Proceeds deposited into the Project Fund may be invested at an unrestricted yield for the three-year period following the Closing Date but will be subject to the arbitrage rebate requirements of Section 148(f) of the Code.

**3.4.4 Capitalized Interest Fund.** Funds deposited in the Capitalized Interest Fund will be used to pay capitalized interest on the Bonds. No component of the Project is expected to be placed in service prior to June 1, 2017, on which date the North Garage Parking Expansion is expected to be placed-in-service. Other than the North Garage Parking Expansion, no other component of the Project is expected to be placed-in-service prior to November 1, 2018. As set forth in **Exhibit A**, no more than 8.32% of proceeds in the Project Fund are expected to be used to pay costs of the North Garage Parking Expansion. Accordingly, amounts in the Capitalized Interest Fund will be used to pay interest on all of the Bonds through June 1, 2017 and on 91.68% of the Bonds from June 2, 2017 through November 1, 2018. Sale Proceeds deposited into the Capitalized Interest Fund may be invested at an unrestricted yield for the three-year period following the Closing Date but will be subject to the arbitrage rebate requirements of Section 148(f) of the Code.

**3.4.5 Gross Revenue Fund.** The Master Indenture provides that all Gross Revenues shall be deposited in the Gross Revenue Fund upon certain conditions being met, as potential collateral and security for the Bonds. To the extent they are deposited to be used as collateral and security for the Bonds, such amounts held in the Gross Revenue Fund may not be invested at a yield in excess of the Yield on the Bonds. Notwithstanding the foregoing, the Borrower does not expect that such conditions will be met where amounts will be deposited in the Gross Revenue Fund to provide collateral and security for the Bonds.

**3.4.6 No Replacement Proceeds.** Other than the Bona Fide Debt Service Funds, there are no funds or accounts of the Borrower or any person who is a Related Person to the Borrower established pursuant to the Indenture, or otherwise, which are reasonably expected to be used to pay debt service with respect to the Bonds or which are pledged as collateral for the Bonds and for which there is a reasonable assurance that amounts therein or the investment income earned from such funds or accounts will be available to pay debt service with respect to the Bonds in the event that the Borrower encounters financial difficulties. In particular, no Pledge Fund or Sinking Fund is established in connection with the Bonds, and the Borrower does not expect that amounts in the Gross Revenue Fund will be used as a Pledge Fund or Sinking Fund.

**3.4.7 Costs of Issuance Fund.** As set forth in Section 3.2.2 herein, certain Sale Proceeds are allocated to pay the costs of issuing the Bonds. Such amount may be invested without regard to yield for three years from the Closing Date.

**3.4.8 Rebate Fund.** Pursuant to the Indenture and the Loan Agreement, the Issuer and the Borrower have covenanted not to use moneys on deposit in any fund or account in connection with the Bonds in a manner which will cause the Bonds to be arbitrage bonds within the meaning of Section 148 of the Code. To that end, the Rebate Fund is created under the Indenture. Pursuant generally to Article V hereof and specifically to Section 5.2 hereof, the Trustee shall deposit into the Rebate Fund any payments received from the Borrower for purposes of ultimate rebate to the United States. The amount required to be held in the Rebate Fund at any point in time is determined pursuant to the requirements of the Code, including particularly Section 148(f) of the Code and the regulations applicable thereto. Moneys in the Rebate Fund are neither pledged to nor expected to be used to pay debt service on the Bonds. Sale Proceeds and Investment Proceeds are not expected to be held in the Rebate Fund, but must be invested in accordance with Section 4.2 herein if they are so held. All other amounts held in the Rebate Fund will be invested without regard to yield.

### **3.5 No Replacement.**

**3.5.1** No portion of the proceeds of the Bonds will be used directly or indirectly to replace funds of the Issuer or the Borrower or any persons who are Related Persons to either the Issuer or the Borrower that are intended to be used for the purpose for which the Bonds is issued and used directly or indirectly to acquire Investment Property reasonably expected to produce a yield higher than the yield on the Bonds.

**3.5.2 No Other Replacement Proceeds.** The average weighted maturity of the Bonds is no longer than is reasonably necessary for the governmental purposes of the Bonds. The weighted average maturity of the Bonds does not exceed 120% of the average reasonably expected economic life of the Project. See also Section 2.7 hereof.

**3.6 No Abusive Arbitrage Device.** The Bonds are not and will not be part of a transaction or series of transactions that (i) attempts to circumvent the provisions of Section 148 of the Code (or any successor thereto) and related regulations, enabling the Issuer, the Borrower, or any persons who are Related Persons to either the Issuer or the Borrower to exploit the difference between tax-exempt and taxable interest rates to gain a material financial advantage, and (ii) increases the burden on the market for tax-exempt obligations in any manner, including, without limitation, selling bonds that would not otherwise be sold, or selling more bonds, or issuing them sooner, or allowing them to remain outstanding longer, than would otherwise be necessary.

**3.7 Acquisition of Acquired Program Obligations.** The Issuer is entering into the Loan Agreement as part of a governmental program (the “*Program*”) created to assist participating nonprofit educational and other exempt facilities to obtain tax-exempt financing for their respective projects. In all cases, at least 95% of the payments received by the Issuer under the sale agreements entered into in connection with the Program will be used to pay debt service on the obligations relating to the Program, to reimburse the Issuer or to pay directly for the costs of issuing such obligations or to redeem and retire such obligations at the earliest possible dates of

redemption. Except as provided in the Indenture, the Borrower covenants that it will not purchase, pursuant to a formal or informal arrangement, the Bonds or other obligations of the Issuer issued pursuant to the Program in an amount related to the amount of the Loan made under the Loan Agreement. See also, Section 4.3 herein.

## IV.

### Yield and Yield Restriction

#### 4.1 Yield With Respect to the Bonds.

**4.1.1 Generally.** The aggregate issue price of the Bonds is \$\_\_\_\_\_, which represents the price at which the Bonds have been sold to the ultimate purchaser(s), as represented by the Underwriter in *Exhibit H* hereto. For purposes hereof, yield shall be calculated on a 360-day year basis with interest compounded semiannually. The Yield on the Bonds has been calculated to be at least 3.2396%. Yield on the Bonds is generally calculated as set forth in Section 148(h) of the Code and Treasury Regulations Sections 1.148-4 and 1.148-5 for purposes of this Tax Agreement. Thus, yield on the Bonds or yield on Investment Property generally means that discount rate which, when used in computing the present value of all unconditionally payable payments representing principal adjusted, as required, for any substantial discounts, interest and costs of qualified guarantees, and swap termination payments (deemed or actual), produces an amount equal to the issue price of the Bonds or the purchase price of the Investment Property, as appropriate.

**4.1.2 No Qualified Guarantee.** No qualified guarantee is being obtained in connection with the Bonds on the date hereof.

**4.1.3 No Qualified Hedge Applicable to Bonds.** No contract has been, and (absent an Opinion of Counsel) no contract will be entered into such that failure to take the contract into account would distort the yield on the Bonds or otherwise would fail clearly to reflect the economic substance of the transaction.

**4.2 Yield Restriction.** Absent an Opinion of Counsel, if (A) any amounts held in the Bona Fide Debt Service Funds that remain unexpended after 13 months from the date of accumulation therein, plus (B) any Sale Proceeds or Investment Proceeds held in the Rebate Fund, plus (C) any unexpended Sale Proceeds and Investment Proceeds held in the Project Fund or Project Fund three years after the Closing Date, plus (D) all amounts received from the investment or reinvestment of Sale Proceeds after a one-year period beginning on the date of receipt of such amounts, at any time, in the aggregate, exceeds \$100,000, such excess will be invested either (i) in Investment Property with a yield not exceeding the yield on the Bonds, (ii) in assets that are not treated as Investment Property (e.g., Tax-Exempt Obligations), or (iii) in assets that satisfy the requirements for qualified yield reduction payments set forth in Treasury Regulations Section 1.148-5(c), subject to the limitation set forth in Section 1.148-10(b)(1)(ii).

**4.3 Yield on Acquired Program Obligations.** Payments of principal and interest by the Borrower to the Issuer under the Loan Agreement will be made in the same amounts as the principal and interest coming due with respect to the Bonds and will be held by the Trustee for the

account of the Borrower until applied to its payment with respect to the Bonds. The Borrower also is required to pay or reimburse the Issuer for certain administrative expenses, including the costs of issuing the Bonds and the fees and expenses of the Trustee and any paying agents, but excluding general expenses or administrative overhead of the Issuer. The present value of these payments to the Issuer will not exceed the present value of the administrative costs paid by the Issuer. The yield on the Loan Agreement is not expected to be greater than one and one-half percentage point more than the yield on the Bonds. Neither the Issuer nor the Borrower has entered into any hedge or qualified guarantee with respect to the Bonds.

## V.

### Rebate

**5.1 Undertakings.** The Issuer and the Borrower have covenanted to comply with certain requirements of the Code relating to the Rebate Requirement as discussed in this Article V. The Issuer intends to comply with these requirements through the obligation and undertaking of the Borrower to comply with these same requirements (including retention of a qualified rebate analyst, if necessary), which the Borrower hereby acknowledges. The Issuer and the Borrower acknowledge that the United States Department of the Treasury has issued regulations with respect to certain of these undertakings, including the proper method for computing whether any rebate amount is due the federal government under Section 148(f) of the Code. The Borrower has covenanted, and the Issuer is relying on such covenant, that the Borrower will undertake to determine precisely what is required with respect to the rebate provisions contained in Section 148(f) of the Code and said regulations from time to time and will comply with any requirements that may be applicable to the Bonds. Except to the extent inconsistent with any requirements of the Code or the regulations or future regulations, the Issuer and the Borrower will undertake the methodology described in this Tax Agreement.

**5.2 Rebate Fund.** A special fund designated the “Rebate Fund” has been established pursuant to the Indenture. The Issuer and the Borrower have agreed to keep the Rebate Fund separate and apart from all other funds and moneys held by any of the Issuer, the Borrower and the Trustee.

**5.3 Recordkeeping.** The Borrower shall maintain or cause to be maintained detailed records with respect to each Nonpurpose Investment attributable to Gross Proceeds of the Bonds, including: (a) purchase date; (b) purchase price; (c) information establishing fair market value on the date such investment became a Nonpurpose Investment; (d) any accrued interest paid; (e) face amount; (f) coupon rate; (g) periodicity of interest payments; (h) disposition price; (i) any accrued interest received; and (j) disposition date. Such detailed recordkeeping is required to facilitate the calculation of the Rebate Requirement.

### **5.4 Exceptions to the Rebate Requirement.**

**5.4.1 Bona Fide Debt Service Funds.** Subject to the representations and certifications made in Section 3.4.2 of this Tax Agreement, no rebate calculations will need to be made with respect to any moneys in the Bona Fide Debt Service Funds.

**5.4.2 Two-Year Construction Exception.** The Available Construction Proceeds of the Bonds may not be subject to the Rebate Requirement. The Borrower reasonably expects that at least 75% of the Available Construction Proceeds will be expended for construction expenditures with respect to property that will be owned by the Borrower. For purposes of this Section 5.4.4, “construction expenditures” include costs for construction, reconstruction and rehabilitation, but do not include costs of acquisition of interests in land or other existing real property. All of the Available Construction Proceeds will be deposited or are expected to be deposited in the Project Fund.

The portions of the Available Construction Proceeds required to be spent at the end of each 6-month period are as follows:

End of first six months	10%
End of first year	45%
End of first 18 months	75%
End of second year	100%

The requirement that 100% of the Available Construction Proceeds be expended within two years of the Closing Date will be met if at least 95% of the Available Construction Proceeds is spent by such time, if the remainder is a “reasonable retainage” as required or permitted by construction contracts with the Borrower’s contractors, and if such remainder is spent within the three years of the Closing Date. In determining Available Construction Proceeds as of any date, there shall be included the amount of investment earnings reasonably expected after such date along with investment earnings actually received or accrued as of such date.

## **5.5 Rebate Requirement Calculation and Payment.**

**5.5.1** To the extent any Proceeds of the Bonds do not meet an exception to rebate as described herein, the Borrower will prepare or cause to be prepared a calculation of the Rebate Requirement at least once every five years, consistent with the rules described in this Section 5.5 and deliver such calculation to the Issuer. The Borrower will complete such calculation of the Rebate Requirement, if required, within 55 days after the close of each fifth Bond Year and within 55 days after the first date on which the Bonds are no longer outstanding for federal tax purposes. Concurrent with the preparation of such calculation, the Borrower shall deposit in the Rebate Fund, as necessary, an amount which when added to amounts already on deposit therein will equal the Rebate Requirement or, if appropriate, decrease the sum held in the Rebate Fund to the Rebate Requirement.

**5.5.2** For purposes of calculating the Rebate Requirement (i) the aggregate amount earned with respect to a Nonpurpose Investment shall be determined by assuming that the Nonpurpose Investment was acquired for an amount equal to its fair market value (determined as provided in §1.148-5(d)(6) of the Treasury Regulations as applicable) at the time it becomes a Nonpurpose Investment, and (ii) the aggregate amount earned with respect to any Nonpurpose Investment shall include any unrealized gain or loss with respect to the Nonpurpose Investment (based on the assumed purchase price at fair market value and adjusted to take into account amounts received with respect to the Nonpurpose Investment and earned original issue discount or premium) on the first date when the Bonds is no longer outstanding for federal tax purposes or

when the investment ceases to be a Nonpurpose Investment. Any amounts held in the Bona Fide Debt Service Funds shall be excluded from the Rebate Calculation for any year in which earnings on such Bona Fide Debt Service Funds do not exceed \$100,000.

**5.5.3** The Borrower shall pay to the United States Department of the Treasury from the Rebate Fund, not later than 60 days after the end of the fifth Bond Year and each succeeding fifth Bond Year, an amount equal to 90%, and not later than 60 days after the first date when the Bonds is no longer outstanding for federal tax purposes, an amount equal to 100% of the Rebate Requirement (determined as of the first date when the Bonds is no longer Outstanding for federal tax purposes) plus any actual or imputed earnings on such Rebate Requirement, all as set forth in §1.148-3 of the Treasury Regulations.

**5.5.4** Each payment required to be made pursuant hereto shall be filed with the Internal Revenue Service Center, Ogden, Utah 84201, on or before the date such payment is due, and shall be accompanied by Form 8038-T. A copy of such form, upon the request of the Issuer, shall be delivered to the Issuer. The Borrower shall retain records of the calculations required by this Section 5.5 until three years after the retirement of the last of the Bonds.

## **5.6 Investment and Dispositions.**

**5.6.1 General Rule.** No Investment Property may be acquired with Gross Proceeds for an amount (including transaction costs, except as otherwise provided in §1.148-5(e) of the Treasury Regulations) in excess of the fair market value of such Investment Property. No Investment Property may be sold or otherwise disposed of for an amount (including transaction costs, except as otherwise provided in §1.148-5(e) of the Treasury Regulations) less than the fair market value of the Investment Property.

**5.6.2 Fair Market Value.** In general, the fair market value of any Investment Property is the price at which a willing buyer would pay to a willing seller to acquire the Investment Property, with no amounts paid to artificially reduce or increase the yield on such Investment Property. This Section 5.6 sets forth certain safe harbors for determining fair market value. Other methods may be used to establish fair market value, provided, however, that such methods comply with the requirements of §1.148-5(d)(6) of the Treasury Regulations.

**5.6.3 Arm's Length Purchase and Sale.** If Investment Property is acquired pursuant to an arm's length transaction without regard to any amount paid to reduce the yield on the Investment Property, the fair market value of the Investment Property shall be the amount paid for the Investment Property (without increase for transaction costs, except as otherwise provided in §1.148-5(e) of the Treasury Regulations). If Investment Property is sold or otherwise disposed of in an arm's length transaction without regard to any reduction in the disposition price to reduce the Rebate Requirement, the fair market value of the Investment Property shall be the amount realized from the sale or other disposition of the Investment Property (without reduction for transaction costs, except as otherwise provided in §1.148-5(e) of the Treasury Regulations).

**5.6.4 United States Treasury Securities – State and Local Government Series.** If a United States Treasury obligation is acquired directly from or disposed of directly to the United States Department of the Treasury (as in the case of the United States Treasury



Securities - State and Local Government Series (“*SLGS*”) obligations), such acquisition or disposition shall be treated as establishing a market for the obligation and as establishing the fair market value of the obligation.

**5.6.5 Investment Contracts.** The purchase price of any Investment Property acquired pursuant to an investment contract (within the meaning of §1.148-5(d)(6)(iii) of the Treasury Regulations) will be considered to be fair market value if:

The purchase price of an investment contract will be considered to be fair market value if:

(i) the Borrower has made (or have had made on its behalf) a bona fide solicitation for the investment contract; the solicitation must have specified the material terms of the investment contract (i.e., all the terms that could directly or indirectly affect the yield or the cost of the investment including the collateral security requirements for the investment contract) and, unless the moneys invested pursuant to such investment contract will be held in a reasonably required reserve fund or the bona fide debt service funds, the Borrower’s reasonably expected drawdown schedule for the moneys to be invested; the solicitation has a legitimate business purpose (i.e., a purpose other than to increase the purchase price or reduce the yield) for every term of the bid specification;

(ii) all bidders have an equal opportunity to bid so that, for example, no bidder is given the opportunity to review other bids (a last look) before bidding;

(iii) the Borrower solicit bids from at least three (3) investment contract providers with established industry reputations as competitive providers of investment contracts;

(iv) the Borrower include in the bid specifications a statement to potential bidders that by submitting a bid, the provider is making certain representations that the bid is bona fide, and specifically that 1) the bidder did not consult with any other potential provider about its bid, 2) the bid was determined without regard to any other formal or informal agreement that the potential provider had with the Borrower or any other person, and 3) the bid was not submitted solely as a courtesy to the Borrower or any other person for purposes of satisfying the requirements of §1.148-5 of the Treasury Regulations;

(v) at least three bids meeting the qualification requirements of the bid solicitation (as set forth in (i) above) have been received from different providers of investment contracts that have no material financial interest in the Bonds (the following investment contract providers are considered to have a material financial interest in the issue: 1) a lead underwriter in a negotiated underwriting, but only until 15 days after the issue date of the issue; 2) an entity acting as a financial advisor with respect to the purchase of the investment contract at the time the bid specifications were forwarded to potential providers; and 3) any related party to a provider that is disqualified for one of the two preceding reasons);

(vi) at least one of the bids received by the Borrower that meets the requirements of the preceding paragraph is from an investment contract provider with an established industry reputation as a competitive provider of investment contracts;

(vii) the investment contract has a yield (net of any broker's fees) at least equal to the highest yielding of the qualifying bids received from the bidders that have no material financial interest in the Bonds; if the investment contract is not the highest-yielding of the qualifying bids, the Borrower must have significant non-tax reasons, such as creditworthiness of the bidder, for failure to purchase the highest-yielding investment contract offered;

(viii) if an agent for the Borrower conducts the bidding process, the agent does not bid;

(ix) the provider of the investment contract certifies as to all administrative costs to be paid on behalf of the Borrower, including any fees paid as broker commissions in connection with the investment contract.

**5.6.6 Deemed Acquisition or Sale.** The fair market value of any Investment Property not directly purchased with Gross Proceeds but allocated to the Bonds for which there is an established securities market (within the meaning of §15A.453-1(e)(4)(iv) of the Temporary Treasury Regulations) shall be determined as provided in this Section 5.6.6 (Any market especially established to provide Investment Property to an issuer of governmental obligations shall not be treated as an established securities market.) The price at which a willing buyer would purchase Investment Property that is traded in an established securities market generally shall be determined as provided in §20.2031-2 of the Estate Tax Regulations, as adjusted by Treasury Regulations §1.148-5(d).

**5.6.7 Certificates of Deposit.** The purchase price of a certificate of deposit issued by a commercial bank that has a fixed interest rate, a fixed principal payment schedule, a fixed maturity, and a substantial penalty for early withdrawal will be considered to be fair market value if:

(i) the yield on the certificate of deposit is not less than the yield on reasonably comparable direct obligations of the United States; and

(ii) the yield on the certificate of deposit is not less than the highest published yield of the provider thereof which is currently available on comparable certificates of deposit offered to the public.

**5.6.8 Broker Compensation.** For purposes of computing the Yield on any investment contract acquired through a broker, reasonable compensation received by such broker, whether payable by or on behalf of the obligor or obligee of such investment contract, may be taken into account in determining the cost of the investment contract (as provided in §1.148-5(e)(2)(iii) of the Treasury Regulations). For the calendar year 2017, compensation is deemed reasonable if does not exceed the lesser of i) \$39,000 or ii) 0.2% of the amount reasonably expected, as of the date of acquisition of the investment contract, to be invested under the investment contract over its term, or \$4,000 (if 0.2% of such amount reasonably expected to be invested under the investment contract over its term is less than \$4,000). In addition, the total fees received by the broker with respect to the investment of any proceeds of the Bonds that are taken into account with respect to all investment contracts, at any time, may not exceed \$111,000. All amounts referenced are to be adjusted for inflation after the Closing Date.

**5.7 Segregation of Proceeds.** In order to perform the calculations required by the Code, it is necessary to track separately all of the Gross Proceeds. To that end, the Issuer and the Borrower shall cause to be established separate subaccounts or shall cause the Trustee to take such other accounting measures as are necessary in order to account fully for all Gross Proceeds.

**5.8 Filing Requirements.** The Issuer and the Borrower will file or cause to be filed such reports or other documents with the Internal Revenue Service as is required by the Code.

**5.9 Retention of Firm.** The Borrower has decided to undertake its rebate obligations as follows:

\_\_\_\_\_ The Borrower initially has retained the firm of Bond Logistix LLC to perform rebate calculations that may be required to be made from time to time with respect to the Bonds.

\_\_\_\_\_ The Borrower initially has retained the firm of \_\_\_\_\_ to perform rebate calculations that may be required to be made from time to time with respect to the Bonds.

\_\_\_\_\_ The \_\_\_\_\_ of the Borrower has undertaken full responsibility for performing rebate calculations that may be required to be made from time to time with respect to the Bonds.

— The Borrower has decided not, at this time, to designate a party responsible for performing rebate calculations that may be required to be made from time to time with respect to the Bonds and as a result undertake and assume full responsibility for rebate compliance and acknowledges that neither bond counsel nor the Trustee has any such responsibility (unless later engaged in writing for such purpose)

— The Borrower has determined that it is not likely that they will earn any arbitrage subject to rebate with respect to the Bonds.

## VI.

### Other Matters

**6.1** This Tax Agreement shall be construed in accordance with and governed by the laws of the State of California applicable to contracts made and performed in the State of California. This Tax Agreement shall be enforceable in the State of California, and any action arising hereunder shall (unless waived by the Issuer in writing) be filed and maintained in the Superior Court of California, County of Sacramento.

**6.2** The undersigned are authorized representatives of the Issuer and the Borrower, respectively, and are acting for and on behalf of the Issuer and the Borrower, respectively, in executing this Tax Agreement. To the best of the knowledge and belief of the undersigned, there are no other facts, estimates or circumstances that would materially change the expectations as set forth herein, and said expectations are reasonable.

**6.3** Notwithstanding any provision of this Tax Agreement, the Issuer and the Borrower may amend this Tax Agreement and thereby alter any actions allowed or required by this Tax Agreement if such amendment is based on an Opinion of Counsel.

Dated: March \_\_, 2017.

CALIFORNIA HEALTH FACILITIES  
FINANCING AUTHORITY

By: \_\_\_\_\_  
Deputy Treasurer  
For Chairman, State Treasurer John Chiang

By: \_\_\_\_\_  
Executive Director

EL CAMINO HOSPITAL

By: \_\_\_\_\_  
Authorized Representative

**EXHIBIT A**

**PROJECT**

[SEE ATTACHED SPREADSHEET]

**EXHIBIT B**  
**[RESERVED]**

**EXHIBIT C**  
**PRICING NUMBERS**  
**[ATTACHED]**

**EXHIBIT D**  
**NOTICE OF PUBLIC APPROVAL**



**EXHIBIT E**  
**TREASURER'S APPROVAL**

**EXHIBIT F**  
**REIMBURSEMENT RESOLUTION**  
**[SEE ATTACHED]**

**EXHIBIT G**  
**ISSUER POST-ISSUANCE COMPLIANCE REQUIREMENTS**  
**[ATTACHED]**

## EXHIBIT H

### CERTIFICATE OF UNDERWRITER

CITIGROUP GLOBAL MARKETS INC. (the “*Underwriter*”) has served as the underwriter in connection with the issuance by the CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (the “*Issuer*”) of \$[PAR] aggregate stated principal amount of the Issuer’s Revenue Bonds (El Camino Hospital) Series 2017 (the “*Bonds*”). Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Tax Certificate and Agreement to which this Certificate is attached as an exhibit. The Underwriter hereby certifies as follows:

A. As of [Sale Date], 2017 (the “*Sale Date*”), the Underwriter had offered all of the Bonds to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriter or wholesalers) in a *bona fide* public offering at the prices set forth in the attached schedule (the “*Offering Prices*”).

B. The Offering Prices of the Bonds do not exceed a fair market price as of the Sale Date.

C. As of the date of this certificate, at least 10% of each maturity of the Bonds has actually been sold to the general public at such respective Offering Price.

The undersigned is authorized to execute this certificate on behalf of the Underwriter, which is based on one or more of (i) personal knowledge, (ii) inquiry deemed adequate by the undersigned, and (iii) institutional knowledge regarding the matters set forth herein.

Dated: March \_\_, 2017.

CITIGROUP GLOBAL MARKETS INC.,  
as Underwriter

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Authorized Representative

## OFFERING PRICES SCHEDULE

[See Pricing Numbers Attached as Exhibit C to the Tax Certificate]

# **Att. 06 04 Preliminary Official Statement**

**PRELIMINARY OFFICIAL STATEMENT DATED MARCH [9], 2017****NEW ISSUE – BOOK-ENTRY ONLY****RATINGS†**

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.*

**\$287,040,000\***

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY  
REVENUE BONDS (EL CAMINO HOSPITAL)  
SERIES 2017**

[ECH Logo]

**Dated: Date of Delivery****Due: February 1, as set forth on the inside cover hereof**

**This cover page contains certain information for quick reference only. It is not intended to be a summary of the security or terms of the Bonds. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.**

The California Health Facilities Financing Authority Revenue Bonds (El Camino Hospital), Series 2017 (the “Bonds”) will be issued as fully registered bonds registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), under the book entry only system maintained by DTC. Purchases of the Bonds may be made in book-entry form only (without physical certificates) in denominations of \$5,000 or any integral multiple thereof within a maturity. So long as Cede & Co. is the registered owner of the Bonds, principal of, premium, if any, and interest on the Bonds will be payable by Wells Fargo Bank, National Association, as bond trustee, to DTC, which in turn will remit such payments to its participants for subsequent disbursement to Beneficial Owners of the Bonds, as more fully described herein, and all notices, including any notice of redemption, shall be mailed only to Cede & Co. See “BOOK-ENTRY SYSTEM” herein. Interest on the Bonds is payable on February 1 and August 1 of each year, commencing August 1, 2017.

The Bonds are being issued by the California Health Facilities Financing Authority (the “Authority”), which will lend the proceeds of the sale of the Bonds to El Camino Hospital (the “Corporation”) pursuant to a Loan Agreement to provide funds which the Corporation will use (i) to finance certain capital expenditures at facilities owned or operated by the Corporation (the “Project”) (ii) to finance a portion of the interest payable on the Bonds through \_\_\_\_\_, 20\_\_, and (iii) pay costs incurred in connection with the issuance of the Bonds. See “PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

The Bonds are limited obligations of the Authority, secured under the provisions of the Bond Indenture and the Loan Agreement, as described herein, and will be payable from Loan Repayments made by the Corporation under the Loan Agreement and from certain funds held under the Bond Indenture. The obligation of the Corporation to make such payments is evidenced and secured by Obligation No. 6, issued under the Master Indenture, described herein, whereunder the members of the obligated group (the “Obligated Group”), in which currently only the Corporation is a member, are obligated to make payments on Obligation No. 6 in amounts sufficient to pay principal of and premium, if any, and interest on the Bonds when due.

THE BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE AUTHORITY OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS THEREFOR PROVIDED. NEITHER THE STATE OF CALIFORNIA NOR THE AUTHORITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS OR THE PREMIUM, IF ANY, OR THE INTEREST THEREON EXCEPT FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT AND THE OTHER ASSETS PLEDGED UNDER THE BOND INDENTURE, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE PREMIUM, IF ANY, OR THE INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.

**The Bonds are subject to optional, mandatory and extraordinary optional redemption prior to maturity as described herein.**



*The Bonds are offered when, as and if received by the Underwriter, subject to prior sale and to the approval of the validity of the Bonds and certain legal matters by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, the approval of certain matters for the Authority by the Attorney General of the State of California, for the Corporation by Buchalter Nemer, A Professional Corporation, San Francisco, California, and for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California. Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel, will provide certain other legal services for the Authority. It is expected that the Bonds in book-entry form will be available for delivery through the facilities of DTC, on or about March 22, 2017.*

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**HONORABLE JOHN CHIANG**  
**Treasurer of the State of California**  
**As Agent for Sale**

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**Citigroup**

Date: March \_\_, 2017.

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\* Preliminary, subject to change.

† For an explanation of the ratings, see "RATINGS" herein.

**\$287,040,000\***  
**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**  
**REVENUE BONDS**  
**(EL CAMINO HOSPITAL)**  
**SERIES 2017**

\$ \_\_\_\_\_ Serial Bonds

Maturity Date (February 1)	Principal Amount	Interest Rate	Yield	CUSIP <sup>†</sup>
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\$ \_\_\_\_\_ % Term Bond due February 1, 20\_\_ – Priced to Yield \_\_\_\_\_%, CUSIP<sup>†</sup> \_\_\_\_\_  
 \$ \_\_\_\_\_ % Term Bond due February 1, 20\_\_ – Priced to Yield \_\_\_\_\_%, CUSIP<sup>†</sup> \_\_\_\_\_

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<sup>†</sup> CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (“CGS”) is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright© 2017 CUSIP Global Services. All rights reserved. CUSIP data herein is provided by CGS. This data is not intended to create a database and does not serve in any way as a substitute for the CGS data base. CUSIP numbers have been assigned by an independent company not affiliated with the Authority, the Underwriter, or the Corporation and are included solely for the convenience of the registered owners of the applicable Bonds. None of the Authority, the Underwriter or the Hospital is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Bonds or as included herein. None of the Authority, the Corporation, or the Underwriter assume any responsibility for the accuracy of such numbers. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the Bonds.

\* Preliminary, subject to change.

The information relating to the Authority set forth herein under the captions “THE AUTHORITY” and “ABSENCE OF MATERIAL LITIGATION – The Authority” has been furnished by the Authority. The Authority does not warrant the accuracy of the statements contained herein relating to the Corporation nor does it directly or indirectly guarantee, endorse or warrant (1) the creditworthiness or credit standing of the Corporation, (2) the sufficiency of the security for the Bonds or (3) the value or investment quality of the Bonds. The Authority makes no representations or warranties whatsoever with respect to any information contained therein except for the information under the sections entitled “THE AUTHORITY” and “ABSENCE OF MATERIAL LITIGATION – The Authority.” All other information contained herein has been obtained from the Corporation, DTC and other sources (other than the Authority) that are believed to be reliable. Such other information is not guaranteed as to accuracy or completeness and is not to be relied upon or construed as a promise or representation by the Authority or the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with and as part of its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The Bonds and Obligation No. 6 have not been registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended, and neither the Bond Indenture nor the Master Indenture has been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The registration or qualification of the Bonds in accordance with the applicable provisions of securities laws of the states in which the Bonds have been registered or qualified, if any, and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither these states nor any of their agencies have passed upon the merits of the Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

No dealer, broker, salesperson or other person has been authorized by the Authority, the Corporation or the Underwriter to give any information or to make any representations, other than those contained in this Official Statement in connection with the offering made hereby, and, if given or made, such information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any statement nor any sale made hereunder shall create under any circumstances any implication that there has been no change in the affairs of the Authority, the Corporation, or DTC. This Official Statement is submitted in connection with the issuance of the Bonds referred to herein and may not be used, in whole or in part, for any other purpose.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

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CAUTIONARY STATEMENTS REGARDING  
FORWARD-LOOKING STATEMENTS IN  
THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements generally are identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or other similar words. Such forward-looking statements include but are not limited to certain statements contained in the information under the captions “BONDHOLDERS’ RISKS,” and APPENDIX A – “INFORMATION CONCERNING EL CAMINO HOSPITAL AND AFFILIATES – STRATEGIC PLAN,” “– HOSPITAL FACILITIES AND SERVICES” and “– MANAGEMENT’S DISCUSSION OF FINANCIAL OPERATIONS” in this Official Statement. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Corporation does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

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**\$287,040,000\***  
**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**  
**REVENUE BONDS (EL CAMINO HOSPITAL)**  
**SERIES 2017**

**INTRODUCTION**

The following introduction is subject in all respects to the more complete information set forth in this Official Statement. All descriptions and summaries of documents referred to herein do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each such document. Terms used in this Official Statement and not otherwise defined have the same meanings as in the Bond Indenture (as defined below) or, if not defined in the Bond Indenture, in the Master Indenture (as defined below). See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – Definitions of Certain Terms.”

**Purpose of the Official Statement**

This Official Statement, including the cover page, the inside cover page and the appendices hereto, is provided to furnish information in connection with the sale and delivery by the California Health Facilities Financing Authority (the “Authority”) of \$287,040,000\* aggregate principal amount of its Revenue Bonds (El Camino Hospital), Series 2017 (the “Bonds”). The Bonds will be issued pursuant to and secured by a bond indenture, dated as of March 1, 2017 (the “Bond Indenture”), between the Authority and Wells Fargo Bank, National Association, as bond trustee (in such capacity, the “Bond Trustee”). The Authority will lend the proceeds of the Bonds to El Camino Hospital (the “Corporation”), which loan will be evidenced by a loan agreement, dated as of March 1, 2017 (the “Loan Agreement”), between the Authority and the Corporation.

**El Camino Hospital**

The Corporation is a California nonprofit public benefit corporation which operates a single hospital comprised of two campuses (one in Mountain View and one in Los Gatos, California). The hospital is licensed by the State of California Department of Health Services for up to 443 beds and accredited by The Joint Commission (the “Hospital”). For a description of the Corporation, its facilities and financial performance, see APPENDIX A – “INFORMATION CONCERNING EL CAMINO HOSPITAL AND AFFILIATES.”

**The Obligated Group**

As of the date of the issuance of the Bonds, the Corporation is the only member of an obligated group (the “Obligated Group”) established under the Master Indenture dated as of March 1, 2007 (the “Master Indenture”), between the Corporation and Wells Fargo Bank, National Association, as master trustee (in such capacity, the “Master Trustee”). Other entities may become members of the Obligated Group (each, a “Member”) in accordance with the procedures set forth in the Master Indenture. Each Member of the Obligated Group is jointly and severally obligated to pay when due the principal of, premium, if any, and interest on each Master Indenture Obligation issued under the Master Indenture, including Obligation No. 6 (as hereinafter defined), which will evidence and secure the loan of the proceeds of the Bonds by the Authority to the Corporation. For more information about the Corporation and its affiliates, see APPENDIX A – “INFORMATION CONCERNING EL CAMINO HOSPITAL AND AFFILIATES – GENERAL.”

**Security for the Bonds**

The Bonds will be payable from payments made by the Corporation under the Loan Agreement (the “Loan Repayments”), from payments made by the Members of the Obligated Group on Obligation No. 6, and from certain funds held under the Bond Indenture. As of the date of the issuance of the Bonds, the Corporation is the only Member of the Obligated Group. Pursuant to the Loan Agreement, the Corporation is required to make aggregate

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\* Preliminary, subject to change.

payments in an amount sufficient to enable the Authority to pay in full, when due, the principal of and premium, if any, and interest on the Bonds.

To secure the obligation of the Corporation to make payments under the Loan Agreement, the Corporation will deliver to the Bond Trustee its Master Indenture Obligation No. 6 (“Obligation No. 6”) issued pursuant to the Master Indenture, as supplemented and amended by the Supplemental Master Indenture for Obligation No. 6, dated as of March 1, 2017, between the Corporation and the Master Trustee (“Supplement No. 6”). The Master Indenture creates a “Credit Group” which consists of the Obligated Group Members, and the Designated Affiliates. Currently, the Corporation is the only Member of the Obligated Group and there are no Designated Affiliates. Pursuant to the Master Indenture, the Corporation and any future Members of the Obligated Group agree to make payments on Obligation No. 6 in amounts sufficient to pay, when due, the principal of and premium, if any, and interest on the Bonds. Each Member, if any additional Members are added in the future, is jointly and severally liable for payment of the Master Indenture Obligations issued under the Master Indenture, including Obligation No. 6. The Obligated Group will make payments on Obligation No. 6 directly to the Bond Trustee as the holder thereof. If any Designated Affiliate is added in the future, such Designated Affiliate will not be obligated to make any payments on any Master Indenture Obligations; however, they may be required to transfer funds to the Obligated Group Members in amounts necessary to make payments due on Master Indenture Obligations (as further set forth in the Master Indenture). Obligation No. 6 will entitle the Bond Trustee, as the holder thereof, to the benefit of the covenants, restrictions and other obligations imposed upon the Obligated Group under the Master Indenture. For information regarding the Master Indenture, see “SECURITY FOR THE BONDS – The Master Indenture” herein and APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – MASTER INDENTURE.”

Subject to the provisions of the Master Indenture permitting application of the Gross Revenues (as defined in the Master Indenture) for the purposes and upon the terms and conditions set forth therein, the Corporation has pledged and granted a security interest (to the extent permitted by law) to the Master Trustee in the Gross Revenue Fund and all of the Gross Revenues of the Corporation to secure the required payments and the performance by the Members of the Obligated Group of their obligations under the Master Indenture. See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – MASTER INDENTURE – Particular Covenants of Each Member of the Obligated Group – *Gross Revenue Fund*.”

### **Additional Indebtedness**

In certain circumstances, the Members of the Obligated Group may incur additional Indebtedness (including Guaranties) that may be evidenced or secured by Master Indenture Obligations issued pursuant to the Master Indenture. Members of the Obligated Group may also issue Master Indenture Obligations under the Master Indenture, which secure obligations other than Indebtedness. Additional Obligations will be equally and ratably secured with each other Master Indenture Obligation issued under the Master Indenture, including Obligation No. 6. See “SECURITY FOR THE BONDS – The Master Indenture” herein. For a description of the financial tests and limits on additional indebtedness in the Master Indenture, see APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – MASTER INDENTURE – Particular Covenants of Each Member of the Obligated Group.”

### **Plan of Finance**

The Corporation will use the proceeds of the Bonds to (i) to finance certain capital expenditures at facilities owned or operated by the Corporation (the “Project”), (ii) finance a portion of the interest payable on the Bonds through \_\_\_\_\_, 20\_\_ and (iii) pay costs incurred in connection with the issuance of the Bonds. For a further description of the financing plan, see “PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

### **Continuing Disclosure**

The Corporation, on behalf of itself and any other Members of the Obligated Group, will enter into an undertaking for the benefit of the Holders and Beneficial Owners of the Bonds to provide, or to have its dissemination agent provide, (i) certain annual and quarterly financial and operating data, and (ii) notices of the occurrence of certain enumerated events. See “CONTINUING DISCLOSURE” herein.

## **Bondholders' Risks**

There are risks associated with the purchase of the Bonds. See "BONDHOLDERS' RISKS" herein for a discussion of certain of these risks.

## **THE AUTHORITY**

### **General**

The Authority is a public instrumentality of the State of California organized and existing under and by virtue of the Act, constituting Part 7.2 of Division 3 of Title 2 of the California Government Code (the "Act"). The intent of the State Legislature in enacting the Act was to provide financing to health facilities and to pass along to the consuming public all or part of any savings realized by a participating health institution (as defined in the Act) as a result of tax-exempt financing. Pursuant to the Act, the Authority is authorized to issue its revenue bonds for the purpose of financing (including reimbursing expenditures made or refinancing indebtedness incurred for such purpose) the construction, expansion, remodeling, renovation, furnishing, equipping or acquisition of health facilities operated by participating health institutions. The State Treasurer is authorized under the Act to sell such revenue bonds on behalf of the Authority.

### **Organization and Membership**

The Act provides that the Authority shall consist of nine members, including the State Treasurer, who shall serve as Chairman, the Controller of the State, the Director of Finance of the State and two members appointed by each of the State Senate Rules Committee, the Speaker of the State Assembly and the Governor of the State (the "Governor"). The Chairman of the Authority appoints the Executive Director.

### **Outstanding Indebtedness of the Authority**

As of June 30, 2016 the Authority had issued obligations aggregating \$33,712,057,017 in original principal amount and had outstanding obligations in the aggregate principal amount of \$13,763,126,668.

## **THE BONDS**

The following is a summary of certain provisions of the Bonds. Reference is made to the Bonds for the complete text thereof and to the Bond Indenture for all of the provisions relating to the Bonds. See also APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS." The discussion herein is qualified by such reference.

### **General**

The Bonds are being issued pursuant to the Bond Indenture in the aggregate principal amount set forth on the cover of this Official Statement. The Bonds will be delivered in fully registered form without coupons. The Bonds will be dated the date of delivery and will be payable as to principal, subject to the redemption provisions set forth herein, on the dates and in the amounts as set forth on the inside cover page hereof. The Bonds will be transferable and exchangeable as set forth in the Bond Indenture and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only, in denominations of \$5,000 or any integral multiple thereof within a maturity. For so long as DTC or its nominee, Cede & Co., is the registered owner of any of the Bonds, (i) payments of the principal of and premium, if any, and interest on the Bonds will be made by the Bond Trustee directly to Cede & Co. for payment to DTC participants for subsequent disbursement to the beneficial owners, and (ii) all notices, including any notice of redemption, shall be mailed only to Cede & Co. as registered owner of the Bonds. See "BOOK-ENTRY SYSTEM" herein.



The Bonds will bear interest at the rates per annum set forth on the inside cover page hereof, payable semiannually on February 1 and August 1 of each year (each, an “Interest Payment Date”), commencing August 1, 2017, to the person whose name appears on the bond registration books of the Bond Trustee as the Holder thereof as of the close of business on the Record Date (which will be the fifteenth day, whether or not a Business Day, of the calendar month preceding the calendar month in which an Interest Payment Date falls) for each Interest Payment Date (except with respect to interest in default, for which a special record date shall be established). Interest on the Bonds will be calculated on a 360-day year basis of twelve 30-day months. So long as Cede & Co. is the registered owner of the Bonds, principal of and interest on the Bonds are payable by wire transfer by the Bond Trustee to Cede & Co., as nominee for DTC, which, in turn, will remit such amounts to DTC Participants (as defined herein) for subsequent disbursement to the Beneficial Owners. See “BOOK-ENTRY SYSTEM” herein.

If the book-entry system for the Bonds is ever discontinued, payment of interest on the Bonds will be made by check mailed by first-class mail on each Interest Payment Date to each Holder as of the Record Date for such Interest Payment Date at its address as it appears on the bond registration books maintained by the Bond Trustee or, at the written request of any Holder of at least one million dollars (\$1,000,000) in aggregate principal amount of Bonds, submitted to the Bond Trustee at least one Business Day prior to the Record Date for the applicable Interest Payment Date, by wire transfer in immediately available funds to an account within the United States designated by the Holder. Payment of the principal or redemption price of Bonds will then be payable upon presentation and surrender of the Bonds at the corporate trust office of the Bond Trustee.

### **Redemption of Bonds**

***Optional Redemption.*** The Bonds maturing on or after February 1, 20\_\_, are subject to redemption prior to their stated maturity, at the option of the Corporation, which option shall be exercised upon Request of the Corporation given to the Bond Trustee, from any source of available funds, as a whole or in part on any date (in such amounts and maturities as may be specified by the Corporation) on or after February 1, 20\_\_, by lot, at a Redemption Price equal to 100% of the principal amount of Bonds called for redemption, together with interest accrued thereon (if any) to the date fixed for redemption.

***Extraordinary Optional Redemption.*** The Bonds are subject to extraordinary optional redemption prior to their stated maturity, at the option of the Corporation, which option shall be exercised upon Request of the Corporation given to the Bond Trustee, in whole or in part (in such amounts and maturities as may be specified by the Corporation), by lot, on any date, from hazard insurance or condemnation proceeds received with respect to the facilities of any of the Members and deposited in the Special Redemption Account, at a Redemption Price equal to the principal amount thereof, together with interest accrued thereon (if any) to the date fixed for redemption, without premium.

***Optional Redemption in the Event of a Change in Law.*** The Bonds are subject to optional redemption prior to their stated maturity, at the option of the Corporation, which option shall be exercised upon Request of the Corporation given to the Bond Trustee, as a whole (but not in part) on any date at the principal amount thereof and interest accrued thereon (if any) to the date fixed for redemption, without premium, if as a result of any changes in the Constitution of the United States of America or any state, or legislative or administrative action or inaction by the United States of America or any state, or any agency or political subdivision thereof, or by reason of any judicial decisions there is a good faith determination by any Member that (a) the Master Indenture has become void or unenforceable or impossible to perform, or (b) unreasonable burdens or excessive liabilities have been imposed on such Member, including without limitation, federal, state or other ad valorem property, income or other taxes being then imposed which were not being imposed on the date of issuance of the Bonds.

**Mandatory Redemption.** The Bonds maturing on February 1, 20\_\_ are subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments in the following amounts and on the following dates, at the principal amount thereof without premium:

Mandatory Sinking Account Payment Date (February 1)	Mandatory Sinking Account Payments
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†

† Final Maturity

The Bonds maturing on February 1, 20\_\_ are subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments in the following amounts and on the following dates, at the principal amount thereof without premium:

Mandatory Sinking Account Payment Date (February 1)	Mandatory Sinking Account Payments
---	---------------------------------------

†

† Final Maturity

**Selection of Bonds for Redemption.** Whenever provision is made in the Bond Indenture for the redemption of less than all of the Bonds or any given portion thereof, the Bond Trustee shall select the Bonds to be redeemed, from all Bonds subject to redemption or such given portion thereof not previously called for redemption, by lot; provided, however that in such instances as provided for herein where the Corporation is to specify the maturities of Bonds to be redeemed, the Bond Trustee shall redeem Bonds in accordance with any such specification.

**Notice of Redemption of the Bonds.** Notice of redemption shall be mailed by first-class mail by the Bond Trustee, not less than 20 days and not more than 60 days prior to the redemption date, to (i) the respective Holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Bond Trustee, and (ii) the Authority, the Securities Depository and the MSRB. Each notice of redemption shall state the date of such notice, the Date of Issuance, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Bond Trustee) the maturity (including CUSIP numbers, if any), and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. The Corporation may instruct the Bond Trustee to make any notice of optional redemption conditional upon receipt of funds for the redemption or any other conditions specified in such notice.

Any notice of optional redemption may be rescinded by written notice given by the Corporation to the Bond Trustee no later than five Business Days prior to the date specified for redemption. The Bond Trustee shall give

notice of such rescission as soon thereafter as practicable to the same parties and in the same manner as the notice of redemption was given pursuant to the Bond Indenture.

Failure by the Bond Trustee to give notice to the Authority or any one or more of the Securities Depository, the MSRB or Rating Agencies, or the insufficiency of any such notice shall not affect the sufficiency of the proceedings for redemption. Failure by the Bond Trustee to mail notice of redemption (or failure by any such Holder or Holders to receive said notice) to any one or more of the respective Holders of any Bonds designated for redemption shall not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed.

***Effect of Redemption.*** Notice of redemption having been duly given as provided in the Bond Indenture, and any conditions set forth in such notice being satisfied and such notice not being rescinded, in each case as described above, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Bonds (or portions thereof) so called for redemption being held by the Bond Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice, together with interest accrued thereon to the redemption date, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Bond Indenture, and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest to the date fixed for redemption from funds held by the Bond Trustee for such payment.

#### **Purchase in Lieu of Redemption**

Each Holder or Beneficial Owner, by purchase and acceptance of any Bond, irrevocably grants to the Corporation the option to purchase such Bond at any time such Bond is subject to optional redemption as described in the Bond Indenture. Such Bond is to be purchased at a purchase price equal to the then applicable redemption price of such Bond. The Corporation shall deliver a Favorable Opinion of Bond Counsel to the Bond Trustee, and shall direct the Bond Trustee to provide notice of mandatory purchase, such notice to be provided, as and to the extent applicable, in accordance with the optional redemption provisions of the Bond Indenture and to select Bonds subject to mandatory purchase in the same manner as Bonds called for optional redemption pursuant to the Bond Indenture. On the date fixed for purchase of any Bond in lieu of redemption as described in this Section, the Corporation shall pay the purchase price of such Bond to the Bond Trustee in immediately available funds, and the Bond Trustee shall pay the same to the Holders of the Bonds being purchased against delivery thereof. No purchase of any Bond in lieu of redemption shall operate to extinguish the indebtedness of the Corporation evidenced by such Bond. No Holder or Beneficial Owner may elect to retain a Bond subject to mandatory purchase in lieu of redemption. The Corporation may exercise its option to purchase Bonds, in whole or in part.

### **SECURITY FOR THE BONDS**

The following is a summary of certain provisions of the Bonds, the Loan Agreement, the Bond Indenture, the Master Indenture, and Obligation No. 6. Reference is made to the Bonds for the complete text thereof and to the Loan Agreement, the Bond Indenture, the Master Indenture, and Obligation No. 6 for the provisions thereof relating to the security for the Bonds.

#### **General**

In the Loan Agreement, the Corporation agrees to make the Loan Repayments to the Bond Trustee, which payments, in the aggregate, will be in amounts sufficient for the payment in full of all amounts payable with respect to the Bonds, including the total interest payable to the date of maturity of such Bonds or earlier redemption, the principal amount of such Bonds, any redemption premiums, and certain other fees and expenses (such other fees and expenses, the "Additional Payments"), less any amounts available for such payment as provided in the Bond Indenture. The Bonds are also payable from payments made on Obligation No. 6, as applicable, investment earnings on proceeds of the Bonds, amounts on deposit under the Bond Indenture and proceeds of insurance or condemnation awards, each in the manner and to the extent set forth in the Bond Indenture.

As security for its obligation to make the Loan Repayments, the Corporation, concurrently with the issuance of the Bonds will issue its Obligation No. 6, to the Bond Trustee pursuant to which the Corporation and any future Members of the Obligated Group agree to make payments to the Bond Trustee in amounts sufficient to pay, when due, the principal of and premium, if any, and interest on the Bonds. Obligation No. 6 will be secured by the pledge of Gross Revenues of the Obligated Group to the Master Trustee as described herein.

As of the date of issuance and delivery of the Bonds, the Corporation is the only Member of the Obligated Group under the Master Indenture. The Master Indenture creates a “Credit Group” which consists of the Obligated Group Members, and the Designated Affiliates. Currently, the Corporation is the only Member of the Obligated Group and there are no Designated Affiliates. Pursuant to the Master Indenture, the Corporation and any future Members of the Obligated Group agree to make payments on Obligation No. 6 in amounts sufficient to pay, when due, the principal of and premium, if any, and interest on the Bonds. Each Member, if any additional Members are added, is jointly and severally liable for payment of the Master Indenture Obligations issued under the Master Indenture, including Obligation No. 6. If any Designated Affiliate is added in the future, such Designated Affiliate will not be obligated to make any payments on any Master Indenture Obligations; however, they may be required to transfer funds to the Obligated Group Members in amounts necessary to make payments due on Master Indenture Obligations (as further set forth in the Master Indenture). Obligation No. 6 will entitle the Bond Trustee, as the holder thereof, to the benefit of the covenants, restrictions and other obligations imposed upon the Obligated Group under the Master Indenture. For further information regarding the Master Indenture, including membership in and withdrawal from the Obligated Group, see “The Master Indenture” below and APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – MASTER INDENTURE.”

#### **No Debt Service Reserve Fund**

No debt service reserve fund will be established or funded in connection with the issuance of the Bonds.

#### **The Master Indenture**

The Master Indenture includes covenants that require Members of the Obligated Group to restrict certain actions, including incurring additional indebtedness. In determining whether the Corporation and future Members of the Obligated Group have satisfied such covenants and tests, the Master Indenture requires the Obligated Group to combine all Members,’ and in some cases any future Designated Affiliates,’ income and assets at any point of calculation in determining whether such covenants and tests are satisfied under the Master Indenture. See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – MASTER INDENTURE” including “- Membership in the Obligated Group.”

***Grant of Security Interest in Gross Revenues.*** Pursuant to the Master Indenture, the Corporation, as the sole Obligated Group Member, has agreed, to deposit, so long as any of the Master Indenture Obligations remain outstanding, all of its Gross Revenues (as defined in the Master Indenture) with a depository bank or banks in deposit accounts or securities accounts designated as the “Gross Revenue Fund,” which has been established and may be maintained in one or more accounts at such banking institution or securities intermediary designated in writing to the Master Trustee for such purpose. Subject to the provisions of the Master Indenture permitting application of the Gross Revenues for the purposes and upon the terms and conditions set forth therein, the Corporation has pledged and granted a security interest (to the extent permitted by law) to the Master Trustee in the Gross Revenue Fund and all of the Gross Revenues of the Corporation to secure the required payments and the performance by the Members of the Obligated Group of their obligations under the Master Indenture. See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – MASTER INDENTURE – Particular Covenants of Each Member of the Obligated Group – *Gross Revenue Fund.*” The Corporation has executed a deposit account control agreement with respect to the Gross Revenue Fund and filed Uniform Commercial Code financing statements and will execute and deliver such other documents and agreements (including, but not limited to, continuation statements and amendments to such Uniform Commercial Code financing statements) in order to maintain as perfected the security interest to the extent a security interest in the Gross Revenues and the Gross Revenue Fund can be perfected under the Uniform Commercial Code. Each future Member of the Obligated Group shall, as a condition of membership in the Obligated Group, take similar actions.

The security interest in Gross Revenues described above has been perfected to the extent, and only to the extent, that such security interest may be perfected under the Uniform Commercial Code of the State of California. The grant of a security interest in Gross Revenues may be subordinated to the interest and claims of others in several instances. See “SECURITY FOR THE BONDS – Security and Enforceability.”

Subject to compliance with the terms and provisions of the Master Indenture, Gross Revenues and the amounts on deposit in the Gross Revenue Fund may be used and withdrawn by the Corporation and any other Member of the Obligated Group for any lawful purpose, unless the Master Trustee has taken exclusive control of the Gross Revenue Fund upon the occurrence and continuation of a delinquency in the payment of Required Payments, as further described in the Master Indenture, and except as otherwise provided in the Master Indenture. For more information relating to the Gross Revenue Fund, see APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – MASTER INDENTURE – Particular Covenants of Each Member of the Obligated Group – *Gross Revenue Fund*.”

***Covenant Against Liens.*** Pursuant to the Master Indenture, each Member of the Obligated Group agrees that it will not create, assume or suffer to be created or permit the existence of any Lien upon any of its Property, except for Permitted Liens.

Permitted Liens include Liens on Property of the Obligated Group, including Liens which may be granted to secure additional Master Indenture Obligations and other indebtedness, provided that the Value of the Property that is encumbered is not more than 25% of the Value of all Property of the Credit Group Members. See the definition of “Permitted Liens” in APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – Definitions of Certain Terms” and “– MASTER INDENTURE – Particular Covenants of Each Member of the Obligated Group – *Against Encumbrances*.”

***Additional Indebtedness.*** Additional indebtedness on a parity with Master Indenture Obligations may be issued by the Corporation or any other Member for the purposes, upon the terms and subject to the conditions provided in the Master Indenture. Each Master Indenture Obligation will be the full and unlimited obligation of the issuing Member and each Member will jointly and severally guarantee the payment of any and all amounts payable under the Master Indenture Obligation. Subject to the conditions therein, the Master Indenture also permits the Corporation and any other Member to incur secured and unsecured indebtedness in addition to Master Indenture Obligations and to enter into Guarantees. See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – Definitions of Certain Terms” and “– MASTER INDENTURE – Particular Covenants of Each Member of the Obligated Group.”

***Outstanding Indebtedness.*** Obligation No. 6 will be issued on a parity basis with all previous Master Indenture Obligations issued and outstanding under the Master Indenture. In addition to Obligation No. 6, the Master Indenture Obligations expected to be outstanding under the Master Indenture upon the issuance of Obligation No. 6 include (1) Obligation No. 2 issued to secure the obligations of the Corporation under the interest rate swap relating to the Series 2007 Bonds, (2) Obligation No. 3 issued to secure the obligations of the Corporation under the Loan Agreement related to the Santa Clara County Financing Authority Variable Rate Revenue Bonds (El Camino Hospital), Series 2009A (the “Series 2009A Bonds”), currently outstanding in the amount of \$50,000,000, (3) Obligation No. 4 issued to secure the obligations of the Corporation under the reimbursement agreement with the credit facility provider relating to the letter of credit for the Series 2009A Bonds, and (4) Obligation No. 5 issued to secure the obligations of the Corporation under the Loan Agreement related to the California Health Facilities Financing Authority Revenue Bonds (El Camino Hospital), Series 2015A (the “Series 2015 Bonds”), currently outstanding the aggregate principal amount of \$154,980,000. See APPENDIX A – “INFORMATION CONCERNING EL CAMINO HOSPITAL AND AFFILIATES – SELECTED UTILIZATION AND FINANCIAL INFORMATION.”

***Membership and Withdrawal from Obligated Group.*** Subject to the requirements of the Master Indenture, entities may be added to and may withdraw from the Obligated Group from time to time. For a description of requirements relating to entry into or withdrawal from the Obligated Group, see APPENDIX C – “SUMMARY OF

PRINCIPAL DOCUMENTS – MASTER INDENTURE – Membership in the Obligated Group” and “– Withdrawal from the Obligated Group.”

***Designation of Designated Affiliates.*** The Master Indenture provides that the Credit Group Representative may designate an organization as a Designated Affiliate and that, after the Credit Group Representative so designates an organization as a Designated Affiliate, the Credit Group Representative may at any time withdraw such designation, in either case, without satisfying any financial or other conditions as long as no event of default, or an event which, with the passage of time or giving of notice, or both, would constitute an event of default, has occurred and is continuing under the Master Indenture or would result from the Credit Group Representative’s withdrawal of such designation. Accordingly, there can be no assurance that any future Designated Affiliates, if any, will continue to be so designated. There are currently no Designated Affiliates designated under the Master Indenture.

Additionally, the revenues and expenses of all Members of the Credit Group, that is, the Corporation, any future Obligated Group Members and any future Designated Affiliates, if any, will be combined for purposes of certain financial tests set forth in the Master Indenture. The operational and financial restrictions and contractual obligations of the Master Indenture apply directly only to Obligated Group Members. Each Obligated Group Member covenants to cause any Designated Affiliate that it controls to pay, loan or otherwise transfer to the Credit Group Representative such amounts as are necessary to enable the Obligated Group Members to comply with the provisions of the Master Indenture. The Master Indenture does not obligate any Designated Affiliate on any Master Indenture Obligation. Rather, the Master Indenture provides that each Master Indenture Obligation is a joint and several obligation of each Obligated Group Member and the full faith and credit of the Obligated Group are pledged for payment of each Master Indenture Obligation including such moneys as may, in accordance with law, be realized by liquidation or other drawing on all of the assets of the Credit Group, including such moneys as may be derived from Designated Affiliates. See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – MASTER INDENTURE.”

For as summary of certain additional covenants and provisions of the Master Indenture, see APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – MASTER INDENTURE.”

***Substitution of Obligation No. 6 Permitted.*** Under the circumstances described in the Bond Indenture, the Bond Trustee is required to exchange the related Master Indenture Obligation for a note or similar obligation (the “Replacement Obligation”) of a credit group that could be financially and operationally different from the Obligated Group, and the new credit group could have substantial debt outstanding that would rank on a parity with the Replacement Obligation. Such exchange could adversely affect the market price for and marketability of the Bonds. One of the conditions in the Bond Indenture to the substitution is that each rating agency then rating the Bonds must provide written confirmation that the replacement of Obligation No. 6 will not, by itself, result in a reduction in the then-current ratings on the Bonds. For a summary of the conditions that must be satisfied before a Replacement Obligation could be exchanged for Obligation No. 6, see APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – BOND INDENTURE – Replacement of Obligation No. 6.”

## **Security and Enforceability**

***Enforceability of the Master Indenture, the Loan Agreement, and Obligation No. 6.*** The state of the insolvency, fraudulent conveyance and bankruptcy laws relating to the enforceability of guaranties or obligations issued by one corporation in favor of the creditors of another or the obligations of an Obligated Group Member to make debt service payments on behalf of an Obligated Group Member or the ability of a corporate parent to compel its affiliates or subsidiaries to make such payments is unsettled. The ability to enforce the Master Indenture and the Master Indenture Obligations against any Obligated Group Member that would be rendered insolvent thereby could be subject to challenge. In particular, such efforts by the Obligated Group may not be enforced under the Federal Bankruptcy Code or applicable state fraudulent transfer or conveyance statutes if the obligation to pay is incurred without “fair consideration” or “reasonably equivalent value” to the obligor-Member and if the incurrence of the obligation renders the Member insolvent. The standards for determining the fairness of consideration and the manner of determining insolvency are not clear and may vary under the Federal Bankruptcy Code, state fraudulent conveyance statutes and other statutes that may be applicable.

In addition a court could determine, in the event of a bankruptcy of a Member, that payments made on Obligation No. 6 by a bankrupt Member could constitute payments to or for the benefit of an insider, within the meaning of Section 547(b) of the Bankruptcy Code, which payments, if made within one year of the filing of the bankruptcy petition, might be recoverable by the bankruptcy court from the owners of the Bonds.

If a court were to find that a Member did not receive fair consideration or reasonably equivalent value for the incurrence of the indebtedness evidenced by Obligation No. 6 and such Member: (i) was insolvent; (ii) was rendered insolvent by such incurrence; (iii) was engaged in a business activity for which its remaining assets were unreasonably small; or (iv) intended (or believed) to incur, assume or issue, debt beyond its ability to pay, a court could determine to invalidate, the indebtedness represented by Obligation No. 6.

The joint and several obligation described herein of each Member of the Obligated Group to pay debt service on Obligation No. 6 may not be enforceable under any of the following circumstances:

(i) to the extent payments on Obligation No. 6 are requested to be made from assets of a Member which are donor-restricted or which are subject to a direct, express or charitable trust that does not permit the use of such assets for such payments;

(ii) if the purpose of the debt created and evidenced by Obligation No. 6 is not consistent with the charitable purposes of the Member from which such payment is requested or required, or if the debt was incurred or issued for the benefit of an entity other than a nonprofit corporation that is exempt from federal income taxes under sections 501(a) and 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code") and is not a "private foundation" as defined in section 509(a) of the Code;

(iii) to the extent payments on Obligation No. 6 would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by such Member; or

(iv) if and to the extent payments are requested to be made pursuant to any loan violating applicable usury laws.

These limitations on the enforceability of the joint and several obligations of the Members of the Obligated Group on Obligation No. 6 also apply to their obligations on all Master Indenture Obligations. If the obligation of a particular Member of the Obligated Group to make payment on an Master Indenture Obligation is not enforceable and payment is not made on such Master Indenture Obligation when due in full, then Events of Default will arise under the Master Indenture.

In addition, common law authority and authority under state statutes exists for the ability of courts in such states to terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes. Such court action may arise on the court's own motion or pursuant to a petition of the attorney general of such states or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

The legal right and practical ability of the Bond Trustee to enforce its rights and remedies against the Corporation under the Loan Agreement and related documents and of the Master Trustee to enforce its rights and remedies against Obligated Group Members under Obligation No. 6 may be limited by laws relating to bankruptcy, insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditors' rights. In addition, the Bond Trustee's and the Master Trustee's ability to enforce such terms will depend upon the exercise of various remedies specified by such documents which may in many instances require judicial actions that are often subject to discretion and delay or that otherwise may not be readily available or may be limited.

The various legal opinions delivered concurrently with the issuance of the Bonds are qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings, policy and decisions affecting remedies and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors' rights or the enforceability of certain remedies or document provisions.

For a further description of the provisions of the Bond Indenture, the Loan Agreement and the Master Indenture, including covenants that secure the Bonds, events of default, acceleration and remedies under the Master Indenture, see APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS.”

***Perfection of a Security Interest.*** The Corporation as the sole Member of the Obligated Group has granted a security interest in the Gross Revenue Fund and all of the Gross Revenues of the Obligated Group (to the extent permitted by law) and has agreed to perfect the grant of a security interest in the Gross Revenue Fund to the extent, and only to the extent, that such security interest may be perfected under the Uniform Commercial Code. The grant of a security interest in Gross Revenues may be subordinated to the interest and claims of others in several instances. Some examples of cases of subordination of prior interests and claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, and (v) federal or state bankruptcy laws that may affect the enforceability of the Master Indenture or grant of a security interest in Gross Revenues. In addition, it may not be possible to perfect a security interest in any manner whatsoever in certain types of Gross Revenues (e.g., gifts, donations, certain insurance proceeds and payments under the Medicare and Medicaid programs) prior to actual receipt by any Member.

***Bankruptcy.*** In the event of bankruptcy of an Obligated Group Member, the rights and remedies of the Bondholders are subject to various provisions of the Federal Bankruptcy Code. If an Obligated Group Member were to file a petition in bankruptcy, payments made by that Obligated Group Member during the 90 day (or perhaps one-year) period immediately preceding the filing of such petition may be avoidable as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of such Obligated Group Member's liquidation. Security interests and other liens granted to a Bond Trustee or the Master Trustee and perfected during such preference period also may be avoided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such perfection. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Obligated Group Member and its property and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property, as well as various other actions to enforce, maintain or enhance the rights of the Bond Trustee and the Master Trustee. If the bankruptcy court so ordered, the property of the Obligated Group Member, including accounts receivable and proceeds thereof, could be used for the financial rehabilitation of such Obligated Group Member despite any security interest of the Bond Trustee therein. The rights of the Bond Trustee and the Master Trustee to enforce their respective security interests and other liens could be delayed during the pendency of the rehabilitation proceeding.

Such Obligated Group Member could file a plan for the adjustment of its debts in any such proceeding, which plan could include provisions modifying or altering the rights of creditors generally or any class of them, secured or unsecured. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and, with certain exceptions, discharges all claims against the debtor to the extent provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are conditions that the plan be feasible and that it shall have been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the class cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

In the event of bankruptcy of any Member, there is no assurance that certain covenants, including tax covenants, contained in the Loan Agreement and certain other documents would survive. Accordingly, a bankruptcy trustee could take action that would adversely affect the exclusion of interest on the Bonds from gross income of the Bondholders for federal income tax purposes.



The bankruptcy of a Designated Affiliate, if any, would not trigger an event of default under the Master Indenture, the Bond Indenture or the Loan Agreement, but the bankruptcy of a Designated Affiliate could have a material adverse effect on the Credit Group. If a Designated Affiliate were to file for bankruptcy and had no contractual obligation to make payments to the Credit Group Representative, neither the Credit Group Representative nor the Obligated Group Member that controls the Designated Affiliate would be able to file a claim in a bankruptcy proceeding involving the Designated Affiliate for the payment of any amounts due on the Master Indenture Obligations. The Master Trustee has no contractual rights against Designated Affiliates and would not be able to file such a claim whether or not a contract existed between the Obligated Group Member and the Designated Affiliate. In addition, in the event the Obligated Group Member that controls the Designated Affiliate were to become a debtor in a bankruptcy case, the Credit Group Representative or such Obligated Group Member that controls the Designated Affiliate, as debtor-in-possession, or a trustee in bankruptcy, may not be able to cause the Designated Affiliate to transfer funds to the Credit Group Representative or the trustee in bankruptcy.

**Unsecured Debt.** In addition, the obligations of the Corporation under the Loan Agreement and of the Corporation and any future Members under the Master Indenture are not secured by a lien on or security interest in any assets or revenues of the Members, other than the lien on Gross Revenues described under the caption “SECURITY FOR THE BONDS – The Master Indenture – *Grant of Security Interest in Gross Revenues*” above. Except with respect to the lien on Gross Revenues, in the event of a bankruptcy of the Corporation or any other future Members, Bondholders would be unsecured creditors and would be in an inferior position to any secured creditors and on a parity with all other unsecured creditors.

#### **Limited Liability of the Authority**

The Bonds shall not be deemed to constitute a debt or liability of the State of California or of any political subdivision thereof other than the Authority or a pledge of the faith and credit of the State of California or of any political subdivision thereof, but shall be payable solely from the funds therefor provided. Neither the State of California nor the Authority shall be obligated to pay the principal of the Bonds or the premium, if any, or the interest thereon except from Revenues and the other assets pledged under the Bond Indenture and neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or the premium, if any, or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Authority has no taxing power.

### **BOOK-ENTRY SYSTEM**

Information concerning The Depository Trust Company (“DTC”) and the Book-Entry System (defined below) has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Authority, the Underwriter, the Bond Trustee or the Corporation.

#### **Bonds in Book-Entry Form**

Beneficial ownership in the Bonds will be available to Beneficial Owners (as described below) only by or through DTC Participants via a book-entry system (the “Book-Entry System”) maintained by DTC. If the Bonds are taken out of the Book-Entry System and delivered to owners in physical form, the following discussion under “DTC and Its Participants” will not apply.

#### **DTC and Its Participants**

DTC, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Bonds in the aggregate principal amount of each maturity of the Bonds and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company of DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others, such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct Participants and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participants or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct Participants or Indirect Participants acting on behalf of Beneficial Owners. **BENEFICIAL OWNERS WILL NOT RECEIVE CERTIFICATES REPRESENTING THEIR OWNERSHIP INTERESTS IN THE BONDS, EXCEPT IN THE EVENT THAT USE OF THE BOOK-ENTRY SYSTEM FOR THE BONDS IS DISCONTINUED.**

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them. **THE AUTHORITY, THE CORPORATION AND THE BOND TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DIRECT OR INDIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS.**

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Bond Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, redemption proceeds and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Bond Trustee on payment dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Bond Trustee, the Corporation or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, redemption proceeds and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Trustee. Disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct Participants and Indirect Participants.

DTC may discontinue providing its services as depository with respect to any Bonds at any time by giving reasonable notice to the Authority and the Bond Trustee. Under such circumstances, in the event that a successor Securities Depository is not obtained, Bond certificates are required to be printed and delivered as described in the Bond Indenture.

The Authority may decide to discontinue use of the system of book-entry transfers of Bonds through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered as described in the Bond Indenture.

THE INFORMATION UNDER THIS CAPTION "BOOK-ENTRY SYSTEM" HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE AUTHORITY, THE CORPORATION, THE UNDERWRITER OR THE BOND TRUSTEE AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE OF THIS OFFICIAL STATEMENT.

The Bond Trustee, as long as a book-entry only system is used for the Bonds, will send any notice of redemption or other notices to owners of such Bonds only to DTC. Any failure of DTC to advise any Participant, or of any Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the redemption of the Bonds called for redemption or of any other action premised on such notice.

The Authority, the Corporation, the Underwriter and the Bond Trustee cannot and do not give any assurances that DTC will distribute to Participants, or that Participants or others will distribute to the Beneficial Owners, payments of principal of and interest and redemption premium, if any, on the Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. None of the Authority, the Corporation, the Underwriter or the Bond Trustee is responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.

**PLAN OF FINANCE**

**General**

The issuance of the Bonds and the loan of the proceeds thereof are for the benefit of the Corporation in order to (i) finance the Project, (ii) finance a portion of the interest payable on the Bonds through \_\_\_\_\_, 20\_\_ and (iii) pay costs incurred in connection with the issuance of the Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” herein.

**The Project**

A portion of the proceeds from the sale of the Bonds will be used by the Corporation to reimburse and finance costs of the construction, expansion, remodeling, renovation, furnishing, equipping and acquisition of health facilities of the Corporation, which includes upgrades and capital projects at El Camino Hospital – Mountain View, including constructing, furnishing and equipping of a new building for behavioral health services, a new integrated medical office building and associated new parking structure and expansion of the North Drive garage, additional construction and equipping of the central utility plant, and expanding, remodeling, renovation, furnishing and equipping of the Women’s Hospital. See also APPENDIX A – “INFORMATION CONCERNING EL CAMINO HOSPITAL AND AFFILIATES – HOSPITAL FACILITIES AND SERVICES – Capital Facilities Expenditures.”

**ESTIMATED SOURCES AND USES OF FUNDS**

The proceeds to be received from the sale of the Bonds will be applied approximately as set forth below:

**Sources of Funds:**

Bond Proceeds Par Amount	\$
Original Issue Premium	
Total Sources	\$

**Uses of Funds:**

Project Costs	\$
Capitalized Interest <sup>(1)</sup>	
Costs of Issuance <sup>(2)</sup>	
Total Uses of Funds	\$

<sup>(1)</sup> Funds 100 percent of the interest payable on the Bonds through \_\_\_\_\_, 20\_\_, and approximately \_\_\_ percent of the interest payable on the Bonds from and including \_\_\_\_\_, 20\_\_ through \_\_\_\_\_, 20\_\_.

<sup>(2)</sup> Includes legal, printing, rating agency, accounting, Bond Trustee, Authority and financial advisor fees, underwriting discount and other miscellaneous costs of issuance.

## DEBT SERVICE SCHEDULE

The amounts required in each fiscal year ending June 30, for the payment of principal (at maturity or by mandatory redemption) and interest on the Bonds, the Series 2009A Bonds and the Series 2015A Bonds are as follows:

Fiscal Year (ending June 30)	<u>The Bonds*</u>		Series 2009A and Series 2015 Bonds <sup>1</sup>	Total Aggregate Debt Service
	<u>Principal*</u>	<u>Interest*<sup>1</sup></u>		
2017 <sup>2</sup>	--	--	\$ 1,186,501	\$ 1,186,501
2018	--	12,318,800	12,452,150	24,770,950
2019	--	14,352,000	12,455,100	26,807,100
2020	\$ 4,480,000	14,352,000	12,454,600	31,286,600
2021	4,700,000	14,128,000	12,456,000	31,284,000
2022	4,935,000	13,893,000	12,456,000	31,284,000
2023	5,185,000	13,646,250	12,451,500	31,282,750
2024	5,445,000	13,387,000	12,451,500	31,283,500
2025	5,715,000	13,114,750	12,455,250	31,285,000
2026	6,000,000	12,829,000	12,453,796	31,282,796
2027	6,300,000	12,529,000	12,455,092	31,284,092
2028	6,615,000	12,214,000	12,454,825	31,283,825
2029	6,945,000	11,883,250	12,453,931	31,282,181
2030	7,290,000	11,536,000	12,455,744	31,281,744
2031	7,660,000	11,171,500	12,454,782	31,286,282
2032	8,040,000	10,788,500	12,456,174	31,284,674
2033	8,445,000	10,386,500	12,453,093	31,284,593
2034	8,870,000	9,964,250	12,452,104	31,286,354
2035	9,310,000	9,520,750	12,451,829	31,282,579
2036	9,775,000	9,055,250	12,455,888	31,286,138
2037	10,260,000	8,566,500	12,454,449	31,280,949
2038	10,780,000	8,053,500	12,451,923	31,285,423
2039	11,315,000	7,514,500	12,452,380	31,281,880
2040	11,880,000	6,948,750	12,455,089	31,283,839
2041	12,475,000	6,354,750	12,454,409	31,284,159
2042	13,095,000	5,731,000	12,454,950	31,280,950
2043	13,750,000	5,076,250	12,456,300	31,282,550
2044	14,440,000	4,388,750	12,456,077	31,284,827
2045	15,165,000	3,666,750	12,454,000	31,285,750
2046	28,375,000	2,908,500	--	31,283,500
2047	29,795,000	1,489,750	--	31,284,750
Total	\$287,040,000	\$291,768,800	\$349,905,436	\$928,714,236

\* Preliminary, subject to change.

<sup>1</sup> Assumes the Bonds bear interest at market interest rates. Assumes interest on the Series 2009A Bonds is payable at a rate of 3.204% which is the swap rate.

<sup>2</sup> Excludes debt service already paid in fiscal year 2017.  
Totals in table may not foot due to rounding.

See APPENDIX A – “INFORMATION CONCERNING EL CAMINO HOSPITAL AND AFFILIATES – SELECTED UTILIZATION AND FINANCIAL INFORMATION.”

## **BONDHOLDERS' RISKS**

The purchase of the Bonds involves investment risks that are discussed throughout this Official Statement. Each prospective purchaser of the Bonds should evaluate all of the information presented in this Official Statement. This section on Bondholders' Risks focuses primarily on the general risks associated with hospital or health system operations; whereas APPENDIX A describes the Corporation specifically. These should be read together.

Set forth in Bondholders' Risks is a limited discussion of certain of the risks affecting the Corporation and the ability of the Corporation and any future Obligated Group Members to provide for payment of the Bonds. Investors should recognize that the discussion in Bondholders' Risks does not cover all such risks, that payment provisions and regulations and restrictions change frequently and that additional material payment limitations and regulations and restrictions may be created, implemented or expanded while the Bonds are outstanding. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following special factors along with all other information described elsewhere or incorporated by reference in this Official Statement, including the Appendices hereto, in evaluating the Bonds. The operations and financial condition of the Corporation, and any future Obligated Group Members may be affected by factors other than those described in this section on Bondholders' risks and elsewhere in this Official Statement. No assurance can be given as to the nature of such factors or the potential effects thereof on the Obligated Group.

### **General**

Except as noted under "SECURITY FOR THE BONDS," the Bonds are payable solely from Loan Repayments made pursuant to the Loan Agreement and funds provided under Obligation No. 6 and the Bond Indenture. No representation or assurance can be made that revenues will be realized by the Corporation or any future Obligated Group Member in amounts sufficient to make the Loan Repayments or payments under Obligation No. 6 and hence to pay principal of and interest on the Bonds.

The Corporation is subject to a wide variety of federal and state regulatory actions and legislative and policy changes by those governmental and private agencies that administer Medicare, Medicaid and other payors and is subject to actions by, among others, the Public Employment Relations Board and the National Labor Relations Board. The Joint Commission, the Centers for Medicare & Medicaid Services ("CMS") of the U.S. Department of Health and Human Services ("DHHS"), the Attorney General of the State of California, and other federal, state and local government agencies. The future financial condition of the Corporation could be adversely affected by, among other things, changes in the method, timing and amount of payments to the Corporation by governmental and nongovernmental payors, the financial viability of these payors, increased competition from other health care entities, the costs associated with responding to governmental audits, inquiries and investigations, demand for health care, other forms of care or treatment, changes in the methods by which employers purchase health care for employees, capability of management, changes in the structure of how health care is delivered and paid for (e.g., accountable care organizations, value based purchasing, bundled payments and other health care reform payment mechanisms, including a "single-payor" system), and future changes in the economy, demographic changes, availability of physicians, nurses and other health care professionals, malpractice claims and other litigation. These factors and others may adversely affect payment by the Corporation pursuant to the Loan Agreement and/or by the Corporation and any future Members of the Obligated Group pursuant to Obligation No. 6 and, consequently, on the Bonds. In addition, the tax-exempt status of the Corporation could be adversely affected by, among other things, an adverse determination by a governmental entity, noncompliance with governmental regulations or tax laws, or legislative changes, including changes resulting from current health care reform legislation or initiatives. Loss of tax-exempt status by the Corporation could adversely affect the tax-exempt treatment of interest on the Bonds. See "Tax-Exempt Status and Other Tax Matters" below.

The following discussion of risk factors is not, and is not intended to be, exhaustive.

## **Significant Risk Areas Summarized**

Certain of the primary risks associated with the operations of hospitals or health systems are briefly summarized in general terms below and are explained in greater detail in subsequent sections. The occurrence of one or more of these risks could have a material adverse effect on the financial condition and results of operations of the Corporation and, in turn, the ability of the Corporation to make payments under the Loan Agreement and the Corporation or any future Members of the Obligated Group pursuant to Obligation No. 6. For discussions of the applicability of certain of these risks to the Corporation, see APPENDIX A – “INFORMATION CONCERNING EL CAMINO HOSPITAL AND AFFILIATES.”

***Federal Health Care Reform and Deficit Reduction.*** The Patient Protection and Affordable Care Act, as subsequently amended by the Health Care and Education Reconciliation Act of 2010 (collectively the “ACA”), was enacted in March 2010. In June 2012, the U.S. Supreme Court upheld most provisions of the ACA, including an “individual mandate” (which began in 2014, generally requiring individuals to have a certain amount of health insurance coverage or pay a penalty), while limiting the power of the federal government to penalize states for refusing to expand Medicaid. In June 2015, the U.S. Supreme Court ruled that health insurance subsidies under the ACA would be available in all states, including those with a federally-facilitated health insurance exchange. The ACA addresses almost all aspects of hospital and provider operations and health care delivery, and has changed and is changing how health care services are covered, delivered, and reimbursed. These changes have and are expected to continue to result in new payment models with the risk of lower health care provider reimbursement from Medicare, utilization changes, increased government enforcement and the necessity for health care providers to assess, and potentially alter, their business strategy and practices, among other consequences. While many providers have and are expected to receive reduced payments for care, millions of previously uninsured Americans have gained or are expected to gain health insurance coverage. “Health insurance exchanges” could fundamentally alter the health insurance market and negatively impact health care providers by, for example, enabling insurers to aggressively negotiate rates. Federal deficit reduction efforts will likely curb federal Medicare and Medicaid spending further to the detriment of hospitals, physicians and other health care providers. The content and implementation of the ACA has been highly controversial, and Congress has taken steps to repeal and replace the ACA. See “Federal Budget Cuts” and “Health Care Reform” below.

***General Economic Conditions, Bad Debt, Indigent Care and Investment Performance.*** Health care providers are economically influenced by the environment in which they operate. Any national, regional or local economic difficulties may constrain corporate and personal spending, limit the availability of credit and increase the national debt and any federal and state government deficits. To the extent that (1) employers reduce their workforces, (2) unemployment rates are high, (3) employers reduce their budgets for employee health care coverage or (4) private and public insurers seek to reduce payments to health care providers or curb utilization of health care services, health care providers may experience decreases in insured patient volume, decreases in demands for services, and reductions in payments for services. In addition, to the extent that state, county or city governments are unable to provide a safety net of medical services, pressure is applied to local health care providers to increase free care. Furthermore, economic downturns and lower funding of federal Medicare and state Medicaid and other state health care programs may increase the number of patients who are unable to pay for their medical and hospital services. These conditions may give rise to increases in health care providers’ uncollectible accounts, or “bad debts,” uninsured discounts and charity care and, consequently, to reductions in operating income. Declines in investment portfolio values may reduce or eliminate non-operating revenues. Investment losses (even if unrealized) may trigger debt covenant violations and may jeopardize hospitals’ economic security. Losses in pension and other postretirement benefit funds may result in increased funding requirements for hospitals and health systems. Potential failure of lenders, insurers or vendors may negatively impact the results of operations and the overall financial condition of health care providers. Philanthropic support may also decrease or be delayed. These factors may have a material adverse impact on hospitals, including the Corporation, and health systems. For a discussion of the Corporation’s results of operations and investments and investment performance, see APPENDIX A – “INFORMATION CONCERNING EL CAMINO HOSPITAL AND AFFILIATES.”

***Nonprofit Health Care Environment.*** The significant tax benefits received by nonprofit, tax-exempt hospitals have increasingly caused the business practices of such hospitals (including billing and collection, charity care and executive composition) to be subject to scrutiny by public officials and the press, and to political and legal

challenges of the ongoing qualification of such organizations for tax-exempt status. Multiple governmental authorities, including the California State Attorney General, the Internal Revenue Service (the “IRS”), Congress, and state legislatures have held hearings and carried out audits regarding the conduct of tax-exempt organizations, including tax-exempt hospitals. Citizen organizations, such as labor unions and patient advocates, have also focused public attention on the activities of tax-exempt hospitals and health systems and raised questions about their practices. The IRS imposes certain additional reporting requirements on tax-exempt hospitals and health systems, including through Schedule H, Schedule J and Schedule K of the Form 990. Proposals to increase the regulatory requirements for nonprofit hospitals’ retention of tax-exempt status, such as by establishing a minimum level of charity care, have also been introduced repeatedly in Congress. These challenges and examinations, and any resulting legislation, regulations, judgments or penalties, could materially change the operating environment for nonprofit, tax-exempt providers and have a material adverse effect on the Corporation. Significant changes in the obligations of nonprofit, tax-exempt hospitals and challenges to or loss of the tax-exempt status of nonprofit hospitals generally, or the Corporation in particular, could have a material adverse effect on the Corporation. See “– Tax-Exempt Status and Other Tax Matters – *Maintenance of Tax-Exempt Status of Interest on the Bonds*” below.

***Capital Needs vs. Capital Capacity.*** Hospital and other health care operations are capital intensive. Regulation, technology and expectations of physicians and patients require constant and often significant capital investment. In California, seismic safety standards mandated by the State may require that many hospital facilities be substantially modified, replaced or closed. Nearly all hospitals in California are affected. Estimated construction costs are substantial and actual costs of compliance may exceed estimates. Total capital needs may exceed capital capacity. Furthermore, capital capacity of hospitals and health systems may be reduced as a result of any credit market dislocations.

***Reliance on Medicare.*** Inpatient hospitals receive a significant portion of their revenues from the federal Medicare program and future payment restraints are predicted. Recent, as well as future, changes in the underlying law and regulations, payment policy and timing of payment, create uncertainty and could have a material adverse impact on hospitals’ payment streams from Medicare. With health care and hospital spending reported to be increasing faster than the rate of general inflation, Congress and/or CMS may take action in the future to further decrease or restrain Medicare outlays for hospitals and other providers.

***Rate Pressure from Insurers and Major Purchasers.*** Certain health care markets, including many communities in California, are strongly impacted by large health insurers and, in some cases, by major purchasers of health services. In those areas, health insurers may have significant influence over the rates, utilization and competition of hospitals and other health care providers. Rate pressure imposed by health insurers or other major purchasers, including managed care payors, may have a material adverse impact on hospitals and other health care providers, particularly if major purchasers put increasing pressure on payors to restrain rate increases. Business failures by health insurers also could have a material adverse impact on contracted hospitals and other health care providers in the form of payment shortfalls or delays, and/or continuing obligations to care for managed care patients without receiving payment. In addition, disputes with non-contracted payors may result in an inability to collect billed charges from these payors.

***Government “Fraud” Enforcement.*** “Fraud” in government funded health care programs is a significant concern of federal and state regulatory agencies overseeing health care programs, and is one of the federal government’s prime law enforcement priorities. The federal government and, to a lesser degree, state governments impose a wide variety of extraordinarily complex and technical requirements intended to prevent over-utilization based on economic inducements, misallocation of expenses, overcharging and other forms of “fraud” in the Medicare and Medicaid programs, as well as other state and federally-funded health care programs. This body of regulation impacts a broad spectrum of hospital and other health care provider commercial activity, including billing, accounting, recordkeeping, medical staff oversight, physician office leases, physician contracting and recruiting, cost allocation, clinical trials, discounts and other functions and transactions.

Violations and alleged violations may be deliberate, but also frequently occur as a result of mistake in circumstances where management is unaware of the conduct in question, or where the individual participants do not know that their conduct may violate the law. Violations may occur and be prosecuted in circumstances that do not



have the traditional elements of fraud, and enforcement actions may extend to conduct that occurred in the past. Violations carry significant sanctions. The government periodically conducts widespread investigations covering various categories of services, or certain accounting or billing practices.

***Violations and Sanctions.*** The government and/or private “whistleblowers” often pursue aggressive investigative and enforcement actions. The government has a wide array of civil, criminal, monetary and other penalties, including suspending essential hospital and other health care provider payments from the Medicare or Medicaid programs, or exclusion from those programs. Aggressive investigation tactics, negative publicity and threatened penalties can be, and often are, used to force health care providers to enter into monetary settlements in exchange for releases of liability for past conduct, as well as agreements imposing prospective restrictions and/or mandated compliance requirements on health care providers. Such negotiated settlement terms may have a materially adverse impact on hospital and other health care provider operations, financial condition, results of operations and reputation. Multi-million dollar fines and settlements for alleged intentional misconduct, fraud or false claims are not uncommon in the health care industry. These risks are generally uninsured. Government enforcement and private whistleblower suits may increase in the hospital and health care sector. Many hospital and other health care provider systems are likely to be adversely impacted by actions or claims of this kind.

***Personnel Shortages.*** From time to time, shortages of physicians and nursing and other technical personnel occur, which may impact hospitals and health care systems. Various studies have predicted that physician and nursing shortages will become more acute over time, as practitioners retire and patient volume exceeds the growth in the number of new professionals. As reimbursement amounts are reduced to health care facilities and organizations that employ or contract with physicians, nurses and other health care professionals, pressure to control and possibly reduce wage and benefit costs may further strain the supply of those professionals. In California, regulation of nurse staffing ratios can intensify the potential shortage of nursing personnel. In addition, shortages of other professional and technical staff such as pharmacists, therapists, laboratory technicians, billing coders and others may occur or worsen. A new influx of patients with insurance coverage, as a result of health care reform initiatives, may exacerbate personnel shortage issues. Hospital operations, patient and physician satisfaction, financial condition and future growth could be negatively affected by physician and nursing and other technical personnel shortages, resulting in material adverse impacts on hospitals and health care systems.

***Technical and Clinical Developments.*** New clinical techniques and technology, as well as new pharmaceutical and genetic developments and products, may alter the course of medical diagnosis and treatment in ways that are currently unanticipated, and that may dramatically change medical and health care, including hospital care. These developments could result in higher health care costs, reductions in patient populations, lower utilization of hospital services and new sources of competition for hospitals.

***Costs and Restrictions from Governmental Regulation.*** Nearly every aspect of hospital operations and health care delivery is regulated, in some cases by multiple agencies of government. The level and complexity of regulation and compliance audits appear to be increasing, imposing greater operational limitations, enforcement and liability risks, and significant and sometimes unanticipated costs.

***Proliferation of Competition.*** Hospitals increasingly face competition from a wide variety of sources, including specialty providers of care and ambulatory care facilities. This competition may cause hospitals to lose essential inpatient or outpatient market share. Competition may be focused on services or payor classifications for which hospitals realize their highest margins, thus negatively affecting programs that are economically important to hospitals. Specialty hospitals may attract specialists as investors and may seek to treat only profitable classifications of patients, leaving full-service hospitals with higher acuity and/or lower paying patient populations. These sources of competition may have a material adverse impact on hospitals, particularly where a group of a hospital’s principal physician admitters may curtail their use of a hospital service in favor of competing facilities.

***Increasing Consumer Choice.*** Hospitals and other health care providers face increased pressure to operate transparently and make available information about the cost and quality of services. Consumers and payors accessing cost and quality information accumulated on various data bases may shift business among providers or make different health care choices based on such information, which may lead to a loss of business.

***Labor Costs and Disruption.*** The delivery of health care services is labor intensive. Labor costs, including salary, benefits and other liabilities associated with the workforce, have significant impacts on hospital and health care provider operations and financial condition. Hospital and health care employees are increasingly organized in collective bargaining units and may be involved in work actions of various kinds, including work stoppages and strikes. Overall costs of the hospital workforce are high, and turnover is high. Pressure to recruit, train and retain qualified employees is expected to accelerate. These factors may materially increase hospital costs of operation. At the same time, health care organizations will be under increasing pressure to reduce the cost of delivering care to patients, including the cost of salaries and benefits, in order to compete in a transparent price market. Workforce disruption may negatively impact hospital revenues and reputation. See APPENDIX A – “INFORMATION CONCERNING EL CAMINO HOSPITAL AND AFFILIATES – OTHER INFORMATION – Employees” for a list of the labor organizations that currently represent the Corporation’s employees.

***State Medicaid Programs.*** State Medicaid (known as “Medi-Cal” in California) and other state health care programs are an important payor source for many hospitals and are likely to become a proportionately larger source of revenue as federal health care reform is implemented, expanding Medicaid coverage, in those states that choose to expand Medicaid, which includes California, to significant numbers of uninsured Americans. These programs often pay hospitals and physicians at levels that are below the actual cost of the care provided. As Medi-Cal and other State of California health care programs are partially funded by the State of California, the financial condition of the State of California may result in lower funding levels and/or payment delays in the future. These reductions and/or delays could have a material adverse impact on hospitals, including the Corporation, and other health care providers.

***Medical Liability Litigation and Insurance.*** Medical liability litigation is subject to public policy determinations and legal and procedural rules that may be altered from time to time, with the result that the frequency and cost of such litigation, and resultant liabilities or insurance costs, may increase in the future. Hospitals and health systems may be affected by negative financial and liability impacts on physicians and their medical staffs. Costs of insurance, including self-insurance, may increase dramatically.

***Facility Damage.*** Hospitals and health systems are highly dependent on the condition and functionality of their physical facilities. Damage from earthquakes, floods, fires, other natural causes, deliberate acts of destruction, or various facilities system failures may have a material adverse impact on operations, financial conditions and results of operations. See also “Other Risk Factors – *Earthquakes*” and “– *Compliance with Seismic Standards.*”

## **Nonprofit Health Care Environment**

The tax-exempt status of nonprofit hospitals and other health care organizations is the subject of increasing regulatory and legislative threats. As a nonprofit tax-exempt organization, the Corporation is subject to federal, state and local laws, regulations, rulings and court decisions relating to its organization and operation, including its operation for charitable purposes. At the same time, the Corporation conducts complex business transactions and is a major employer in its geographic area. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex health care organization. Hospitals or other health care providers may be forced to forgo otherwise favorable opportunities for certain joint ventures, recruitment and other arrangements in order to maintain their tax-exempt status.

The operations and practices of nonprofit, tax-exempt health care organizations are routinely challenged or criticized for inconsistency or inadequate compliance with the regulatory requirements for, and societal expectations of, nonprofit tax-exempt organizations. These challenges, in some cases, are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead in many cases are examinations of core business practices of the health care organizations. A common theme of these challenges is that nonprofit health care organizations may not confer community benefits that justify the benefit received from their tax-exempt status. Areas that have come under examination have included pricing practices, billing and collection practices, charitable care, methods of providing and reporting community benefit, executive compensation, exemption of property from real property taxation, private use of facilities financed with tax-exempt bonds and others. These challenges and criticisms have come from a variety of sources, including state attorneys general, the IRS, local and state tax authorities, labor unions, Congress, state legislatures and patients, and in a

variety of forums, including hearings, audits and litigation. The challenges and examinations, and any resulting legislation, regulations, judgments or penalties, could have a material adverse effect on the Corporation. These challenges or examinations include the following, among others:

***Congressional Action.*** Senate and House committees have conducted several nationwide investigations of hospital billing and collection practices, charity care and community benefits, and prices charged to uninsured patients and have considered reforms to the nonprofit sector, including proposed reform in the area of tax-exempt health care organizations. See “– IRS Examination of Compensation Practices and Community Benefit” below. It is uncertain whether any of these committees will pursue further investigations or whether Congress will adopt legislative changes negatively impacting tax-exempt organizations generally or tax-exempt hospitals in particular. See “Tax-Exempt Status and Other Tax Matters – *Maintenance of the Tax-Exempt Status of the Corporation*” below.

The ACA includes additional requirements for tax-exempt hospitals related to hospital financial assistance policies, community health needs assessments, restrictions on hospital charges and collection practices and new disclosure and reporting requirements (which include IRS review of hospitals’ community benefits activities at least every three years).

***Tax-Exempt Bond Examinations.*** IRS officials have indicated that resources will be invested in audits of tax-exempt bonds in the charitable organization sector with specific review of private use. A schedule to the Form 990 return (Schedule K), effective for the 2009 tax year and thereafter, is intended to address what the IRS believes is significant noncompliance with recordkeeping and record retention requirements for tax-exempt bonds. Schedule K also requires tax-exempt organizations to report on the investment and use of tax-exempt bond proceeds to address IRS concerns regarding compliance with arbitrage rebate requirements and the private use of tax-exempt bond-financed facilities.

***IRS Examination of Compensation Practices and Community Benefit.*** The IRS has been historically concerned about executive compensation practices of tax-exempt hospitals. In February 2009, the IRS issued its Hospital Compliance Project Final Report (the “IRS Final Report”) that examined tax-exempt organizations’ practices and procedures with regard to compensation and benefits paid to their officers and other defined “insiders.” The IRS Final Report indicated that the IRS (1) will continue to heavily scrutinize executive compensation arrangements, practices and procedures of tax-exempt hospitals and other tax-exempt organizations, and (2) in certain circumstances, may conduct further investigations or impose fines on tax-exempt organizations.

The IRS has also undertaken a community benefit initiative directed at hospitals. The IRS Final Report determined that the reporting of community benefit by nonprofit hospitals varied widely, both as to types of programs and expenditures classified as community benefit and the measurement of community benefits. As a result, the IRS issued the revised Form 990 that includes Schedule H which is designed to provide uniformity regarding types of programs and expenditures reported as community benefit by nonprofit hospitals. As the IRS collects and reviews information from hospitals about the level and types of community benefit provided, the IRS may issue a more stringent interpretation of community benefit. Findings from Schedule H reports may also revive proposals in Congressional committees which, from time to time, have been made to codify the requirements for hospitals’ tax-exempt status, including requirements to provide minimum levels of charity care. Tax-exempt organizations must also complete Schedule J, to Form 990 which requires reporting of compensation information for the organizations’ officers, directors, trustees, key employees, and other highly compensated employees. Additionally, the ACA (as defined herein) contains new requirements for nonprofit hospitals in order to maintain their tax-exempt status. See “–Tax-Exempt Status and Other Tax Matters” below.

***Litigation Relating to Billing and Collection Practices.*** Lawsuits have been filed in both federal and state courts alleging, among other things, that hospitals have failed to fulfill their obligations to provide charity care to uninsured patients and have overcharged uninsured patients. Other cases have alleged that charging patients more for services furnished in a hospital based setting is a wrongful or deceptive practice. Some of these cases have since been dismissed by the courts and some hospitals and health systems have entered into substantial settlements. Cases are pending in various courts around the country and others could be filed.

**California Attorney General.** California nonprofit public benefit corporations, including the Corporation, are subject to oversight and examination by the California Attorney General to ensure their charitable purposes are being carried out, that their fundraising and investment activities comply with California law and that the terms of charitable gifts are followed.

**Financial Assistance and Charity Care.** California law requires hospitals to maintain written policies about discount payment and charity care and provide copies of such policies to patients and OSHPD. California law also requires hospitals to follow specific billing and collection procedures and communicate proactively through the entire cycle to patients on the options available to them within the policies. The Corporation has adopted and maintains such policies.

Revisions to California's laws governing hospital's charity care and fair pricing policies went into effect on January 1, 2015, imposing additional duties on hospitals in connection with services for "financially qualified patients" (i.e., self-pay patients and patients with high medical costs). The new law changes the definition of a person with high medical costs to include those who have third-party coverage and requires hospitals to agree to a default "reasonable payment plan" not to exceed 10% of the patient's income. Noncompliance with the law may be the basis for the imposition of penalties by the California Department of Public Health.

**Indigent Care.** Tax-exempt health care providers often treat large numbers of indigent patients who are unable to pay in full for their medical care. Hospitals and health care providers may be susceptible to economic and political changes that could increase the number of indigents or their responsibility for caring for this population. General economic conditions may affect the number of employed individuals who have health coverage and affect the ability of those individuals to pay for their health care. Similarly, changes in governmental policy, which may result in coverage exclusions under local, county, state and federal health care programs (including Medicare and Medicaid), may increase the frequency and severity of indigent treatment by such hospitals and other providers. It is also possible that future legislation could require tax-exempt hospitals and other providers maintain minimum levels of indigent care as a condition to federal income tax exemption or exemption from certain state or local taxes.

**Challenges to Real Property Tax Exemptions.** The real property tax exemptions afforded to certain nonprofit health care providers by state and local taxing authorities have been challenged on the grounds that the health care providers were not engaged in sufficient charitable activities. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices, excessive financial margins and operations that closely resemble for-profit businesses. Several of these disputes have been determined in favor of the taxing authorities or have resulted in settlements.

**Future Nonprofit Legislation.** Legislative proposals which could have an adverse effect on the Corporation include: (i) any changes in the taxation of nonprofit corporations or in the scope of their exemption from income or property taxes; (ii) limitations on the amount or availability of tax-exempt financing for corporations recognized as tax-exempt under Section 501(c)(3) of the Code; (iii) regulatory limitations affecting the Corporation's ability to undertake capital projects or develop new services; (iv) a requirement that nonprofit health care institutions pay real estate property tax on the same basis as for-profit entities; (v) mandating certain levels of free or substantially reduced care that must be provided to low income uninsured and underinsured populations; and (vi) placing ceilings on executive compensation of nonprofit corporations.

Legislative bodies have considered proposed legislation on the charity care standards that nonprofit, charitable hospitals must meet to maintain their federal income tax-exempt status under the Code and legislation mandating nonprofit, charitable hospitals to have an open-door policy toward Medicare and Medicaid patients as well as to offer, in a non-discriminatory manner, qualified charity care and community benefits. Excise tax penalties on nonprofit, charitable hospitals that violate these charity care and community benefit requirements could be imposed or their tax-exempt status under the Code could be revoked. As described above, because of the complexity of health reform generally, additional legislation is likely to be considered and enacted over time beyond the ACA. The scope and effect of legislation, if any, which may be adopted at the federal or state levels with respect to charity care of nonprofit hospitals cannot be predicted. The effect on the nonprofit health care sector or the Corporation of any such legislation, if enacted, cannot be determined at this time.

The foregoing are some examples of the challenges and examinations facing nonprofit health care organizations in general. They are indicative of a greater scrutiny of the billing, collection and other business practices of these organizations and may indicate an increasingly difficult operating environment for hospitals and health care organizations. The challenges and examinations, and any resulting legislation, regulations, judgments, or penalties, could have a material adverse effect on hospitals and health care providers, including the Corporation, and in turn on the ability of the Corporation to make payments under the Loan Agreement and the Corporation or any future Obligated Group Member to make payments on Obligation No. 6.

### **Federal Budget Cuts**

The American Taxpayer Relief Act of 2012 (“ATRA”) postponed the commencement of scheduled reductions in the federal budget for fiscal years 2012-2021 until March 1, 2013. On March 1, 2013, the Office of Management and Budget issued a report to Congress detailing the effects of this reduction to be a 2% Medicare spending reduction. CMS confirmed that the 2% reduction to Medicare providers and insurers was for services provided after April 1, 2013. ATRA significantly affects hospital Medicare reimbursement in that it requires the Medicare program to recoup funds from hospitals based on changes in documentation and coding that have increased Medicare inpatient prospective payment system (“IPPS”) payments but that do not represent real increases in the intensity of services provided to patients. In the final IPPS regulations for federal fiscal year 2014, CMS stated that it intended to phase in this recoupment over time, starting with a 0.8% reduction in the Medicare standardized amount for 2014. The fiscal year 2015 IPPS final rule reduced standardized amounts by a second 0.8% installment, for a cumulative reduction of 1.6% for fiscal year 2015. The fiscal year 2016 IPPS final rule reduced standardized amounts by an additional 0.8% for a cumulative reduction of 2.4%. In the final IPPS rule for federal fiscal year 2017, CMS made a 1.5% recoupment adjustment for federal fiscal year 2017.

In December 2013, the Bipartisan Budget Act of 2013 (“BBA 2013”) was enacted, which among other actions included restructuring of Medicaid disproportionate share payments (“DSH payments”) reductions by delaying the fiscal year 2014 DSH payment cuts until fiscal year 2016, but increasing the overall level of reductions and extending cuts through fiscal year 2023. The Medicare Access and CHIP Reauthorization Act of 2015 (“MACRA”) further delays the DSH payment cuts until fiscal year 2018, while extending cuts through fiscal year 2025.

BBA 2013 extended the 2% reduction to Medicare providers and insurers at least through March 31, 2024, subject to additional Congressional action. Certain commercial Medicare Advantage plans are passing this reduction on to health care providers. On November 2, 2015, the President signed into law the Bipartisan Budget Act of 2015 (“BBA 2015”), increasing the discretionary spending caps imposed by the BCA for fiscal years 2016 and 2017 and authorizing \$80 billion in increased spending over the two years. BBA 2015 also extended the 2% reduction to Medicare providers and insurers for another year, to at least March 31, 2025, and suspended the limit on the federal government’s debt until March 2017. Absent further Congressional action, these automatic spending cuts will become permanent.

Because Congress may make changes to the budget in the future, it is impossible to predict the impact any spending cuts may have upon the Corporation. Similarly, it is impossible to predict whether any automatic reductions to Medicare may be triggered in lieu of other spending cuts that may be proposed by Congress. If and to the extent Medicare and/or Medicaid spending is reduced under either scenario, this may have a material adverse effect upon the financial condition of hospitals and other health care providers, including the Corporation. Ultimately, these reductions or alternatives could have a disproportionate impact on hospital providers and could have an adverse effect on the financial condition of the Corporation, which could be material.

### **Debt Limit Increase**

The federal government has, through legislation, created a debt “ceiling” or limit on the amount of debt that may be issued by the United States Treasury. In the past several years, political disputes have arisen within the federal government in connection with discussions concerning the authorization for an increase in the federal debt ceiling that have threatened to shut down substantial portions of the federal government. Any failure by Congress to

increase the federal debt limit may impact the federal government's ability to incur additional debt, pay its existing debt instruments and to satisfy its obligations relating to the Medicare and Medicaid programs.

Management of the Corporation is unable to determine at this time what impact any future failure to increase the federal debt limit may have on the operations and financial condition of the Corporation, although such impact may be material. Additionally, the market price or marketability of the Bonds in the secondary market may be materially adversely impacted by any failure of Congress to increase the federal debt limit.

### **Federal Legislative and Regulatory Initiatives**

The discussion herein describes risks associated with certain existing federal and state laws, regulations, rules, and governmental administrative policies and determinations to which the Members of the Credit Group and the health care industry are subject. While these are regularly subject to change, many of the existing provisions were enacted by or promulgated pursuant to the ACA, to which opposition has been expressed by President Trump and the Secretary of the Department of Health and Human Services, as well as the majority leaders of each chamber of Congress and members of their caucuses. It is not possible to predict with any certainty whether or when the ACA or any specific provision or implementing measure will be repealed, withdrawn or modified in any significant respect, but a unified administration and majority in both chambers of Congress could enact legislation, withdraw, modify or promulgate rules, regulations and policies, or make determinations affecting the health care industry and the Corporation, any of which individually or collectively could have a material adverse effect on the operations, financial condition and financial performance of the Corporation.

President Trump and certain Congressional leaders have included a repeal of all or a portion of the ACA in early 2017 in statements concerning their respective legislative agendas, and Congress has already taken steps to repeal and replace the ACA. The repeal effort, to date, has focused on individual and employer mandates, exchanges, insurance industry regulations, Medicaid expansion, and the taxes to pay for these elements of the ACA. The timing of such repeal and whether it would be in whole or in part is unclear. It is also unclear when or if a replacement plan would be implemented. A repeal could result in additional pressure on Medicaid and Medicare funding and could have the effect of reducing the availability of health insurance to individuals who were previously insured, resulting in greater numbers of uninsured individuals, and could otherwise materially adversely affect the Corporation.

Also, there can be no assurances that any current health care laws and regulations will remain in their current form. There can be no assurances that any potential changes to the laws and regulations governing health care would not have a material adverse financial or operational impact on the Corporation.

Similarly, President Trump and the Congressional majority leaders and members of their caucuses have expressed opposition to the Dodd-Frank Wall Street Reform and Consumer Protection Act and have expressed support for "tax reform" measures that would make significant changes to the Internal Revenue Code of 1986 (the "Code"), including potential reduction of corporate and personal marginal federal income tax rates.

Therefore, the following discussion should be read with the understanding that significant changes could occur in 2017 and beyond in many of the statutory and regulatory matters discussed.

### **Health Care Reform**

***Federal Health Care Reform.*** The constitutionality of the ACA has been challenged in courts around the country. In June 2012, the Supreme Court upheld most provisions of the ACA, while limiting the power of the federal government to penalize states for refusing to expand Medicaid, and in June 2015, the Supreme Court issued a decision in *King v. Burwell*, ruling that health insurance subsidies under the ACA would be available in all states, including those with a federally-facilitated health insurance exchange. In November 2015, BBA 2015 repealed a provision of the ACA which would require employers that offer one or more health benefits plans and have more than 200 full-time employees to automatically enroll new full-time employees in a health plan. The content and implementation of the ACA has been highly controversial, certain provisions of the ACA have been repealed, and

Congress has taken steps to repeal and replace the ACA. See “—Federal Legislative and Regulatory Initiatives” above.

As a result of the ACA, substantial changes have occurred and are anticipated to occur in the United States health care system. The ACA is impacting the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers, employers and consumers. Some of the provisions of the ACA took effect immediately or within a few months of final approval, while others were or will be phased in over time, ranging from one year to ten years. Because of the complexity of the ACA generally, additional legislation may be considered and enacted over time. The ACA has also required, and will continue to require, the promulgation of substantial regulations with significant effects on the health care industry and third-party payors. Thus, the health care industry is the subject of significant new statutory and regulatory requirements and consequently to structural and operational changes and challenges for a substantial period of time. The full ramifications of the ACA may also become apparent only over time and through later regulatory and judicial interpretations. Portions of the ACA have already been limited and nullified as a result of legislative amendments and judicial interpretations, while others have been upheld after being challenged, and future actions and challenges may further change its impact. The uncertainties regarding the implementation of the ACA create unpredictability for the strategic and business planning efforts of health care providers, which in itself constitutes a risk.

The changes in the health care industry brought about by the ACA may have both positive and negative effects, directly and indirectly, on the nation’s hospitals and other health care providers, including the Corporation. For example, the increase in the numbers of individuals with health care insurance occurring as a consequence of Medicaid expansion, creation of health insurance exchanges, subsidies for insurance purchase and the penalty on certain individuals who do not purchase insurance could continue to result in lower levels of bad debt and increased utilization or profitable shifts in utilization patterns for hospitals. However, the cost containment measures and pilot programs that the ACA requires, the extent to which Medicaid expansion, which is now optional on a state by state basis, is either not pursued or results in a shifting of significant numbers of commercially-insured individuals to Medicaid, or health insurance options on exchanges are limited or unaffordable, may offset these benefits. A negative impact to the hospital industry overall has resulted and will likely continue from scheduled cumulative reductions in Medicare payments. The ACA’s cost-cutting provisions to the Medicare program include reduction in Medicare market basket updates to hospital reimbursement rates under the inpatient prospective payment system, additional reductions to or elimination of Medicare reimbursement for certain patient readmissions and hospital-acquired conditions, as well as anticipated reductions in rates paid to Medicare managed care plans that may ultimately be passed on to providers. Industry experts also expect that government cost reduction actions may be followed by private insurers and payors. Because a large percentage of the gross patient revenues of the Corporation, for each of its fiscal years ended June 30, 2016 and 2015 were from Medicare spending, the reductions may have a material impact, and could offset any positive effects of the ACA. See also “—Patient Service Revenues – *The Medicare Program*” below.

Health care providers could be further subjected to decreased reimbursement as a result of implementation of recommendations of the Independent Payment Advisory Board (“IPAB”) established by the ACA. Beginning January 15, 2019, if the Medicare growth rate exceeds the target, IPAB is directed to make recommendations for cost reduction for implementation by DHHS, and those recommended reductions will be automatically implemented unless Congress adopts alternative legislation that meets equivalent savings targets. While hospitals are largely exempted from recommendations from the IPAB, industry experts also expect that government cost reduction actions may be followed by private insurers and payors. The IPAB was to begin submitting its annual recommendations no later than January 15, 2014. However, the members of the IPAB have not yet been appointed. Additionally, the Chief Actuary of CMS has concluded that the projected Medicare per capita growth rate has not yet exceeded the target growth rate and there will be no need for IPAB activity at least through federal fiscal year 2016. There have been unsuccessful Congressional efforts to repeal the IPAB. On the other hand, the fiscal year 2017 federal budget aims to strengthen the IPAB.

Beginning in 2014, the ACA authorized the creation of state “health insurance exchanges” in which health insurance can be purchased by certain groups and segments of the population, expanded the availability of subsidies and tax credits for premium payments by some consumers and employers, and required that certain terms and

conditions be included by commercial insurers in contracts with providers. In addition, the ACA imposed many new obligations on states related to health insurance. It is unclear how the increased federal oversight of state health care may affect future state oversight or affect the Corporation. The health insurance exchanges may affect hospitals positively by increasing the availability of health insurance to individuals who were previously uninsured. Conversely, employers or individuals may shift their purchase of health insurance to new plans offered through the exchanges, which may or may not reimburse providers at rates equivalent to rates the providers currently receive. The exchanges could alter the health insurance markets in ways that cannot be predicted, and exchanges might, directly or indirectly, take on a rate-setting function that could negatively impact providers. Because the exchanges are still so new, the effects of these changes upon the financial condition of any third party payor that offers health insurance, rates paid by third-party payors to providers and, thus, the revenues of the Corporation, and upon the operations, results of operations and financial condition of the Corporation, cannot be predicted.

Additionally, the administration delayed the effective date of certain aspects of the ACA such as the requirement that businesses with more than 50 employees provide health insurance to their workers or pay a penalty, of which the deadline has been delayed to 2015 for employers with 100 or more full-time employees and 2016 for employers with 50 to 99 full-time employees. In response to difficulties faced by individuals who received cancellation notices regarding plans that did not meet the coverage requirements for the ACA, the administration granted those individuals an exception from the ACA's individual mandate, which requires individuals to have health insurance or face a tax penalty in 2014. Those individuals may now obtain catastrophic coverage, which is basic coverage generally available to those under 30 or who meet a hardship exemption; the administration announced that it is granting a "hardship exemption" to individuals whose plans were cancelled and might be having difficulty paying for standing coverage. Similarly, delaying the ACA adjusted community rating provisions for grandfathered small group plans temporarily stabilizes renewal rates for many small employers with young, healthy employees in many markets. But when this delay expires, many of these small employers will receive significant rate increases as they are moved toward an average "community" rate. See "*California Health Care Reform*" below for information about the health insurance exchange in California.

High deductible insurance plans have become more common in recent years, and the ACA has encouraged an increase in high deductible insurance plans as the health care exchanges include a variety of plans, several of which offer lower monthly premiums in return for higher deductibles. Many plans offered on the exchanges have high deductibles. High deductible plans may contribute to lower inpatient volumes as patients may forgo or choose less expensive medical treatment to avoid having to pay the costs of the high deductibles. There is also a potential concern that some patients with high deductible plans will not be able to pay their medical bills as they may not be able to cover their high deductible. This factor may increase bad debt expense for health care providers.

The ACA will likely affect some health care organizations differently from others, depending, in part, on how each organization adapts to the legislation's emphasis on directing more federal health care dollars to integrated provider organizations and providers with demonstrable achievements in quality care. Commencing October 1, 2012, the ACA established a value-based purchasing system for hospitals under the Medicare program, which was designed to provide incentive payments to hospitals that are contingent on satisfaction of specified performance measures related to common and high-cost medical conditions, such as cardiac, surgical and pneumonia care. The ACA also funds various demonstration programs and pilot projects and other voluntary programs to evaluate and encourage new provider delivery models and payment structures, including "accountable care organizations" ("ACOs") and bundled provider payments. On January 26, 2015, a timetable was published for transitioning Medicare payments from the traditional fee-for-service model to a value-based payment system. This schedule calls for tying 30% of traditional Medicare fee-for-service payments to quality or value through alternative payment models, such as ACOs or bundled payment arrangements, by the end of 2016, increasing to 50% by 2018. In addition, DHHS set a goal of tying 85% of all traditional Medicare fee-for-service payments to quality or value by 2016, increasing to 90% by 2018 through programs developed under the ACA and described herein such as the value based purchasing and preventable readmissions. In 2015, CMS announced that it would implement a mandatory bundled payment demonstration for certain joint replacement procedures. HHS announced in March 2016 that it had already met its 30 percent alternative payment arrangements goal, and has implemented a mandatory bundled payment demonstration for certain joint replacement procedures in various urban areas. Proposed rulemaking for additional mandatory bundled payment models was announced in July 2016 for three additional clinical conditions. While bundled payments offer opportunities to provide better coordinated care and to save costs, they also entail



financial risk if the episode is not well managed. The outcomes of these projects and programs, including the likelihood of being made permanent or expanded or their effect on health care organizations' revenues or financial performance, cannot be predicted.

The ACA expands access to Medicaid and the scope of services covered thereunder. However, the decision to expand Medicaid is optional for each state. In the event a state chooses not to participate in the expanded Medicaid program, the net effect of the reforms in the ACA could be significantly reduced. The State of California has chosen to expand its Medicaid program, Medi-Cal, under the ACA. See "*California Health Care Reform*" below.

The ACA contains amendments to existing criminal, civil and administrative anti-fraud statutes and increases in funding for enforcement and efforts to recoup prior federal health care payments to providers. Under the ACA, a broad range of providers, suppliers and physicians are required to adopt a compliance and ethics program. While the government has already increased its enforcement efforts, failure to implement certain core compliance program features provide new opportunities for regulatory and enforcement scrutiny, as well as potential liability if an organization fails to prevent or identify improper federal health care program claims and payments. See also "–Regulatory Environment" below.

***California Health Care Reform.*** The State of California has enacted several laws intended to implement the ACA within the required federal timeframes. The State of California started taking steps to implement the ACA shortly after it became federal law.

- The State of California established a state health insurance exchange within a year of the ACA's passage, operated by the California Health Benefit Exchange under the brand name, "Covered California."
- The State of California Legislature approved expansion of Medi-Cal coverage, effective January 1, 2014, to include adults with incomes up to 138% of the federal poverty level who are under age 65, not pregnant and not otherwise currently eligible for Medi-Cal.
- The State of California enacted legislation prohibiting insurers from denying health coverage based on preexisting conditions.
- Forty-seven California counties participated in a "Bridge to Reform" program, in an effort to implement the ACA's Medicaid expansion earlier than federal law requires.
- The State of California has also approved expansion of Medi-Cal coverage no sooner than May 1, 2016, to any individual who is under 19 years old and who does not have satisfactory immigration status. Children receiving restricted scope Medi-Cal (which does not include preventative health, mental health, substance abuse, or other basic services) prior to May 2016, will be transitioned to full Medi-Cal coverage.
- The State is also running a dual-eligibles pilot program, Cal MediConnect, with federal funding. See "Patient Service Revenues – *California Medi-Cal*" below.

## **Patient Service Revenues**

***The Medicare Program.*** Medicare is the federal health insurance system under which hospitals and other providers are paid for services provided to eligible elderly and disabled persons. Medicare is administered by CMS, which delegates to the states the process for certifying hospitals to which CMS will make payment. In order to achieve and maintain Medicare certification, hospitals must meet CMS's "Conditions of Participation" on an ongoing basis, as determined by each state in which they operate and The Joint Commission or other officially sanctioned accrediting organization. The requirements for Medicare certification are subject to change, and, therefore, it may be necessary for hospitals to effect changes from time to time in their facilities, equipment, operations, personnel, billing, policies and services. Failure to comply with certification and accreditation requirements could result in a loss of eligibility to participate in the Medicare program. A loss of participation in the

Medicare program could have a material negative effect on the financial condition and results of operations of the Corporation.

As the U.S. population ages, more people will become eligible for the Medicare program. Current projections indicate that demographic changes and continuation of current cost trends will exert significant and negative forces on the overall federal budget, including the ability of the federal government to continue to fund the Medicare program and changes to the way the federal government reimburses hospitals for services.

For each of the fiscal years ended June 30, 2016 and 2015, Medicare payments represented approximately 47% and 46%, respectively, of the Corporation's gross patient revenue. See APPENDIX A – "INFORMATION CONCERNING EL CAMINO HOSPITAL AND AFFILIATES – SELECTED UTILIZATION AND FINANCIAL INFORMATION – Sources of Patient Services Revenue."

The ACA institutes multiple mechanisms for reducing the costs of the Medicare program and thus reimbursements paid to hospitals, including the following, which apply to IPPS:

**Market Basket Reductions.** Generally, Medicare payment rates to hospitals for inpatient hospital services are adjusted annually based on a "market basket" of estimated costs increases, which have averaged approximately 2-4% annually in recent years. The ACA calls for reductions in the annual "market basket" update amount ranging from 0.10% to 0.75 % each year through federal fiscal year 2019.

**Market Productivity Adjustments.** Since federal fiscal year 2012, the market basket updates for hospitals became subject to productivity adjustments as well. The federal fiscal year 2017 productivity adjustment for inpatient reimbursement is -0.3%. The reductions in market basket updates and the productivity adjustments have had, and will continue to have, a disproportionately negative effect upon those providers that are relatively more dependent upon Medicare than other providers. Additionally, the reductions in market basket updates were effective prior to the periods during which insurance coverage and the insured consumer base began to expand, which may have an interim negative effect on revenues. The combination of reductions to the market basket updates and the imposition of the productivity adjustments may result in reductions in Medicare payment per discharge on a year-to-year basis.

**Value-Based Purchasing.** Medicare inpatient payments to hospitals are now determined, in part, based on a program under which value-based incentive payments are made in a fiscal year to hospitals that meet certain performance standards during that fiscal year. The program is funded through a pool of money collected from all hospital providers, as a result of the reduction of hospital inpatient care payment by 1% in federal fiscal year 2013, progressing to 2% by federal fiscal year 2017. This reduction may be offset by incentive payments that commenced in federal fiscal year 2013 for hospitals that meet or exceed quality standards. In each federal fiscal year, the total amount collected from these reductions will be pooled and used to fund payments to reward hospitals that meet certain quality performance standards established by DHHS. These pool payments are expected to decrease as uninsured consumers transition to the ranks of health care exchanges and become insured.

**Hospital Acquired Conditions Penalty.** Beginning in federal fiscal year 2015, Medicare IPPS payments to hospitals that are in the top quartile nationally for frequency of certain "hospital-acquired conditions" identified by CMS are reduced by 1% of what would otherwise be payable to each hospital for the applicable federal fiscal year.

**Readmission Rate Penalty.** Medicare inpatient payments to those hospitals with excess readmissions compared to the national average for specified patient conditions are reduced based on the dollar value of that hospital's percentage of excess preventable Medicare readmissions within 30 days of discharge, for certain medical conditions. The current maximum penalty is 3%. CMS recently expanded the patient conditions for which this penalty is assessed.

**Medicare and Medicaid Disproportionate Share Payments.** The ACA provided that beginning in federal fiscal year 2014, hospitals receiving supplemental Disproportionate Share ("DSH") payments from Medicare (i.e., those hospitals that care for a disproportionate share of low-income Medicare beneficiaries) were slated to have their

DSH payments reduced significantly. This reduction potentially will be offset by new, additional payments based on the volume of uninsured and uncompensated care provided by each such hospital, and is anticipated to be offset by a higher proportion of covered patients as other provisions of the ACA go into effect.

Separately, Medicaid DSH allotments from the federal government to the states are scheduled to be reduced in the aggregate amount of \$44 billion during federal fiscal years 2018 through 2025. These ACA-initiated Medicaid DSH allotment reductions have been delayed three times and modified five times by subsequent federal statutes. There can be no assurance that DSH funding will not be further decreased beyond projected reductions or eliminated entirely. See also “– *Disproportionate Share Payments*” below.

**Medicare Advantage.** Hospitals also receive payments from health plans under the Medicare Advantage program. The ACA includes significant changes to federal payments to Medicare Advantage plans resulting in a transition to benchmark payments tied to the level of fee-for-service spending in the applicable county. Decreased federal payments to the Medicare Advantage plans, which have been delayed to date, could in turn affect the scope of coverage of these plans or cause plan sponsors to negotiate lower payments to providers.

**Electronic Health Information Systems Medicare and Medicaid Incentive Payments and Payment Reductions.** Components of the federal stimulus package, the American Recovery and Reinvestment Act (“ARRA”), provide for Medicare and Medicaid incentive payments that began in 2011 to hospital providers meeting designated deadlines for the installation and use of electronic health information systems. For those hospital providers failing to meet a 2016 deadline, Medicare payments will be significantly reduced. For information regarding the Corporation’s electronic medical records system, see APPENDIX A – “INFORMATION CONCERNING EL CAMINO HOSPITAL AND AFFILIATES – HOSPITAL FACILITIES AND SERVICES – Information Technology Strategy.”

**ATRA Medicare Reduction.** In addition to components of the ACA described above, ATRA, also negatively affected hospital Medicare reimbursement. Specifically, ATRA reduced Medicare reimbursement for hospitals by \$10.5 billion, in the form of a coding and documentation adjustment to inpatient reimbursement payment rates, to help offset the \$30 billion cost of deferring a 27% reduction in Medicare physician payments that would otherwise have gone into effect as well as the cost of extending for one year several CMS payment policies that would otherwise have expired.

**Hospital Inpatient Reimbursement.** Hospitals are generally paid for inpatient services provided to Medicare beneficiaries based on established categories of treatments or conditions known as diagnosis related groups (“DRGs”). The actual cost of care, including capital costs, may be more or less than the DRG rate. DRG rates are subject to adjustment by CMS, including reductions mandated by the ACA and the BCA and are subject to federal budget considerations. There is no guarantee that DRG rates, as they change from time to time, will cover actual costs of providing services to Medicare patients. For information regarding the impact of the ACA on payments to hospitals for inpatient services, see “–Patient Service Revenues – *Market Basket Reductions*” above.

Effective October 1, 2013, CMS adopted a policy known as the Inpatient Hospital Prepayment Review “Probe & Educate” review process or the “Two-Midnight” rule. The “Two-Midnight” policy specifies that hospital stays spanning two or more midnights after the beneficiary is properly and formally admitted as an inpatient will be presumed to be “reasonable and necessary” for purposes of inpatient reimbursement. CMS adopted the policy due to growing concern with the overuse of the “observation” status at hospitals; CMS found that Medicare beneficiaries were spending extended periods of time in observation units without being admitted as inpatients. With some exceptions, stays not expected to extend past two midnights should not be admitted and instead be billed as outpatient. In April 2015, CMS announced it would delay enforcement of the “Two-Midnight” rule until September 30, 2015 and in August 2015, CMS announced it would again delay enforcement of the “Two-Midnight” rule until the end of 2015. Effective October 1, 2015, responsibility for enforcement of the “Two-Midnight” rule shifted from Medicare administrative contractors to quality improvement organizations (“QIO”), and recovery audit contractors will only conduct reviews for providers that have been referred by the related QIO. The final rule regarding hospital outpatient reimbursement (described in the next paragraph), issued in November 2015 and effective January 1, 2016, revised the “Two-Midnight” rule to allow an exception for Medicare Part A payment on a

case-by-case basis for inpatient admissions that do not satisfy the two-midnight benchmark if documentation in the medical records supports that the patient required inpatient care. CMS has announced that it will not continue to impose an inpatient payment cut to hospitals under the “Two-Midnight” rule starting in 2017 following ongoing industry criticism and a legal challenge. In the 2017 Medicare IPPS final rule released on August 2, 2016, CMS prospectively removed the inpatient payment cuts under the “Two-Midnight” rule for fiscal year 2017 and onward and provided a temporary increase of 0.6% payment in fiscal year 2017 to help offset the fiscal year 2014-2016 cuts under the “Two-Midnight” rule. The “Two-Midnight” rule has had an adverse financial impact for hospitals.

***Hospital Outpatient Reimbursement.*** Hospitals are generally paid for outpatient services provided to Medicare beneficiaries under the final rule regarding hospital outpatient reimbursement, which is based on established categories of treatments or conditions known as ambulatory payment classifications (“APC”). The actual cost of care, including capital costs, may be more or less than the reimbursements. The ACA provides for a reduction to the market basket used to determine annual reimbursement increases by an adjustment factor for 2010 through 2019 and by a productivity adjustment for 2012 and subsequent years. Application of the productivity adjustment can result in a market basket increase of less than zero, such that payments in a current year may be less than the prior year. There is no guarantee that APC rates, as they change from time to time, will cover actual costs of providing services to Medicare patients.

***Off-Campus Provider-Based Outpatient Departments.*** Effective January 1, 2016, the calendar year 2015 Outpatient Prospective Payment System Final Rule requires hospitals to use new modifiers for services provided to Medicare beneficiaries at off-campus provider-based outpatient departments. The stated purpose of the new modifiers is to permit CMS to obtain information regarding the effect of the trend of the conversion of physician offices to off-campus provider-based hospital outpatient departments. A potential result of this information could be a future reduction in reimbursement for certain services provided at certain types of off-campus provider-based outpatient departments. In any event, failure to use the modifiers correctly could jeopardize the provider-based status of associated off-campus locations. In addition, BBA 2015 created “site neutral” reimbursement for services to Medicare beneficiaries at certain off-campus provider based locations beginning January 1, 2017, unless such locations was billing as a provider-based outpatient department before November 2, 2015. Services subject to the change will not be reimbursed under Medicare’s hospital outpatient prospective payment system (“OPPS”), but rather will be reimbursed under alternative payment systems (for example, at ambulatory surgery center rates). The Medicare Payment Advisory Commission has also recommended site neutral payment policies for provider-based departments. The financial impact of these changes cannot yet be predicted but off-campus hospital outpatient departments will receive lower payments than in previous years for the same services.

CMS published the final rule implementing the site neutral provisions of BBA 2015 on November 1, 2016. Under the final rule, hospitals will have very limited ability to replace or expand their existing off-campus hospital outpatient departments or to expand the scope of services provided in such facilities and continue to be reimbursed under OPPS. The final rule also establishes reduced reimbursement for services provided at new off-campus hospital outpatient departments established after enactment of the BBA 2015. It is unclear what will be the financial impact of the site neutral payment provisions.

The 21<sup>st</sup> Century Cures Act (the “Cures Act”), enacted in December 2016, expands the categories of projects that would be exempt from the decrease in OPPS reimbursement payments. They include: (i) off-campus outpatient department if the host hospital had submitted a voluntary provider-based attestation to CMS before December 2, 2015, as long as the construction of the new off-campus outpatient department is complete and the hospital is accepting or poised to accept patients; (ii) off-campus outpatient department locations providing services on or after January 1, 2018, that had a “binding written agreement with an outside unrelated party for the actual construction” of the new off-campus outpatient department before November 2, 2015, as long as the host hospital make certain attestations and certifications within 60 days of the enactment of the Cures Act; and (iii) off-campus outpatient departments of certain cancer hospitals that file provider-based attestations within 60 days of the date of enactment of the Cures Act (for departments meeting provider-based requirements between November 2, 2015, and the date of enactment) or within 60 days of the date of meeting provider-based requirements.

***Other Medicare Service Payments.*** Medicare payment for skilled nursing services, psychiatric services, inpatient rehabilitation services, general outpatient services and home health services are based on regulatory formulas or predetermined rates. There is no guarantee that these rates, as they may change from time to time, will be adequate to cover the actual cost of providing these services to Medicare patients.

Inpatient rehabilitation facilities and units (“IRFs”) and inpatient psychiatric facilities and units (“IPFs”) have been excluded from the DRG-based IPPS established for general inpatient acute care facilities. Both IPFs and IRFs are paid by Medicare under a separate generally higher-paying inpatient prospective payment system that is distinct from general IPPS. The Social Security Act authorizes the Secretary of DHHS to determine which facilities are classified as IRFs. Such rehabilitation facilities and units are required to draw at least 60% of their inpatients from 13 specific rehabilitation diagnoses identified by CMS, in order to qualify for payment as an IRF. Effective October 1, 2014, CMS reduced the number of ICD-9 billing codes presumed to “count” toward meeting the 60% rule. There is no guarantee that the IRF payment will be adequate to cover each Member of the Credit Group’s cost of furnishing care, or that a given IRF will continue to satisfy the 60% rule.

Recent Medicare Payment Advisory Commission (“MedPAC”) guidance has recommended site-neutral payment policies for certain services provided in the IRF setting. These policies reflect MedPAC’s position that Medicare should not pay more for care in one setting than in another if the care can safely and effectively be provided in a lower cost setting. Accordingly, MedPAC has proposed to reimburse certain IRF services at rates commensurate with payments made to skilled nursing facilities. To the extent adopted by CMS, these policies would have the potential to decrease Medicare revenues available to IRFs.

***Ambulatory Surgery Center (“ASC”) Services.*** An ASC is paid under its own PPS program, which pays for all services associated with the surgery, including laboratory and other diagnostic services, if the ASC includes them in the facility charges. However, it does not pay for services for which Medicare will typically make a separate payment, such as for physician services. There is no guarantee that ASC PPS rates, as they change from time to time, will cover actual costs of providing services to Medicare patients. The Corporation owns 100% of El Camino Surgery Center, LLC, which owns one-third of an operating ambulatory surgery center.

***Home Health Services.*** Home health services are paid under their own PPS program, which calls for a fixed payment for a 60-day episode of care based on home health resource groups. Payment is based on several factors, such as the type and severity of the patient’s condition, the type and number of services used, and the number of therapy visits. There is no guarantee that home health services PPS rates, as they change from time to time, will cover actual costs of providing services to Medicare patients. The Corporation is not a direct provider of these services. See APPENDIX A – “INFORMATION CONCERNING EL CAMINO HOSPITAL AND AFFILIATES – GENERAL – Joint Ventures – *Pathways.*”

***Reimbursement of Hospital Capital Costs.*** Hospital capital costs apportioned to Medicare patient use (including depreciation and interest) are paid by Medicare on the basis of a standard federal rate (based upon average national costs of capital), subject to limited adjustments specific to the hospital. There can be no assurance that future capital-related payments will be sufficient to cover the actual capital-related costs of the Corporation’s facilities applicable to Medicare patient stays or will provide flexibility for hospitals to meet changing capital needs.

***Medical Education Payments.*** Medicare currently pays for a portion of the costs of medical education at hospitals that have teaching programs. These payments are vulnerable to reduction or elimination. The direct and indirect medical education reimbursement programs have repeatedly emerged as targets in the legislative efforts to reduce the federal budget deficit. Legislation has capped the number of residents recognized by Medicare for reimbursement purposes and has limited reimbursement for both direct and indirect medical education costs. The Corporation does not receive medical education payments.

***Medicare Bad Debt Reimbursement.*** Under Medicare, the costs attributable to the deductible and coinsurance amounts which remain unpaid by the Medicare beneficiary can be added to the Medicare share of allowable costs as cost reports are filed. Hospitals generally receive interim pass-through payments during the cost

report year which were determined by the Medicare Administrative Contractor (“MAC”) from the prior cost report filing. Bad debts must meet the following criteria to be allowable:

- the debt must be related to covered services and derived from deductible and coinsurance amounts;
- the provider must be able to establish that reasonable collection efforts were made;
- the debt was actually uncollectible when claimed as worthless; and
- sound business judgment established that there was no likelihood of recovery at any time in the future.

The amounts uncollectible from specific beneficiaries are to be charged off as bad debts in the accounting period in which the accounts are deemed to be uncollectible. In some cases, an amount previously written off as a bad debt and allocated to the program may be recovered in a subsequent accounting period. In these cases, the recoveries must be used to reduce the cost of beneficiary services for the period in which the collection is made. In determining reasonable costs for hospitals, the amount of bad debts otherwise treated as allowable costs is reduced by 35%. Amounts incurred by a hospital as reimbursement for bad debts are subject to audit and recoupment by the MAC. Bad debt reimbursement has been a focus of MAC audit/recoupment efforts in the past.

***Sustainable Growth Rate Formula.*** The sustainable growth rate (“SGR”) formula, a limit on the growth of Medicare payments for physician services, was enacted in 1997 and linked to changes in the U.S. Gross Domestic Product over a ten-year period. Each year since 2003, Congress provided temporary relief from scheduled “negative” updates that would have reduced physician payments. In April 2015, Congress passed and the President signed the so-called “doc fix” in the form of MACRA. This law replaces the SGR formula with statutorily prescribed physician payment updates and provisions. As a result, payments under the Medicare Physician Fee Schedule for services furnished on or after April 1, 2015 were not cut by 21%. Instead, current payment rates will increase annually by 0.5% through 2019. Thereafter, payment rates will be frozen at 2019 levels through 2025. While the payment cuts associated with the SGR formula have been eliminated, there is uncertainty regarding the impact of merit-based and alternative payment models and it is possible that future legislative action will be taken that would once again trigger physician payment reductions.

MACRA will substantially alter how physicians and other practitioners are paid by Medicare for services furnished to program beneficiaries. Generally, physicians will choose whether to participate in alternative payment models or have their performance measured under the Merit-based Incentive Payment System (“MIPS”). Payments to physicians and other practitioners will be adjusted depending on which pathway is chosen, and based on performance within each pathway. A substantial amount of payments will be linked to that performance: Poorly performing practitioners will have Medicare payments reduced; while those who perform well against prescribed measures could have payment increased. These changes will influence physician referral and utilization behaviors, which could affect utilization of hospital services.

***Recovery Audit Contractor Program.*** CMS has implemented a Recovery Audit Contractor (“RAC”) program on a nationwide basis pursuant to which CMS contracts with private contractors to conduct pre-and post-payment reviews to detect and correct improper payments in the fee-for-service Medicare program. The ACA expands the RAC program’s scope to include managed Medicare plans and Medicaid claims. The Corporation, along with many other hospitals, has been and continues to be subject to RAC audits of Medicare and Medicaid payments and has experienced disallowance and recoveries of Medicare and Medicaid payments as a result of such audits. It is possible that such amounts in the future could have material adverse impact on the Corporation. CMS also employs Medicaid Integrity Contractors (“MICs”) to perform post-payment audits of Medicaid claims and identify improper payments. These programs tend to result in retroactively reduced payment and higher administration costs to hospitals.

***Never Events and Hospital Acquired Conditions.*** In 2002, the National Quality Forum published “Serious Reportable Events in Healthcare: A Consensus Report” that identified 27 adverse events that were “serious, largely preventable and of concern to both the public and health care providers.” This list (and subsequent revisions) became known as “never events.” Historically, Medicare did not distinguish between costs that resulted from patient treatment as opposed to costs that resulted from an adverse event that occurred in the hospital. Section 5001(c) of the Deficit Reduction Act of 2005 required CMS to identify conditions that were high cost or volume or both, resulted in assignment to a DRG that had a higher payment when present as a secondary diagnosis, and that could have reasonably been prevented. As a result, CMS has developed a list of hospital acquired conditions (such as foreign object retained after surgery, Stage III and IV pressure ulcers and catheter-associated urinary tract infections) that are denied higher Medicare payments. The ACA also added a 1% payment reduction for facilities with hospital-acquired condition rates in the top quartile of all subsection (d) (i.e., MS-DRG) hospitals. The new payment reduction applies to Medicare MS-DRG discharges on or after October 1, 2015. See also “Patient Services Revenue – *The Medicare Program*” and “– *Hospital Acquired Conditions Penalty*.” In addition, CMS has developed a list of non-covered services that relate to adverse (i.e. “never”) events (e.g., surgery on the wrong body part or correct procedure on the wrong patient) for which the hospital will not be reimbursed. The Corporation will be at risk for decreased reimbursement if certain adverse events or hospital acquired conditions occur. The State may also levy administrative penalties against hospitals that experience certain significant adverse patient events.

***Medicaid Program.*** Medicaid is a program of medical assistance, funded jointly by the federal government and the states, for certain low income individuals and their dependents. Under Medicaid, the federal government provides limited funding to states that have medical assistance programs that meet federal standards. As discussed above, the ACA provides significantly enhanced federal funding for states to expand their Medicaid program. Attempts to balance or reduce the federal and state budgets, including the balanced budget requirements in the State of California, may negatively impact spending for Medi-Cal/Medicaid and other state health care programs spending.

For the fiscal years ended June 30, 2016 and 2015, the Corporation received approximately 7% and 7%, respectively, of gross patient revenue from services covered by Medi-Cal programs. See APPENDIX A – “INFORMATION CONCERNING EL CAMINO HOSPITAL AND AFFILIATES – SELECTED UTILIZATION AND FINANCIAL INFORMATION – Sources of Patient Services Revenue.”

***California Medi-Cal.*** Medi-Cal is the California Medicaid program. Prior to July 2013, California selectively contracts with general acute care hospitals to provide inpatient services to Medi-Cal patients. As of July 1, 2013, the State of California implemented a new payment system for hospital inpatient services based on diagnosis related groups (“DRGs”). The DRG payment method is based on All-Patient Refined Diagnosis Related Groups (“APR-DRGs”), which is a proprietary classification system for clinical conditions that is currently licensed and in use by many other state Medicaid programs. Under the DRG payment methodology, the California Department of Health Care Services (“DHCS”) reimburses hospitals a fixed amount for each inpatient admission based on the APR-DRG for that admission, which DHCS will assign based on the diagnoses, procedures, patient age, and discharge status submitted on the hospital claim form. As DHCS and hospitals gain experience with the APR-DRG payment methodology, DHCS intends to make adjustment in certain circumstances. It is anticipated that some California hospitals will see decreases in Medi-Cal payments while other hospitals will receive increases.

Medi-Cal’s primary care model is to contract with providers it has approved to provide care to eligible individuals. This system has hundreds of providers statewide that are not required to coordinate on the delivery of services to an individual. However, California and the federal government are now partnering on a three-year demonstration project called “Cal MediConnect” to promote coordinated health care delivery to seniors and people with disabilities who are dually eligible for Medi-Cal and Medicare (a.k.a., “dual eligible” or “dual eligible beneficiaries”). Cal MediConnect is part of California’s larger Coordinated Care Initiative (“CCI”), which was authorized in 2012 to, among other things, introduce managed care delivery models as a means of providing coordinated care to dual eligibles. The State of California believes the managed care plan model will offer dual eligibles an important level of personal choice and control over their health care decisions, while also producing significant cost savings to the State of California in connection with providing care to the Medi-Cal and Medicare eligible population. If successful, the demonstration project is expected to expand from an original eight county pilot to become the primary model for public insurance paid care (i.e., Medicaid and Medicare) statewide for California.

It is not known at this early stage of the demonstration project whether Cal MediConnect will be financially or otherwise favorable or unfavorable for the Corporation as compared to California's existing individual provider based system for providing access to care for Medi-Cal and Medicare beneficiaries.

Legislation regarding Medi-Cal is often proposed, see, for instance, Proposition 52, described below in "BONDHOLDERS' RISKS – Patient Service Revenues – California Hospital Provider Fee." At this time, management of the Corporation is unable to determine the impact that any current or future proposed legislation, if enacted, may have on the financial condition of the Corporation.

***Impact of Medicaid Payment Reductions.*** The ACA makes changes to Medicaid funding and substantially increases the potential number of Medicaid beneficiaries. To fund this expansion, the ACA provides that the federal government will fund 100% of the costs of this expansion from 2014 – 2016, decreasing to 90% of the costs of this expansion in 2020 and thereafter. In June 2012, the U.S. Supreme Court held that the federal government cannot withhold existing federal funds for states that refuse to expand Medicaid as required by the ACA. While management of the Corporation cannot predict the effect of these changes to the Medicaid program on operations, results from operations or financial condition of the Corporation, historically Medicaid has reimbursed at rates below the cost of care. Therefore, increases in the overall proportion of Medicaid patients pose a financial risk to the Corporation. It is uncertain to what extent this risk may be mitigated if the increased Medicaid utilization replaces previously uncompensated patients. Certain outcomes, such as a state refusing to expand Medicaid coverage under the ACA, which brings more patients to most hospital providers, while Medicaid payment cuts are implemented, could put providers at greater financial risk. The State of California has chosen to expand Medicaid under the ACA.

***California Hospital Provider Fee.*** In 2009, the California legislature enacted the Medi-Cal Hospital Provider Rate Stabilization Act and the Quality Assurance Fee Act, which imposed a "quality assurance fee" on California's general acute care hospitals, except for public hospitals and certain exempt hospitals. The Medi-Cal hospital provider fee is essentially a tax on hospitals to raise funds for provider payments. The proceeds are used to earn federal matching funds for Medi-Cal, and to increase Medi-Cal payments to hospitals. Under this program, some California hospitals receive more funding in increased Medi-Cal reimbursement than the quality assurance fees paid, while other California hospitals receive less money in Medi-Cal payments than the fees paid. California has enacted legislation to extend this program to January 1, 2018, subject to approval from CMS. The California Medi-Cal Hospital Reimbursement Initiative, or Proposition 52, was approved by California voters in November 2016. This initiative extends the hospital fee program indefinitely and puts in place protections to prevent diversion of funds from the program. However, the program remains subject to approval by CMS. Delays in CMS approval can have adverse effects on providers.

***Medicare and Medicaid Audits.*** Hospitals that participate in the Medicare and Medicaid programs are subject from time to time to audits and other reviews and investigations relating to various aspects of their operations and billing practices, as well as to retroactive adjustments of reimbursements received from these programs. Medicare and Medicaid regulations also provide for withholding reimbursement in certain circumstances. New billing rules and reporting requirements for which there is no clear guidance from CMS or state Medicaid agencies could result in claims submissions being considered inaccurate. The penalties for violations may include an obligation to refund money to the Medicare or Medicaid program, payment of criminal or civil fines and, for serious or repeated violations, exclusion from participation in federal health programs.

Authorized by the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), the Medicare Integrity Program ("MIP") was established to deter fraud and abuse in the Medicare program. Funded separately from the general administrative contractor program, the MIP allows CMS to enter into contracts with outside entities and insure the "integrity" of the Medicare program. These entities, include but are not limited to, Medicare zone program integrity contractors ("ZPICs"), formerly known as program safeguard contractors, are contracted by CMS to review claims and medical charts, both on a prepayment and post-payment basis, conduct cost report audits and identify cases of suspected fraud. ZPICs have the authority to deny and recover payments as well as to refer cases to the Office of Inspector General (the "OIG"). ZPICs have the ability to compile claims data from multiple sources in order to analyze the complete claims histories of beneficiaries for inconsistencies.

The federal Medicaid Integrity Program was created by the Deficit Reduction Act in 2005 and appropriations for enforcement began in 2006. The Medicaid Integrity Program was the first federal program



established to combat fraud and abuse in state Medicaid programs. Congress determined a federal program was necessary due to the substantial variations in state Medicaid enforcement efforts. The Medicaid Integrity Program's enforcement efforts support existing state Medicaid Fraud Control Units. Federal Medicaid Integrity Contractors ("MICs") are classified into Review MICs, Audit MICs and Educational MICs. Review MICs perform review audits generally to determine trends and patterns of aberrant Medicaid billing practices through data mining. Audit MICs perform post-payment reviews of individual providers through desk or field audits. The Educational MICs are responsible for developing and carrying out a variety of education activities to increase and improve Medicaid enforcement efforts by state government. Once a Medicaid overpayment is identified, the state has either 60 days, or one year if there is fraud, to repay the state's share of federal financial participation to CMS. The state is then required to collect from the provider. If the provider wins on an appeal of the identified overpayment, the state is not permitted to reclaim its federal portion, so there is very little incentive for the states to settle such cases with the provider.

Medicare and Medicaid audits may result in reduced reimbursement or repayment obligations related to past alleged overpayments and may also delay Medicare and Medicaid payments to providers pending resolution of the appeals process. The ACA explicitly gives DHHS the authority to suspend Medicare and Medicaid payments to a provider or supplier during a pending investigation of fraud. The ACA also amended certain provisions of the FCA (as defined herein) to include retention of overpayments as a violation of the FCA. It also added provisions respecting the timing of the obligation to identify, report and reimburse overpayments. The effect of these changes on existing programs and systems of the Corporation cannot be predicted.

In February 2016, CMS issued a final rule that took effect on March 14, 2016, addressing the requirement to report and return overpayments, with an emphasis for providers on developing robust compliance programs. In the final rule, CMS imposes a new "reasonable diligence" standard for identifying overpayments that must be reported and returned within 60 days, CMS clarifies that the 60-day timeframe for report and return begins when either reasonable diligence is completed (including determination of the overpayment amount) or on the day the person received credible information of a potential overpayment if the person failed to conduct reasonable diligence and the person in fact received an overpayment. In the final rule, CMS instructed that 6 years is the appropriate lookback period for identifying historical overpayments. The final rule also imposes an alternative duty to proactively determine whether overpayments have been made. The effect of these changes on existing programs and systems of the Corporation cannot be predicted.

***Disproportionate Share Payments.*** The federal Medicare and the California Medi-Cal programs, each provides additional payment for hospitals that serve a disproportionate share of certain low-income patients. The Corporation receives disproportionate share ("DSH") payments, but there can be no assurances that it will qualify for DSH payments in the future. The ACA substantially reduces federal DSH payments to account for the expected decline in the number of uninsured individuals and hospital uncompensated costs. The Protecting Access to Medicare Act of 2014 delays the implementation of Medicaid DSH payment reductions until federal fiscal year 2017 but increases the level of such reductions and extends Medicaid DSH cuts through federal fiscal year 2024. The DSH replacement program's funding level is currently linked to California's federal DSH allotment. It cannot be assured that the level and timing of health insurance coverage gains will reduce hospital uncompensated care costs so as to fully offset these authorized reductions to federal DSH funding. Nor can there be any assurance that DSH funding will not be further decreased beyond projected reductions or eliminated entirely.

***State Children's Health Insurance Program.*** The State Children's Health Insurance Program ("SCHIP") is a federally funded insurance program for children whose families are financially ineligible for Medicaid, but cannot afford commercial health insurance. CMS administers SCHIP, but each state creates its own program based upon minimum federal guidelines. SCHIP insurance is provided through private health plans contracting with the state.

Each state must periodically submit its SCHIP plan to CMS for review to determine if it meets the federal requirements. If it does not meet the federal requirements, a state can lose its federal funding for the program. Any such loss of funding or federal or state budget cuts to the program could have an adverse effect on provider revenues.

California Assembly Bill (AB) 1494, (Committee on Budget, Chapter 28, Statutes of 2012), required all Healthy Families Program (“HFP”) enrollees in California to transition to Medi-Cal as targeted low-income Medicaid children, as allowed under federal law, beginning January 1, 2013.

The ACA temporarily increased reimbursement for primary care visits for Medicaid enrolled individuals, funded 100% by the federal government in 2013 and 2014. The federal funding for the increase expired at the end of 2014. Under MACRA, federal funding for SCHIP was extended through September 30, 2017. When such funding expires there can be no assurances that funding for an increase will be reestablished at either a state or federal level, or that professional and /or facility reimbursement rates will not subsequently be reduced in efforts to manage costs.

**California State Budget.** The State of California has in the recent past faced severe financial challenges, which financial challenges included erosion of general fund tax revenues, falling real estate values, slow economic growth and high unemployment. Shortfalls between revenues and spending have in the past and may in the future result in cutbacks to state and local government health care programs.

The fiscal outlook for the State of California has been improving, with the State of California's unemployment rate dropping, corporate profits trending favorably, housing prices increasing and the progress in paying down debts, deferrals, and budgetary obligations accumulated by the State of California over the prior decade as a result of many factors, including the last recession that limit State of California spending. One reason for the State of California's improved fiscal outlook is the temporary tax revenues generated by Proposition 30, passed by California voters in November 2012. Proposition 30 provided new State of California General Fund revenue by increasing personal income taxes and sales tax. The income tax increase was set to expire at the end of 2018 and the sales tax increase expired at the end of 2016. Proposition 55 was passed by California voters in November of 2016, it extended the personal income tax portion of Proposition 30 until 2030.

While California's economic climate and financials are improving, it is impossible to predict the impact of future financial challenges to the California economy, including threat of future recessions, changes in federal spending policy and other events that could result in budget deficits. It is also impossible to predict what the State of California's budget will be in future years or the actions that the California Governor, the State of California legislature or voters – via ballot initiative – will take in the future. It is reasonable to expect, however, that the California Governor and the State of California Legislature will continue to pursue cost containment measures to keep the State of California's budget in balance, in part by aggressively managing the State of California's health care spending, which may have an adverse effect on the financial condition of the Corporation.

Any financial challenges facing the State of California may negatively affect health care organizations in a number of ways. California may enact legislation designed to reduce their Medicaid expenditures through eligibility restrictions (causing a greater number of indigent, uninsured or underinsured patients) and reductions in Medicaid payment rates. In October 2011, CMS approved the State of California's request for 10% reductions in Medi-Cal payments for certain outpatient services and for long-term care. The ACA provides for significant expansions to the Medicaid program and additional funding. In California, for example, additional funding is conditioned on California maintaining specified beneficiary eligibility criteria. The ACA and BCA may shift further funding responsibility from the federal government to state governments, exacerbating any state financial challenges. See “BONDHOLDERS’ RISKS – Significant Risk Areas Summarized – *General Economic Conditions, Bad Debt, Indigent Care and Investment Performance*” and “– Nonprofit Health Care Environment – *Indigent Care*” herein. The Corporation cannot predict what actions will be taken in the current and future years by the State of California Legislature and the California Governor to address any financial problems of the State of California. Such actions will likely depend on national and state economic conditions and other factors which are uncertain at this time.

**Health Plans and Managed Care.** Most private health insurance coverage is provided by various types of “managed care” plans, including health maintenance organizations (“HMOs”) and preferred provider organizations (“PPOs”) that generally use discounts and other economic incentives to reduce or limit the cost and utilization of or payment for health care services. Medicare and Medicaid also purchase health care using managed care options.

Payments to health care organizations from managed care plans typically are lower than those received from traditional indemnity or commercial insurers.

In California, managed care plans have replaced indemnity insurance as the primary source of non-governmental payment for health care services, and health care organizations must be capable of attracting and maintaining managed care business, often on a regional basis. Regional coverage and aggressive pricing may be required. However, it is also essential that contracting health care organizations be able to provide the contracted services without significant operating losses, which may require multiple forms of cost containment.

Many HMOs and PPOs currently pay providers on a negotiated fee-for-service basis or, for institutional care, on a fixed rate per day of care, or a fixed rate per hospital stay, which, in each case, usually is discounted from the usual and customary charges for the care provided. As a result, the discounts offered to HMOs and PPOs, could, in some cases, result in payment to a provider that is less than its actual cost. Additionally, the volume of patients directed to a provider may vary significantly from projections, and/or changes in the utilization may be dramatic and unexpected, thus jeopardizing the provider's ability to manage this component of revenue and cost.

Some HMOs employ a "capitation" payment method under which health care organizations are paid a predetermined periodic rate for each enrollee in the HMO who is "assigned" or otherwise directed to receive care from a particular health care organization. The health care organization may assume financial risk for the cost and scope of institutional care given. If payment is insufficient to meet the health care organization's actual costs of care, or if utilization by such enrollees materially exceeds projections, the financial condition of the health care organization could erode rapidly and significantly. In addition to this standard managed care risk sharing approach, private health insurance companies are increasingly adopting various additional risk sharing/cost containing measures, sometimes similar to those introduced by government payors. Providers may expect health care cost containment and its associated risk sharing to continue to increase in the coming years amongst all payors.

Often, managed care contracts are enforceable for a stated term, regardless of health care organizations losses and may require health care organizations to care for enrollees for a certain time period, regardless of whether the payor is able to pay the health care organization. Health care organizations from time to time have disputes with HMOs, PPOs and other managed care payors concerning payment and contract interpretation issues. Such disputes may result in mediation, arbitration or litigation.

There is no assurance that the Corporation will maintain particular insurance contracts, existing rates or obtain contracts from other third party payors in the future. Failure to maintain contracts could have the effect of reducing a health care organization's market share and net patient services revenues. Conversely, participation may result in lower net income if participating health care organizations are unable to adequately contain their costs. In part to reduce costs, health plans are increasingly implementing, and offering to purchasing employers, tiered provider networks, which involve classification of a plan's network providers into different tiers based on care quality and cost. With tiered benefit designs, plan enrollees are generally encouraged, through incentives or reductions in copayments or deductibles, to seek care from providers in the top tier. Classification of a hospital in a non-preferred or lower tier by a significant payor may result in a material loss of volume. In addition to tiered provider networks, managed care plans are also implementing narrow provider networks in which only a select group of providers participate as in-network providers. Managed care plans often look at quality performance and cost in selecting providers to participate in their narrow networks. A provider's exclusion from a narrow network may result in a material loss of volume. Managed care plans may offer lower reimbursement for providers in their narrow network(s) in exchange for additional volume expected from being one of a select group of network providers. This reimbursement may be insufficient to cover a network provider's cost in providing the services. The new demands of dominant health plans and other shifts in the managed care industry may also reduce patient volume and revenue. Thus, managed care poses one of the most significant business risks (and opportunities) that health care organizations face.

In addition, the current trend of consolidation in the health insurance industry is likely to increase the leverage of commercial insurers when negotiating rates with health care providers. Large health insurers that assume dominant positions in local markets threaten to increase health insurer concentration, reduce competition and

decrease choice. If the Corporation were to terminate its agreement with any of the major managed care payers or not agree to terms proposed by such payers, it could have a significant material adverse impact on the financial condition of the Corporation.

With implementation of the ACA, substantial numbers of employers may elect to discontinue employer-funded medical care for employees eligible for federal assistance in securing private insurance, and the employees could then choose health insurance under the health insurance exchanges. Individuals choosing their own coverage may become highly price sensitive, which could increase the number of enrollees in HMO plans and increase the use of capitation, making price negotiations with HMO and other insurance plans more difficult.

In December 2016, the Cures Act was enacted. The Cures Act creates broadened patient access to care, involving patients in new research, and leveraging technology to create efficiencies. The Cures Act will support efforts to improve telehealth services in Medicare and will improve the process for determining which Medicare treatments are covered, leading to increased access to treatments for Medicare beneficiaries. It will also allow Medicare beneficiaries to shop for services in order to find the most cost-effective treatments available.

Patients covered by managed care contracts (both HMO and PPO) constituted approximately 42% and 43%, respectively, of gross patient revenue for the Corporation for fiscal years ended June 30, 2016 and 2015. See APPENDIX A – “INFORMATION CONCERNING EL CAMINO HOSPITAL AND AFFILIATES – SELECTED UTILIZATION AND FINANCIAL INFORMATION – Sources of Patient Services Revenue.”

### **International Classification of Diseases, 10th Revision Coding System**

On October 1, 2015, the International Classification of Diseases, 10th Revision coding system (“ICD-10”) diagnostic code set went live. ICD-10 provides a common approach to the classification of diseases and other health problems, allowing the United States to align with other nations to better share medical information, diagnosis, and treatment codes. ICD-10 is not without risk as staff had to be retrained, processes redesigned, and computer applications modified as the current available codes and digit size dramatically increased. Additionally, there is a potential for temporary coding and payment backlog, as well as potential increases in claims errors. There is a potential for revenue stream disruption for health care organizations and the magnitude of the transition within the industry may add pressure to health care organizations cash flows. Health care organizations were dependent on outside software vendors, clearinghouses and third-party billing services to develop products and services to allow timely, full and successful implementation of ICD-10. With the recent implementation deadline, it is not possible to predict the full impact of the implementation of ICD-10.

### **Negative Rankings Based on Clinical Outcomes, Cost, Quality, Patient Satisfaction and Other Performance Measures**

Health plans, Medicare, Medi-Cal, employers, trade groups and other purchasers of health services, private standard-setting organizations and accrediting agencies increasingly are using statistical and other measures in efforts to characterize, publicize, compare, rank and change the quality, safety and cost of health care services provided by hospitals and providers. The ACA initiated a shift in reimbursements from paying for volume to paying for value, based on various health outcome measures, reporting requirements and quality and efficiency metrics. Published rankings such as Medicare’s “Hospital Compare” quality ranking system, “score cards,” “pay for performance” and other financial and non-financial incentive programs are being introduced to affect the clinical behavior, operations, reputation, and revenue of hospitals, the members of their medical staffs and other providers and to influence the behavior of consumers and providers such as the Corporation. Currently prevalent are measures of quality based on clinical outcomes of patient care, reduction in costs, patient satisfaction and investment in health information technology. Measures of performance set by others that characterize a hospital or a provider negatively may adversely affect its reputation and financial condition.

## **Enforcement Affecting Clinical Research**

In addition to increasing enforcement of laws governing payment and reimbursement, the federal government has also stepped up enforcement of laws and regulations governing the conduct of clinical trials at hospitals. DHHS elevated and strengthened its Office of Human Research Protection, one of the agencies responsible for monitoring federally funded research. In addition, the National Institutes of Health significantly increased the number of facility inspections that these agencies perform. The Food and Drug Administration (“FDA”) also has authority over the conduct of clinical trials performed in hospitals when these trials are conducted on behalf of sponsors seeking FDA approval to market the drug or device that is the subject of the research. Moreover, the OIG in “Work Plans” has included several enforcement initiatives related to reimbursement for experimental drugs and devices (including kickback concerns) and has issued compliance program guidance directed at recipients of extramural research awards from the National Institutes of Health and other agencies of the U.S. Public Health Service. There have been a number of recent government investigations and settlements involving hospital use of federal grant funding in connection with clinical trials and also a settlement involving the submission of claims to Medicare for services provided in a clinical trial. These agencies’ enforcement powers range from substantial fines and penalties to exclusion of researchers and suspension or termination of entire research programs, and errors in billing of the Medicare Program for care provided to patients enrolled in clinical trials that is not eligible for Medicare reimbursement can subject health care organizations to sanctions as well as repayment obligations.

## **Regulatory Environment**

**“Fraud” and “False Claims.”** Health care “fraud and abuse” laws have been enacted at the federal and state levels to broadly regulate the provision of services to government program beneficiaries and the methods and requirements for submitting payment claims for services rendered to the beneficiaries. Under these laws, hospitals and others can be penalized for a wide variety of conduct, including submitting claims for services that are not provided, billing in a manner that does not comply with government requirements or submitting inaccurate billing information, billing for services deemed to be medically unnecessary, or billings accompanied by an illegal inducement to utilize or refrain from utilizing a service or product.

Federal and state governments have a broad range of criminal, civil and administrative sanctions available to penalize and remediate health care fraud, including the exclusion of a hospital from participation in the Medicare/Medicaid programs, civil monetary penalties, executing corrective action plans, and suspension of Medicare/Medicaid payments. Fraud and abuse cases may be prosecuted by one or more government entities and/or private individuals, and more than one of the available sanctions may be, and often are, imposed for each violation. The ACA authorizes the Secretary of DHHS to exclude a provider from participation in Medicare and Medicaid as well as suspend payments to a provider pending an investigation or prosecution of a credible allegation of fraud against the provider.

Laws governing fraud and abuse may apply to a health care organization and to nearly all individuals and entities with which a health care organization does business. Fraud investigations, settlements, prosecutions and related publicity can have a material adverse effect on health care organizations. See “Enforcement Activity” below. Major elements of these often highly technical laws and regulations are generally summarized below. See also APPENDIX A – “INFORMATION CONCERNING EL CAMINO HOSPITAL AND AFFILIATES – OTHER INFORMATION – Regulatory Environment.”

**False Claims Act.** The federal False Claims Act (“FCA”) makes it illegal to knowingly submit or present a false, fictitious or fraudulent claim for payment or approval for payment for which the federal government provides, or reimburses, at least some portion of the requested money or property. Because the term “knowingly” is defined broadly under the law to include not only actual knowledge but also deliberate ignorance or reckless disregard of the facts, the FCA can be used to punish a wide range of conduct. The ACA amends the FCA by expanding the number of activities that are subject to civil monetary penalties to include, among other things, failure to report and return known overpayments within statutory time limits. FCA investigations and cases have become common in the health care field and may cover a range of activity from submission of inflated billings, to highly technical billing

infractions, to allegations of inadequate care. In June 2016 the Department of Justice issued a rule that more than doubles civil monetary penalties under the FCA. Penalties under the FCA are severe and may include damages equal to three times the amount of the alleged false claims, as well as substantial civil monetary penalties. As a result, violation or alleged violation of the FCA frequently results in settlements that require multi-million dollar payments and costly corporate integrity agreements. These increases took effect on August 1, 2016 and apply to FCA violations after November 2, 2015. The FCA also permits individuals to initiate civil actions on behalf of the government in lawsuits called “qui tam” actions. Qui tam relators, or “whistleblowers,” can share in the damages recovered by the federal government or recover independently if the federal government does not participate. The FCA has become one of the federal government’s primary tools against health care fraud and suspected fraud. FCA violations or alleged violations could lead to settlements, fines, exclusion or reputation damage that could have a material adverse impact on a hospital and other health care providers. Because qui tam lawsuits are kept under seal while the federal government evaluates whether the United States will join the lawsuit, it is impossible to determine at this time whether any such actions are pending against the Corporation and no assurances can be made that such actions will not be filed in the future.

Under the ACA, the FCA has been expanded to include overpayments that are discovered by a health care provider and are not promptly refunded to the applicable federal health care program, even if the claims relating to the overpayment were initially submitted without any knowledge that they were false. The final rule which took effect on March 14, 2016 requires that providers report and return identified overpayments by the later of 60 days after identification, or the date the corresponding cost report is due, if applicable. If the overpayment is not so reported and returned, it becomes an “obligation” under the FCA. This expansion of the FCA exposes hospitals and other health care providers to liability under the FCA for a considerably broader range of claims than in the past. There was initially great uncertainty in the industry as to when an overpayment is technically “identified” and the ability of a provider to determine the total amount of an overpayment and satisfy its repayment obligation within the required time period. The March 14, 2016 final rule clarified that an overpayment is considered to have been identified when the person has or should have, through the exercise of reasonable diligence, determined that the person has received an overpayment and quantified the amount of the overpayment. That final rule also established a six year lookback period, meaning overpayments must be reported and returned only if a person identifies the overpayment within six years of the date the overpayment was received.

The FCA provides for potentially severe penalties: treble damages, attorneys’ fees and civil fines of \$5,500 to \$11,000 per claim. Pursuant to a rule published September 6, 2016 and effective August 1, 2016, the civil fines will be based on the Bureau of Labor Statistics’ Consumer Price Index for October 2015 and increase to \$10,781 to \$21,562 per claim for violations based on facts occurring after November 2, 2015. The increased penalty range significantly increases the potential financial exposure resulting from an FCA violation.

In June 2016, the United States Supreme Court announced its decision in *Universal Health Services, Inc. v. United States ex rel. Escobar*, No. 15-7 (U.S. June 16, 2016). Prior to *Escobar*, lower courts had split on the issue of whether the FCA extended to so-called “implied certification” of compliance with laws, and whether such compliance was limited to express conditions of payment or extended to conditions of participation. The United States Supreme Court affirmed the theory of “implied certification” and rejected the distinction between conditions of payment and conditions of participation for these purposes, ruling that the relevant inquiry is whether the alleged noncompliance, if known to the government, would have in fact been material to the government’s determination as to whether to pay the claim. There is considerable uncertainty as to the application of the *Escobar* holding, but depending on how it is interpreted by the lower courts, it could result in an expanded scope of potential FCA liability for noncompliance with applicable laws, regulations and subregulatory guidance.

***Anti-Kickback Law.*** The federal “Anti-Kickback Law” is a criminal statute that prohibits anyone from soliciting, receiving, offering or paying any remuneration, directly or indirectly, overtly or covertly, in cash or in kind, in return for a referral of a patient (or to induce a referral) or the ordering or recommending of the purchase (or lease) of any item or service that is paid by any federal or state health care programs. The Anti-Kickback Law applies to many common health care transactions between persons and entities with which a hospital does business, including hospital-physician joint ventures, services agreements, medical director agreements, physician recruitment agreements, physician office leases, and other transactions. The Corporation participates in such arrangements in the ordinary course of business. The ACA amended the Anti-Kickback Law to provide explicitly that a claim that

includes items or services resulting from a violation of the Anti-Kickback Law constitutes a false or fraudulent claim for purposes of the FCA. Another amendment provides that an Anti-Kickback Law violation may be established without showing that an individual knew of the statute's proscriptions or acted with specific intent to violate the Anti-Kickback Law, but only that the conduct was generally unlawful. The revised standards could significantly expand criminal and civil fraud exposure for transactions and arrangements where there is no intent to violate the Anti-Kickback Law.

Violations or alleged violations of the Anti-Kickback Law often result in settlements that require multi-million dollar payments and onerous corporate integrity agreements. The Anti-Kickback Law can be prosecuted either criminally or civilly. A criminal violation may be prosecuted as a felony, subject to a fine of up to \$25,000 for each criminal act (which may be each item or each bill sent to a federal program), imprisonment and/or exclusion from the Medicare and Medicaid programs, any of which would have a significant detrimental effect on the financial stability of most hospitals. In addition, civil monetary penalties of \$50,000 per violation of the Anti-Kickback statute and an "assessment" of three times the amount claimed may be imposed. Increasingly, the federal government and qui tam relators are prosecuting violations of the Anti-Kickback Law under the FCA, based on the argument that claims resulting from an illegal kickback arrangement are also false claims for FCA purposes. See the discussion under the subheading "False Claims Act" above. The IRS has taken the position that hospitals that are in violation of the Anti-Kickback Law may also be subject to revocation of their tax-exempt status. See "– Tax-Exempt Status and Other Tax Matters" below.

**Stark Law.** The federal "Stark Law" prohibits the referral by a physician of Medicare and Medicaid patients for certain designated health services (including inpatient and outpatient hospital services, clinical laboratory services, and radiation and other imaging services) to entities with which the referring physician has a financial relationship, unless the relationship fits within a stated exception. It also prohibits a hospital furnishing the designated services from billing Medicare, or any other payor or individual, for services performed pursuant to a prohibited referral. The government does not need to prove that the entity knew that the referral was prohibited to establish a Stark Law violation. If certain substantive and technical requirements of an applicable exception are not satisfied, many ordinary business practices and economically desirable arrangements between hospitals and physicians will likely constitute improper "financial relationships" within the meaning of the Stark Law, thus triggering the prohibition on referrals and billing. Most providers of designated health services with physician relationships have some exposure to liability under the Stark Law. The regulations issued under the Stark Law render illegal referrals for designated health services made in connection with a number of common arrangements under which physician-owned entities provide services and/or equipment to hospitals, unless the parties strictly comply with the regulatory exceptions, and may increase risk of violation due to lack of clarity of the technical requirements.

Medicare may deny payment for all services related to a prohibited referral and a hospital that has billed for prohibited services is obligated to notify and refund the amounts collected from the Medicare program or to make a self-disclosure to CMS under its Self-Referral Disclosure Protocol. For example, if an office lease between a hospital and a large group of heart surgeons is found to violate the Stark Law, the hospital could be obligated to repay CMS for the payments received from Medicare for all of the designated health services referred to the hospital by all of the physicians in the group for the period of time the lease does not comply with an applicable Stark exception, which could potentially be a significant amount. As a result, even relatively minor, technical violations of the law may trigger substantial refund obligations. In the Physician Fee Schedule final rule for calendar year 2016, CMS eased some of the technical burdens associated with Stark Law compliance (e.g. CMS explains in the final rule that a single contract is not necessary and instead a collection of documents could suffice to demonstrate compliance with the regulatory exceptions to the Stark Law), but the practical outcome remains unclear. The federal government may also seek substantial civil monetary penalties, and in some cases, a hospital may be excluded from the Medicare and Medicaid programs. Potential repayments to CMS, settlements, fines or exclusion for a Stark Law violation or alleged violation could have a material adverse impact on a hospital and other health care providers. Increasingly, the federal government and qui tam relators are prosecuting violations of the Stark Law under the FCA, based on the argument that claims resulting from an illegal referral arrangement are also false claims for FCA purposes. See the discussion under the subheading "False Claims Act" above. The federal government has also attempted to recover the federal portion of Medicaid claims referred to hospitals by physicians with whom they have a prohibited financial relationship.

CMS has established a voluntary self-disclosure program under which hospitals and other entities may report Stark Law violations and seek a reduction in potential refund obligations. However, the program is relatively new and therefore it is difficult to determine at this point in time whether it will provide significant monetary relief to hospitals that discover inadvertent Stark Law violations. The limited publicly available information with respect to the self-disclosure program suggests that most voluntary self-disclosure submissions remain under consideration by CMS for an extended period of time, and that it is difficult to predict how CMS will react to any specific voluntary self-disclosure. The Corporation may make self-disclosures under this program as appropriate from time to time. Any submission pursuant to the self-disclosure program does not waive or limit the ability of the OIG or DOJ to seek or prosecute violations of the Anti-Kickback Statute or impose civil monetary penalties.

***Review of Outlier Payments.*** CMS is reviewing health care providers that are receiving large proportions of their Medicare revenues from outlier payments. Health care providers found to have obtained inappropriately high outlier payments will be subject to further investigation by the CMS Program Integrity Unit and potentially the OIG.

***Liability Under State “Fraud” and “False Claims” Laws.*** Health care organizations in California also are subject to a variety of state laws related to false claims (similar to the FCA or generally applicable false claims laws), anti-kickback (similar to the federal Anti-Kickback Law or generally applicable anti-kickback or fraud laws), and physician referral (similar to Stark Law). These prohibitions, while similar in public policy and scope to the federal laws, have not in all instances been avidly enforced to date. However, in the future they could pose the possibility of material adverse impact for the same reasons as the federal statutes. See discussion under the subheadings “False Claims Act,” “Anti-Kickback Law” and “Stark Law” above.

***Antitrust.*** Antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, affiliation and acquisition activities, certain pricing or salary setting activities, as well as other areas of activity. Consolidation transactions among health care providers is an area in which investigation and enforcement activity by federal and state antitrust agencies is particularly frequent and vigorous. The application of the federal and state antitrust laws to health care is evolving (especially as the ACA and other coordination of care initiatives are implemented), and therefore not always clear. Currently, the most common areas of potential liability are joint action among providers with respect to payor contracting, medical staff credentialing disputes, and hospital mergers and acquisitions.

Violation of the antitrust laws could result in criminal and/or civil enforcement proceedings by federal and state agencies, as well as actions by private litigants. In certain actions, private litigants may be entitled to treble damages, and in others, governmental entities may be able to assess substantial monetary fines. Investigations and proceedings arising from the application of federal and state antitrust laws can require the dedication of substantial resources by affected providers and can delay or impede proposed transactions even if ultimately it is determined that no violation of applicable law would occur as a result of the proposed transaction.

***HIPAA and Other Privacy Requirements.*** HIPAA added additional criminal sanctions for health care fraud and applies to all health care benefit programs, whether public or private. HIPAA also provides for punishment of a health care provider for knowingly and willfully embezzling, stealing, converting or intentionally misapplying any money, funds, or other assets of a health care benefit program. A health care provider convicted of health care fraud could be subject to mandatory exclusion from Medicare.

HIPAA, along with new privacy rules arising under federal and various state statutes, also addresses the confidentiality of individuals’ health information. Disclosure of certain broadly defined protected health information is prohibited unless expressly permitted under the provisions of the HIPAA statute and regulations or authorized by the patient. HIPAA’s confidentiality provisions extend not only to patient medical records, but also to a wide variety of health care clinical and financial information. These patient privacy requirements often impose communication, operational, and accounting obligations that add costs and create potentially unanticipated sources of liability. Regulations under 42 C.F.R. Part 2 also provide a heightened level of privacy of records associated with the provision of substance abuse counseling and treatment by covered alcohol and substance abuse treatment programs and has enacted laws that provide greater protection for certain sensitive health information, such as mental health



records. These rules are significantly more restrictive than the privacy provisions set forth in HIPAA. States may adopt privacy laws that are more restrictive than HIPAA but not less restrictive. California has broadened its data security breach notification law to cover compromised medical and health insurance information. Together, all of these laws and regulations add compliance costs and create potentially unanticipated sources of legal liability for the Corporation.

HIPAA imposes civil monetary penalties for violations and criminal penalties for knowingly obtaining or using individually identifiable health information.

***The HITECH Act.*** Provisions in the Health Information Technology for Economic and Clinical Health Act (the “HITECH Act”), enacted as part of ARRA, increased the minimum and maximum civil monetary penalties for violations of HIPAA and granted enforcement authority of HIPAA to state attorneys general. The HITECH Act also (i) extended the reach of HIPAA beyond “covered entities” to include the direct regulation of “business associates” (ii) imposed a breach notification requirement on HIPAA covered entities and business associates, (iii) limited certain uses and disclosures of individually identifiable health information, and (iv) restricted covered entities’ marketing communications. Management of the Corporation does not anticipate that compliance with the HITECH Act will have a material effect on the Corporation’s operations.

The breach notification obligation, in particular, may expose covered entities such as hospitals to heightened liability. Under HITECH, in the event of a data privacy breach, covered entities are required to notify affected individuals and the federal government. If more than 500 individuals are affected by the breach (1) the covered entity must also notify the media and (2) the federal government posts a description of the breach on its website. Although HIPAA does not provide for a private right of action, these reporting obligations increase the risk of government enforcement as well as class action lawsuits filed under state privacy or consumer protection laws, especially if large numbers of individuals are affected by a breach and can cause reputational harm.

The HITECH Act revises the civil monetary penalties associated with violations of HIPAA as well as provides state attorneys general with authority to enforce the HIPAA privacy and security regulations in some cases through a damages assessment of \$100 per violation or an injunction against the violator. The revised civil monetary penalty provisions for DHHS establish a tiered system, ranging from a minimum of \$100 per violation for an unknowing violation to \$1,100 per violation for a violation due to reasonable cause, but not willful neglect. For a violation due to willful neglect, the penalty is a minimum of \$11,002 or \$55,010 per violation, depending on whether the violation was corrected within 30 days of the date the violator knew or should have known of the violation. Maximum penalties may reach \$1,650,000 for identical violations. The new levels of civil monetary penalties apply immediately for unknowing violations or violations due to reasonable cause. Penalties can significantly exceed \$1,650,300 where there are violations of multiple provisions occurring over multiple years.

Criminal penalties are enforced against persons who obtain or disclose personal health information without authorization. DHHS, in its continuing enforcement of compliance with HIPAA, is performing periodic audits of health care providers, group health plans, and their business associates to ensure that required policies under the HITECH Act are in place. Finally, individuals harmed by violations will be able to recover a percentage of monetary penalties or a monetary settlement based upon methods to be established by DHHS for this private recovery.

The Office for Civil Rights (“OCR”) is the administrative office that is tasked with enforcing HIPAA. OCR has stated that it has now moved from education to enforcement in its implementation of the law. Recent settlements of HIPAA violations for breaches involving lost data have reached the millions of dollars. Any breach of HIPAA, regardless of intent or scope, may result in penalties or settlement amounts that are material to a covered health care provider or health plan.

On January 25, 2013, DHHS issued comprehensive modifications to the existing HIPAA regulations to implement the requirements of the HITECH Act, commonly known as the “HIPAA Omnibus Rule.” The HIPAA Omnibus Rule became effective on March 26, 2013, and covered entities were required to be in compliance by September 23, 2013 (though certain requirements have a longer timeframe). Key aspects of the HIPAA Omnibus

Rule include, but are not limited to: (i) a new standard for what constitutes a breach of private health information, (ii) establishing four levels of culpability with respect to civil monetary penalties assessed for HIPAA violations, (iii) direct liability of business associates for certain violations of HIPAA, (iv) modifications to the rules governing research, (v) stricter requirements regarding non-exempt marketing practices, (vi) modification and re-distribution of notices of privacy practices, and (vii) stricter requirements regarding the protection of genetic information. The obligations imposed under the HIPAA Omnibus Rule could have a material adverse effect on the financial condition of health care organizations.

The HITECH Act also established programs under Medicare and Medicaid to provide incentive payments to certain eligible hospitals and health care professionals (“Eligible Providers”) that demonstrate the “meaningful use” of certified electronic health record (“CEHRT”). Eligible Providers demonstrate meaningful use of CEHRT by meeting and attesting to meaningful use objectives and associated measure specified by CMS for using CEHRT and by reporting on specified clinical quality measures. Incentive payments under the Medicare program sunset at the end of 2016. Pursuant to the HITECH Act, and commencing in 2015, Eligible Providers who have not satisfied the performance and reporting criteria for demonstrating meaningful use in the applicable meaningful use reporting year will have their Medicare payments reduced. The payment reduction starts at 1% and increases each year that an eligible hospital or professional fails to demonstrate meaningful use, to a maximum 5% payment reduction. CMS has engaged a contractor that conducts pre-payment and post-payment audits of certain selected Eligible Providers that have submitted meaningful use attestations. An Eligible Provider that fails the audit will have an opportunity to appeal. Ultimately, Eligible Providers that elect not to appeal or fail on appeal will have to repay any incentive payments that they received through these programs or refund Medicare reimbursement that would have been reduced as part of the payment reductions.

MACRA ends the payment reductions for physicians who fail to demonstrate meaningful use after 2018. However, beginning in 2019, use of CEHRT will be a performance category under MACRA’s Merit-based Incentive Payment System (“MIPS”) for certain physicians and other health care professionals who do not meet MACRA’s thresholds for participation in certain alternative payment models designated by Medicare. A physician’s failure to use CEHRT consistent with MIPS’ requirements would lower the physician’s performance score under MIPS and could result in reduced Medicare reimbursement for professional services performed by the physician. On October 14, 2016, CMS published a final rule in the Federal Register to implement MIPS with numerous, complex requirements. The need to implement technology, operational and other changes to address MIPS requirements for use of CEHRT may have a material adverse impact on the Members of the Credit Group. Generally, MACRA did not change hospital participation in the Medicare EHR Incentive Program or participation for physicians in the Medicaid EHR incentive program.

See APPENDIX A – “INFORMATION CONCERNING EL CAMINO HOSPITAL AND AFFILIATES – HOSPITAL FACILITIES AND SERVICES – Information Technology Strategy” for certain information about the meaningful use incentives revenues for the Corporation and for information concerning the electronic health records system of the Corporation.

***Business Associates.*** Under existing HIPAA regulations, covered entities must include certain required provisions in their contractual relationships with organizations that perform functions on their behalf which involve use or disclosure of protected health information. These organizations are called business associates, and prior to the HITECH Act, had been indirectly regulated by HIPAA through those contractual obligations. The HITECH Act and the final rules promulgated thereunder provide that all of the HIPAA security administrative, physical, and technical safeguards, as well as security policies, procedures and documentation requirements now apply directly to all business associates. In addition, the HITECH Act makes certain privacy provisions directly applicable to business associates. These changes are significant because business associates will now be directly regulated by DHHS for those requirements, and as a result, will be subject to penalties imposed by DHHS and/or state attorneys general. Likewise, to the extent a business associate is deemed to be an agent of the covered entity under the Federal common law, the covered entity will be liable for the breaches of the business associate. Covered entities have had to review and amend their business associate agreements in recent years in order to comply with these changing rules, which can be costly and administratively burdensome.

***Security Breaches and Unauthorized Releases of Personal Information.*** State and local authorities are increasingly focused on the importance of protecting the confidentiality of individuals' personal information, including patient health information. Many states, including California, have enacted laws requiring businesses to notify individuals of security breaches that result in the unauthorized release of personal information. In some states, notification requirements may be triggered even where information has not been used or disclosed, but rather has been inappropriately accessed.

In California, two medical privacy laws became effective January 1, 2009, which expanded the State of California's medical privacy standards and provided new oversight mechanisms and penalties to enforce them. These medical privacy laws penalize unlawful access, use or disclosure of patient's medical information, as well as unauthorized access, which the laws define as the inappropriate viewing of patient medical information without the direct need for diagnosis, treatment or other lawful use. Administrative penalties under these medical privacy laws may reach \$250,000 per violation or for each reported event under certain aggravating circumstances.

State consumer protection laws may also provide the basis for legal action for privacy and security breaches and frequently, unlike HIPAA, authorize a private right of action. In particular, as discussed with respect to the HITECH Act above, the public nature of security breaches exposes health organizations to increased risk of individual or class action lawsuits from patients or other affected persons, in addition to government enforcement and negative media attention. Failure to comply with restrictions on patient privacy or to maintain robust information security safeguards, including taking steps to ensure that contractors who have access to sensitive patient information maintain the confidentiality of such information, could consequently damage a health care provider's reputation and materially adversely affect business operations.

In a hospital or health system, there can often be security incidents related to patient information, which stem from a variety of causes ranging from external or internal deliberate invasions by individuals or employees, to inadvertent loss or misdirection of paper or electronic records, to theft of hardware or software. Ransomware attacks on hospitals and health systems, where a cyber-attacker infects the target's computer systems with malicious software that denies access to data, usually through encryption, until a ransom is paid, have dramatically increased in recent years. DHHS has stated that when electronic protected health information is encrypted as a result of a ransomware attack, a HIPAA breach has occurred, and the hospital or health system must comply with the applicable breach notification rule and requirements. It is difficult to predict the likelihood of a ransomware attack, but if such attack did occur, it could have a material adverse impact on the Corporation.

***Cybersecurity Risks.*** Health care providers are highly dependent upon integrated electronic medical record and other information technology systems to deliver high quality, coordinated and cost-effective health care. These systems necessarily hold large quantities of highly sensitive protected health information that is highly valued on the black market for such information. As a result, the electronic systems and networks of health care providers are considered likely targets for cyberattacks and other potential breaches of their systems. In addition to regulatory fines and penalties, the health care entities subject to the breaches may be liable for the costs of remediating the breaches, damages to individuals (or classes) whose information has been breached, reputational damage and business loss, and damage to the information technology infrastructure. The Corporation has taken, and continues to take measures to protect its information technology system against such cyberattacks, but there can be no assurance that the Corporation will not experience a significant breach. Despite the implementation of network security measures by the Corporation, there can be no assurance that the Corporation will not experience a significant breach. The Corporation's information technology systems may be vulnerable to breaches, hacker attacks, computer viruses, physical or electronic break-ins and other similar events or issues. Such events or issues could lead to the inadvertent disclosure of protected health information or other confidential information or could have an adverse effect on the ability of the Corporation to provide health care services. If such a breach occurs, the financial consequences of such a breach could have a material adverse impact on the Corporation.

***Exclusions from Medicare or Medicaid Participation.*** The government may exclude a health care provider from Medicare/Medicaid program participation if such provider has been convicted of a criminal offense relating to the delivery of any item or service reimbursed under Medicare or a state health care program, any criminal offense relating to patient neglect or abuse in connection with the delivery of health care, fraud against any federal,

state or locally financed health care program or an offense relating to the illegal manufacture, distribution, prescription, or dispensing of a controlled substance. The government also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud, or other financial misconduct relating either to the delivery of health care in general or to participation in a federal, state or local government program. Exclusion from the Medicare/Medicaid program means that a health care provider would be decertified from program participation and no program payments can be made. Any health care provider exclusion could be a materially adverse event. In addition, exclusion of the health care organization's employees or independent contractors or their employees under Medicare or Medicaid may be another source of potential liability for hospitals and health systems based on services provided by those excluded individuals or entities.

***Administrative Enforcement.*** Administrative regulations may require less proof of a violation than do criminal laws, and, thus, health care providers may have a higher risk of imposition of monetary penalties as a result of administrative enforcement actions.

***Civil Monetary Penalties Law.*** The federal Civil Monetary Penalties Law ("CMPL") provides for administrative sanctions against health care providers for a broad range of billing and other abuses. A health care provider is liable under the CMPL if it knowingly presents, or causes to be presented, improper claims for reimbursement under Medicare, Medicaid and other federal health care programs. A hospital that participates in arrangements known as "gainsharing" by paying a physician to limit or reduce medically necessary services to Medicare fee-for-service beneficiaries also could be subject to CMPL penalties. A health care provider that provides benefits to Medicare or Medicaid beneficiaries that such provider knows or should know are likely to induce the beneficiaries to choose the provider for their care also could be subject to CMPL penalties. The CMPL authorizes imposition of a civil money penalty and treble damages. The ACA also amended the CMPL laws to establish various new grounds for exclusion and civil monetary penalties, as well as increased penalty thresholds for existing civil monetary penalties.

Health care providers may be found liable under the CMPL even when they did not have actual knowledge of the impropriety of their action. Knowingly undertaking the action is sufficient. Ignorance of the Medicare regulations is no defense. The imposition of civil money penalties on a health care provider could have a material adverse impact on the provider's financial condition.

***Compliance with Conditions of Participation.*** CMS, in its role of monitoring participating providers' compliance with conditions of participation in the Medicare program, may determine that a provider is not in compliance with its conditions of participation. In that event, a notice of termination of participation may be issued or other sanctions, such as suspension or executing potentially burdensome corrective actions plans, could be imposed. If the corrective action plan is not accepted by CMS, or if it is not successfully implemented, the provider's Medicare provider agreement could be terminated or other sanctions imposed.

***EMTALA.*** The Emergency Medical Treatment and Active Labor Act ("EMTALA") is a federal civil statute that requires hospitals to treat or conduct a medical screening for emergency conditions and to stabilize a patient's emergency medical condition before releasing, discharging or transferring the patient. A hospital with more than 100 beds that violates EMTALA is subject to civil penalties of up to \$103,139 per offense and exclusion from the Medicare and Medicaid programs. In addition, the hospital may be liable for any claim by an individual who has suffered harm as a result of a violation.

***Licensing, Surveys, Investigations and Accreditations.*** Health facilities are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements of state licensing agencies and The Joint Commission. Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections or other reviews generally conducted in the normal course of business of health facilities. Loss of, or limitations imposed on, hospital licenses or accreditations could reduce hospital utilization or revenues, or a hospital's ability to operate all or a portion of its facilities or to bill various third party payors.

***Environmental Laws and Regulations.*** Hospitals and other health facilities are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations. These include, but are not limited to: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the health facilities; and requirements for training employees in the proper handling and management of hazardous materials and wastes.

Hospitals and other health facilities may be subject to requirements related to investigating and remediating hazardous substances located on their property, including such substances that may have migrated off the property. Typical hospital operations include the handling, use, storage, transportation, disposal and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants and contaminants. As such, hospital operations are particularly susceptible to the practical, financial and legal risks associated with the environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines; may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance.

***Enforcement Activity.*** Enforcement activity against health care providers has increased, and enforcement authorities have adopted aggressive approaches. In the current regulatory climate, it is anticipated that many hospitals and physician groups will be subject to an audit, investigation or other enforcement action regarding the health care fraud laws mentioned above.

Enforcement authorities are often in a position to compel settlements by providers charged with or being investigated for false claims violations by withholding or threatening to withhold Medicare, Medicaid and/or similar payments or to recover higher damages, assessments or penalties by instituting criminal action. In addition, the cost of defending such an action, the time and management attention consumed, and the facts of a case may dictate settlement. Therefore, regardless of the merits of a particular case, a hospital could experience materially adverse settlement costs, as well as materially adverse costs associated with implementation of any settlement agreement. Prolonged and publicized investigations could be damaging to the reputation and business of a health care organization, regardless of outcome.

Certain acts or transactions may result in violation or alleged violation of a number of the federal health care fraud laws described above, and therefore penalties or settlement amounts often are compounded. Generally these risks are not covered by insurance. Enforcement actions may involve multiple hospitals or other facilities in a health system, as the government often extends enforcement actions regarding health care fraud to other entities in the same organization. Therefore, Medicare fraud related risks identified as being materially adverse to a health care organization could have materially adverse consequences to a health system taken as a whole.

***Payment Card Industry Security Standards.*** Health care providers have seen significant changes in the method, amount of transactions and dollar amount of patient payments. Health care providers recognize that financial data security is a paramount concern as is continuing to protect and secure patient information. Chip cards used at Europay, MasterCard and Visa (“EMV”) terminals protect against counterfeit transactions by replacing static data with dynamic data. Merchants are in the process of migrating to EMV chip card technology to improve the security of the card-present payments infrastructure. As a result, EMV is being introduced to health care providers.

Beginning October 1, 2015, the liability for card-present fraud shifts to whichever party is the least EMV-compliant in a fraudulent transaction. This means in practice that if a health care provider has not updated its system to accept chip cards and fraud occurs when a chip card is inserted into the terminal, the health care provider would be liable for the costs. It is not mandatory to begin using EMV compliant terminals on or after October 1, 2015 and there are no fines or other penalties, however, a health care provider that does not use EMV-compliant terminals may face much higher costs in the event of a large data breach. At this time, it is too early to predict the impact that this new technology will have on the Corporation.

## **Business Relationships and Other Business Matters**

***Integrated Delivery Systems.*** Health facilities and health care systems often own, control or have affiliations with physician groups and independent practice associations. Generally, the sponsoring health facility or health system is the primary capital and funding source for such alliances and may have an ongoing financial commitment to provide growth capital and support operating deficits. As separate operating units, integrated physician practices and medical foundations sometimes operate at a loss and require subsidies or other support from the related hospital or health system. In addition, integrated delivery systems present business challenges and risks. Inability to attract or retain participating physicians may negatively affect managed care, contracting and utilization. The technological and administrative infrastructure necessary both to develop and operate integrated delivery systems and to implement new payment arrangements in response to changes in Medicare and other payor reimbursement is costly. Hospitals may not achieve savings sufficient to offset the substantial costs of creating and maintaining this infrastructure.

These types of alliances are generally designed to respond to trends in the delivery of medicine to better integrate hospital and physician care, to increase physician availability to the community and/or to enhance the managed care capability of the affiliated hospitals and physicians. However, these goals may not be achieved, and an unsuccessful alliance may be costly and counterproductive to all of the above-stated goals.

These types of alliances are likely to become increasingly important to the success of hospitals in the future as a result of changes to the health care delivery and reimbursement systems that are intended to restrain the rate of increases of health care costs, encourage coordinated care, promote collective provider accountability and improve clinical outcomes. The ACA authorizes several alternative payment programs for Medicare that promote, reward or necessitate integration among hospitals, physicians and other providers.

Whether these programs will achieve their objectives and be expanded or mandated as conditions of Medicare participation cannot be predicted. However, Congress and CMS have clearly emphasized continuing the trend away from the fee-for-service reimbursement model, which began in the 1980s with the introduction of the prospective payment system for inpatient care, and toward an episode-based payment model that rewards use of evidence-based protocols, quality and satisfaction in patient outcomes, efficiency in using resources, and the ability to measure and report clinical performance. This shift is likely to favor integrated delivery systems, which may be better able than stand-alone providers to realize efficiencies, coordinate services across the continuum of patient care, track performance, and monitor and control patient outcomes. Changes to the reimbursement methods and payment requirements of Medicare, which is the dominant purchaser of medical services, are likely to prompt equivalent changes in the commercial sector, because commercial payors frequently follow Medicare's lead in adopting payment policies.

While payment trends may stimulate the growth of integrated delivery systems, these systems carry with them the potential for legal or regulatory risks. Many of the risks discussed in "–Regulatory Environment" above, may be heightened in an integrated delivery system. The foregoing laws were not designed to accommodate coordinated action among hospitals, physicians and other health care providers to set standards, reduce costs and share savings, among other things. The ability of hospitals or health systems to conduct integrated physician operations may be altered or eliminated in the future by legal or regulatory interpretation or changes, or by health care fraud enforcement. In addition, participating physicians may seek to maintain their independence for a variety of reasons, thus putting the hospital or health system's investment at risk, and potentially reducing its managed care leverage and/or overall utilization. In October 2011, CMS, the Federal Trade Commission and the DOJ jointly

issued guidance regarding waivers and safe harbors to enable providers to participate in the Medicare Shared Savings Program (see “Accountable Care Organization,” below). Although CMS issued the Shared Savings Plan final rule in June 2015, there can be no assurance that such regulations or any waivers or other regulations or guidance issued will sufficiently clarify the scope of permissible activity in all cases. State law prohibitions, such as the bar on the corporate practice of medicine, or state law requirements, such as insurance laws regarding licensure and minimum financial reserve holdings of risk-bearing organizations, may also introduce complexity, risk and additional costs in organizing and operating integrated delivery systems. Tax-exempt hospitals and health systems also face the risk when affiliating with for-profit entities that the IRS will determine that compensation practices or business arrangements result in prohibited private benefit or private use or generate unrelated business income for the hospitals and health systems.

Health care providers, responding to health care reform and other industry pressures, are increasingly moving toward integrated delivery systems, managing the health of populations of individuals, patient-centered medical homes, bundled payments, and capitated insurance plans. These trends will require new infrastructures, including the appropriate mix of physician specialties, new administrative skills, close relationships between physicians and hospitals, insurance risk management, and new relationships between patients and providers. Provider organizations may be unsuccessful in assembling successful integrated networks, may not achieve savings sufficient to offset the substantial costs of creating and maintaining the necessary infrastructures to support such developments, could incur losses from assuming increased risk and could incur damage to reputations. Some health care organizations that traditionally operated hospitals may, directly or in partnership, take on actual insurance risk, market various health coverage products and access patients by way of new and presently unknown channels. Such new endeavors could adversely affect the financial and operating condition or reputation of an organization.

***Physician Financial Relationships.*** In addition to the physician integration relationships referred to above, hospitals and health systems frequently have various additional business and financial relationships with physicians and physician groups. These are in addition to hospital physician contracts for individual services performed by physicians in hospitals. They potentially include: joint ventures to provide a variety of outpatient services; recruiting arrangements with individual physicians and/or physician groups; loans to physicians; medical office leases; equipment leases from or to physicians; and various forms of physician practice support or assistance. These and other financial relationships with physicians (including hospital physician contracts for individual services) may involve financial and legal compliance risks for the hospitals and health systems involved. From a compliance standpoint, these types of financial relationships may raise federal and state anti-kickback and federal Stark Law issues (see “Regulatory Environment,” above), tax exemption issues (see “Tax-Exempt Status and Other Tax Matters,” below), as well as other legal and regulatory risks, and these could have a material adverse impact on hospitals.

***Bundled Payment Programs.*** The ACA established a voluntary Medicare bundled payment pilot program, under which Medicare will make a single payment for an episode of care, such as heart bypass surgery, covering some combination of hospital, physician and post-hospital care for the episode. DHHS has developed a mandatory Medicare bundled payment program that provides bundled payments to acute care hospitals in select cities for hip and knee replacements. Private insurers are also developing bundled payment programs. While bundled payments offer opportunities to provide better coordinated care and to save costs, they also entail financial risk if the episode is not well managed.

***Accountable Care Organization.*** The ACA established a Medicare Shared Savings Program (the “MSSP”) that seeks to promote accountability and coordination of care through the creation of Accountable Care Organizations (“ACOs”). The program allows hospitals, physicians and others to form ACOs and work together to invest in infrastructure and redesign integrated delivery processes to achieve high quality and efficient delivery of services. ACOs that achieve quality performance standards will be eligible to share in a portion of the amounts saved by the Medicare program and, depending on their participation status, may share in a portion of any losses suffered by the Medicare program. DHHS has significant discretion to determine key elements of the program, including what steps providers must take to be considered an ACO, how to decide if Medicare program savings have occurred, and what portion of such savings will be paid to ACOs. In November 2011 and June 2015, CMS published the final rules regarding ACOs and in June 2015, CMS issued a final rule to update and improve policies

governing the MSSP. The regulations are complex and it remains unclear whether the qualification requirements will be a formidable barrier to entry. In particular, because the federal ACO regulations do not preempt state law, providers in any state participating as a federal ACO must be organized and operated in compliance with such state's existing statutes and regulations. In January 2016, CMS issued a proposed rule that aims to revise the benchmark rebasing calculations for ACOs. While these revised benchmark rebasing calculations may be particularly attractive for high performing ACOs, the delayed onset of these revised benchmark calculations (e.g., the revised methodology would not apply for the earliest ACOs until the start of their third participation agreement in 2019) leaves the MSSP ACO landscape somewhat uncertain. Also, the Federal Trade Commission ("FTC") and Department of Justice ("DOJ") issued a joint statement of antitrust enforcement policy in October 2011 as applied to ACOs; CMS and the OIG issued a final rule in October 2015 on certain waivers of the Anti-Kickback Law, Stark Law and the Civil Monetary Penalties Law for ACOs; and the IRS issued a notice and fact sheet in October 2011 addressing the impact on tax-exempt organizations participating in ACOs; however, there may remain regulatory risks for participating hospitals, as well as financial and operational risks. It is possible that hospital participants in ACOs will have to marshal a large upfront financial investment to form unique and untested ACO structures, which may or may not succeed in gaining qualification. For those that do qualify, it is uncertain whether the savings will be adequate to recoup the initial investment. CMS is also developing and implementing more advanced ACO payment models, such as the Next Generation ACO Model, which require ACOs to assume greater risk for attributed beneficiaries. Providers participating in MSSP and other ACO payment models developed by CMS may not be able to recoup their investments and may suffer further losses if they are not able to meet quality targets and sufficiently control the cost of care for their attributed beneficiaries. In addition, private insurers and self-insured employers are beginning to establish similar incentives for providers, requiring changes in infrastructure and organization. The potential impacts of these initiatives and the regulation of ACOs are unknown and continually evolving, but introduce greater risk and complexity to health care finance and operations.

***Hospital Pricing.*** Inflation in hospital prices may evoke action by legislatures, payors or consumers. It is possible that legislative action at the state or national level may be taken with regard to the pricing of health care services. California law requires every hospital to implement written policies for charity care and discounted care, which must offer reduced rates to low to moderate income patients. Hospitals are required to submit these policies to the State of California for posting on a publicly accessible website.

***Hospital Medical Staff.*** The primary relationship between a hospital and physicians who practice at the hospital is through the hospital's organized medical staff. Medical staff bylaws, rules and policies establish the criteria and procedures by which a physician may have his or her privileges or membership granted, curtailed, denied or revoked. Physicians who are denied medical staff membership or certain clinical privileges or who have such membership or privileges curtailed or revoked often file legal actions against hospitals and medical staffs. Such actions may include a wide variety of claims, some of which could result in substantial uninsured damages to a hospital. In addition, failure of the hospital governing body to adequately oversee the conduct of its medical staff and the quality of care may result in hospital liability to third parties.

***Physician Supply.*** Sufficient community-based physician supply is important to hospitals and other health care facilities. CMS annually reviews overall physician reimbursement formulas for Medicare and Medicaid. Changes to physician compensation under these programs could lead to physicians ceasing to accept Medicare and/or Medicaid patients. Regional differences in reimbursement by commercial and governmental payors, along with variations in the costs of living, may cause physicians to avoid locating their practices in communities with low reimbursement or high living costs. Hospitals and health systems may be required to invest additional resources in recruiting and retaining physicians, or may be compelled to affiliate with, and provide support to, physicians in order to continue serving the growing population base and maintain market share. The physician-to-population ratios in certain parts of California are below the national average, and the shortage of physicians could become a significant issue for hospitals and health care systems there.

***Section 340B Drug Pricing Program.*** Hospitals that participate (as "covered entities") in the prescription drug discount program established under Section 340B of the federal Public Health Service Act (the "340B Program") are able to purchase certain outpatient prescription drugs for their patients at a reduced cost. On August 28, 2015 the Health Resources and Services Administration published proposed 340B Drug Pricing Program



Omnibus Guidance in the Federal Register, 80 Fed. Reg. 52300 (“Proposed Guidance”). If adopted in its current form, the Proposed Guidance could restrict the ability of hospitals to purchase drugs under the 340B Program. The Corporation does not now participate in the 340B Program.

***Competition Among Health Care Providers.*** Increased competition from a wide variety of sources, including specialty hospitals, other hospitals and health care systems, HMOs, inpatient and outpatient health care facilities, long-term care and skilled nursing services facilities, telehealth providers, clinics, physicians and others, may adversely affect the utilization and revenues of hospitals. Existing and potential competitors may not be subject to various restrictions applicable to hospitals, which in some cases may enable them to pick only the most profitable service lines, and competition, in the future, may arise from new sources not currently anticipated or prevalent.

Specialty hospital developments that attract away an important segment of an existing hospital’s admitting specialists may be particularly damaging. Freestanding ambulatory surgery centers may attract away significant commercial outpatient services traditionally performed at hospitals. Commercial outpatient services, currently among the most profitable services for hospitals, may be lost to competitors who can provide these services in an alternative, less costly setting. Full-service hospitals rely upon the revenues generated from commercial outpatient services to fund other less profitable services, and the decline of such business may result in the significant reduction of profitable income. Competing ambulatory surgery centers, more likely for-profit businesses, may not accept indigent patients or low paying programs and would leave these populations to receive services in the full-service hospital setting. Consequently, hospitals are vulnerable to competition from ambulatory surgery centers. Such competition may increase if legislation or regulations are changed to allow for longer stays or higher acuity procedures at ambulatory surgery centers.

Also, increasingly, payors are entering into narrow network contracts that exclude from participation in the network all providers who are not in the narrow network. Payors also enter into exclusive contracts with certain payors from time to time. In addition, increasingly, providers are pursuing ownership interest in health insurance companies that may exclude non-owner providers from certain products. The net effect of these practices, singularly or in the aggregate, may be to foreclose the Corporation from a material portion of covered lives and could have a material adverse effect on the Corporation.

Additionally, scientific and technological advances, new procedures, drugs and appliances, preventive medicine and outpatient health care delivery may reduce utilization and revenues of hospitals in the future or otherwise lead to new avenues of competition. In some cases, hospital investment in facilities and equipment for capital-intensive services may be lost as a result of rapid changes in diagnosis, treatment or clinical practice brought about by new technology or new pharmacology.

See APPENDIX A – “INFORMATION CONCERNING EL CAMINO HOSPITAL AND AFFILIATES – SERVICE AREA AND COMPETITION” a description of key competitors of the Corporation.

***Action by Consumers and Purchasers of Hospital Services.*** Major purchasers of hospital services could take action to restrain hospital charges or charge increases. As a result of increased public scrutiny, it is also possible that the pricing strategies of hospitals may be perceived negatively by consumers, and hospitals may be forced to reduce fees for their services. Decreased utilization could result, and hospitals’ revenues may be negatively impacted. In addition, consumers and groups on behalf of consumers are increasing pressure for hospitals and other health care providers to be transparent and provide information about cost and quality of services that may affect future consumer choices about where to receive health care services.

***Employer Status.*** Hospitals are major employers with mixed technical and nontechnical workforces. Labor costs, including salaries, benefits and other liabilities associated with a workforce, have significant impacts on hospital operations and financial condition. Developments affecting hospitals as major employers include: (i) imposing higher minimum or living wages; (ii) enhancing occupational health and safety standards; and (iii) penalizing employers of undocumented immigrants. Legislation or regulation on any of the above or related topics could have a material adverse impact on the Corporation.

***Labor Relations and Collective Bargaining.*** Hospitals are large employers with a wide diversity of employees. Increasingly, employees of hospitals are becoming unionized, and many hospitals have collective bargaining agreements with one or more labor organizations. Employees who are subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Renegotiation of such agreements upon expiration may result in significant cost increases to hospitals. Employee strikes or other adverse labor actions may have an adverse impact on operations, revenue and hospital reputation. See APPENDIX A – “INFORMATION CONCERNING EL CAMINO HOSPITAL AND AFFILIATES – OTHER INFORMATION – Employees” for a list of the labor organizations that currently represent the majority of the Corporation’s employees.

***Class Actions and Litigation.*** Hospitals and health systems have long been subject to a wide variety of litigation risks, including liability for care outcomes, employer liability, property and premises liability, and peer review litigation with physicians, among others. Consumer class action litigation is a potentially significant source of litigation liability for hospitals and health systems. These class action suits have most recently focused on hospital billing and collections practices and breaches of privacy, and they may be used for a variety of currently unanticipated causes of action. Since the subject matter of class action suits may involve uninsured risks, and since such actions often involve alleged large classes of plaintiffs, they may have material adverse consequences on hospitals and health systems in the future.

Federal law and many states, including notably California, impose standards related to worker classification, eligibility and payment for overtime, liability for providing rest periods and other similar requirements. Large employers with complex workforces, such as health care systems may be subject to claims regarding actual and alleged violations of these standards. In recent years there has been a proliferation of lawsuits over these “wage and hour” issues, often in the form of large, sometimes multi-state, class actions. For large employers, such as hospitals and health care systems, such class actions can involve multi-million dollar claims, judgments, and settlements. A major class action decided or settled adversely to the Corporation could have a material adverse impact on the financial conditions and results of operations.

***Implantable Cardioverter Defibrillators Investigations.*** In 2010, the DOJ served subpoenas on and issued letters to a number of hospitals and health systems across the country as part of a fraud investigation into whether hospitals billed Medicare for implantable cardioverter defibrillators (“ICD”) for patients whose conditions did not satisfy coverage criteria set forth in CMS National Coverage Determination. As the investigation is being conducted under the FCA, those targeted by the government are at risk for significant damages under the FCA’s treble damages and civil penalties provision. The Corporation has not received a subpoena or contact from the DOJ with respect to this matter.

***Health Care Worker Classification.*** Health care providers, like all businesses, are required to withhold income taxes from amounts paid to employees. If the employer fails to withhold the tax, the employer becomes liable for payment of the tax imposed on the employee. On the other hand, businesses are not generally required to withhold federal taxes from amounts paid to a worker classified as an independent contractor. The IRS has established criteria for determining whether a worker is an employee or an independent contractor for tax purposes. If the IRS were to reclassify a significant number of hospital independent contractors (e.g., physician medical directors) as employees, back taxes and penalties could be material.

***Staffing.*** From time to time, the health care industry suffers from a scarcity of nursing personnel, respiratory therapists, pharmacists and other trained health care and information system technicians. In addition, aging medical staffs and difficulties in recruiting individuals to the medical profession are predicted to result in physician shortages. A significant factor underlying this trend includes a decrease in the number of persons entering such professions. This is expected to intensify in the future, aggravating the general shortage and increasing the likelihood of hospital-specific shortages. In addition, state budget cuts to university programs may impact the training available for nursing personnel and other health care professionals. Competition for physicians and other health care professionals, coupled with increased recruiting and retention costs, will increase hospital operating costs, possibly significantly, and growth may be constrained. This trend could have a material adverse impact on the financial condition and results of operation of hospitals and other health care facilities. This scarcity may further be

intensified if utilization of health care services increases as a consequence of the ACA's expansion of the number of insured consumers. As reimbursement amounts are reduced to health care facilities and organizations that employ or contract with physicians, nurses and other health care professionals, pressure to control and possibly reduce wage and benefit costs may further strain the supply of those professionals.

***Professional Liability Claims and General Liability Insurance.*** In recent years, the number of professional and general liability suits and the dollar amounts of damage recoveries have increased in health care nationwide, resulting in substantial increases in malpractice insurance premiums, higher deductibles and generally less coverage. Professional liability and other actions alleging wrongful conduct and seeking punitive damages are often filed against health care providers. Insurance does not provide coverage for judgments for punitive damages.

Beginning in 2008, CMS refused to reimburse hospitals for medical costs arising from certain "never events," which include specific preventable medical errors. Certain private insurers and HMOs followed suit. The occurrence of "never events" is more likely to be publicized and may negatively impact a hospital's reputation, thereby reducing future utilization and potentially increasing the possibility of liability claims.

Litigation also arises from the corporate and business activities of hospitals, from a hospital's status as an employer or as a result of medical staff or provider network peer review or the denial of medical staff or provider network privileges. As with professional liability, many of these risks are covered by insurance, but some are not. For example, some antitrust claims or business disputes are not covered by insurance or other sources and may, in whole or in part, be a liability of the Corporation if determined or settled adversely.

There is no assurance that hospitals will be able to maintain coverage amounts currently in place in the future, that the coverage will be sufficient to cover malpractice judgments rendered against a hospital or that such coverage will be available at a reasonable cost in the future.

***Information Technology.*** The ability to adequately price and bill health care services and to accurately report financial results depends on the integrity of the data stored within information systems, as well as the operability of such systems. Information systems require an ongoing commitment of significant resources to maintain, protect and enhance existing systems and develop new systems to keep pace with continuing changes in information processing technology, evolving systems and regulatory standards. There can be no assurance that efforts to upgrade and expand information systems capabilities, protect and enhance these systems, and develop new systems to keep pace with continuing changes in information processing technology will be successful or that additional systems issues will not arise in the future.

Electronic media are also increasingly being used in clinical operations, including the conversion from paper to electronic medical records, computerization of order entry functions and the implementation of clinical decision-support software. The reliance on information technology for these purposes imposes new expectations on physicians and other workforce members to be adept in using and managing electronic systems. It also introduces risks related to patient safety, and to the privacy, accessibility and preservation of health information. See "Regulatory Environment" above. Technology malfunctions or failure to understand and use information systems properly could result in the dissemination of or reliance on inaccurate information, as well as in disputes with patients, physicians and other health care professionals. Health information systems may also be subject to different or higher standards or greater regulation than other information technology or the paper-based systems previously used by health care providers, which may increase the cost, complexity and risks of operations. All of these risks may have adverse consequences on hospitals and health care providers.

Future government regulation and adherence to technological advances could result in an increased need of the Corporation to implement new technology. Such implementation could be costly and is subject to cost overruns and delays in application, which could negatively affect the financial condition of the Corporation.

## **Affiliations, Merger, Acquisition and Divestiture**

The Corporation evaluates and pursues potential acquisition, merger and affiliation candidates as part of the overall strategic planning and development process. As part of its ongoing planning and property management functions, the Corporation reviews the use, compatibility and business viability of many of the operations of the Corporation, and from time to time the Corporation may pursue changes in the use of, or disposition of, its facilities. Likewise, the Corporation occasionally receives offers from, or conducts discussions with, third parties about the potential acquisition of operations and properties which may become subsidiaries or affiliates of the Corporation in the future, or about the potential sale of some of the operations or property which are currently conducted or owned by the Corporation. Discussion with respect to affiliation, merger, acquisition, disposition or change of use of facilities are held from time to time with other parties. These may be conducted with acute care hospital facilities and may be related to potential affiliation with the Corporation. As a result, it is possible that the current organization and assets of the Corporation may change from time to time. Subject to the limitations contained in the Master Indenture, the assets of the Obligated Group could be disposed of or change from time to time, and it is possible that new entities could be added to the Obligated Group in the future. See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – MASTER INDENTURE – Particular Covenants of Each Member of the Obligated Group – *Limitation on Disposition of Assets*” and “– *Merger, Consolidation, Sale or Conveyance*.”

In addition to relationships with other hospitals and physicians, the Corporation may consider investments, ventures, affiliations, development and acquisition of other health care-related entities. These may include home health care, long-term care entities or operations, infusion providers, pharmaceutical providers, and other health care enterprises that support the overall operations of the Corporation. In addition, the Corporation may pursue transactions with health insurers, HMOs, preferred provider organizations, third-party administrators and other health insurance-related businesses. Because of the integration occurring throughout the health care field, management will consider these arrangements if there is a perceived strategic or operational benefit for the Corporation. Any initiative may involve significant capital commitments and/or capital or operating risk (including, potentially, insurance risk) in a business in which the Corporation may have less expertise than in hospital operations. There can be no assurance that these projects, if pursued, will not lead to material adverse consequences to the Corporation.

## **Tax-Exempt Status and Other Tax Matters**

***Maintenance of the Tax-Exempt Status of the Corporation.*** The tax-exempt status of the Bonds and other outstanding tax-exempt debt issued for the benefit of the Corporation depends upon maintenance by the Corporation of its status as an organization described in Section 501(c)(3) of the Code. The maintenance of such status is dependent on compliance by the Corporation with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including its operation for charitable and other permissible purposes and its avoidance of transactions that may cause its earnings or assets to inure to the benefit of private individuals. As these general principles were developed primarily for public charities that do not conduct large-scale technical operations and business activities, they often do not adequately address the myriad of operations and transactions entered into by a modern health care organization. Although traditional activities of health care providers, such as medical office building leases, have been the subject of interpretations by the IRS in the form of private letter rulings, many activities or categories of activities have not been fully addressed in any official opinion, interpretation or policy of the IRS.

The IRS has taken the position that hospitals which are in violation of the Anti-Kickback Law may also be subject to revocation of their tax-exempt status. See “Regulatory Environment – Anti-Kickback Law” above. As a result, tax-exempt hospitals, such as the Corporation, which have, and will continue to have, extensive transactions with physicians are subject to an increased degree of scrutiny and perhaps enforcement by the IRS.

The Corporation participates in a variety of joint ventures and transactions with physicians either directly or indirectly. Management of the Corporation believes that the joint ventures and transactions to which the Corporation is a party are consistent with the requirements of the Code as to tax-exempt status, but, as noted above, there is uncertainty as to the state of the law.

The ACA also contains new requirements for tax-exempt hospitals through Code Section 501(r). Under the ACA, each tax-exempt hospital facility is required to (i) conduct a community health needs assessment at least once every three years and adopt an implementation strategy to meet the identified community needs, (ii) adopt, implement and widely publicize a written financial assistance policy that contains the statutory and regulatory required minimums and a policy to provide emergency medical treatment without discrimination, (iii) limit charges to individuals who qualify for financial assistance under such tax-exempt hospital's financial assistance policy to no more than the amounts generally billed to individuals who have insurance covering such care and refrain from using "gross charges" when billing such individuals, and (iv) refrain from taking extraordinary collection actions without first making reasonable efforts to determine whether the individual is eligible for assistance under such tax-exempt hospital's financial assistance policy.

On December 29, 2014, the Secretary of the Treasury issued final regulations under Section 501(r) of the Code that provide detailed and comprehensive guidance relating to requirements for community health needs assessments, financial assistance policies, emergency medical care policies, limitations on charges and billing and collection practices, and also provide guidance on consequences of failure to satisfy Section 501(r) requirements. These final regulations are complex and may be administratively burdensome to implement. Generally, the regulations apply to tax years beginning after December 29, 2015, and provide that a hospital organization may rely on a reasonable, good faith interpretation of the Section 501(r) requirements for tax years beginning on or before December 29, 2015, which may include compliance with certain prior proposed regulations under Section 501(r).

In addition, the Treasury Department is required to review information about a hospital's community benefit activities at least once every three years, as well as to submit an annual report to Congress with information regarding the levels of charity care, bad debt expenses, unreimbursed costs of government programs, and costs incurred by tax-exempt hospitals for community benefit activities. The periodic reviews and reports to Congress regarding the community benefits provided by 501(c)(3) hospitals may increase the likelihood that Congress will require such hospitals to provide a minimum level of charity care in order to retain tax-exempt status and may increase IRS scrutiny of particular 501(c)(3) hospital organizations.

The IRS has periodically conducted audit and other enforcement activity regarding tax-exempt health care organizations. Certain audits are conducted by teams of revenue agents, often take years to complete and require the expenditure of significant staff time by both the IRS and the audited organizations. These audits examine a wide range of possible issues, including tax-exempt bond financing, partnerships and joint ventures, unrelated business income, retirement plans, employee benefits, employment taxes, political contributions and other matters.

If the IRS were to find that the Corporation has participated in activities in violation of certain regulations or rulings, the tax-exempt status of the Corporation could be jeopardized. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit health care organizations, it could do so in the future. Loss of tax-exempt status by the Corporation potentially could result in loss of tax exemption of the Bonds and any other tax-exempt debt of the Corporation and defaults in covenants of the Bonds and other related tax-exempt debt and obligations likely would be triggered. Loss of tax-exempt status also could result in substantial tax liabilities on income of the Corporation. Loss of tax-exempt status of the Corporation could have a material adverse effect on the financial condition and results of operations of the Corporation.

In some cases, the IRS has imposed substantial monetary penalties on tax-exempt hospitals in lieu of revoking their tax-exempt status. In those cases, the IRS and exempt hospitals entered into settlement agreements requiring the hospital to make substantial payments to the IRS. Given the wide range of complex transactions entered into by the Corporation, and potential exemption risks, the Corporation could be at risk for incurring monetary and other liabilities or penalties imposed by the IRS.

In lieu of revocation of exempt status, the IRS may impose a penalty in the form of excise taxes on certain "excess benefit transactions" involving 501(c)(3) organizations and "disqualified persons." An excess benefit transaction is one in which a disqualified person or entity receives more than fair market value from the exempt organization or pays the exempt organization less than fair market value for property or services, or shares the net revenues of the tax-exempt entity. A disqualified person is a person (or an entity) who is in a position to exercise

substantial influence over the affairs of the exempt organization during the five years preceding an excess benefit transaction. The statute imposes excise taxes on the disqualified person and any “organization manager” who knowingly participates in an excess benefit transaction. These rules do not penalize the exempt organization itself, so there would be no direct impact on the Corporation or the tax status of the Bonds or any other tax-exempt debt issued for the benefit of the Corporation if an excess benefit transaction were subject to IRS enforcement, pursuant to these “intermediate sanctions” rules.

***State and Local Tax Exemption.*** Until recently, the State of California has not been as active as the IRS in scrutinizing the income tax exemption of health care organizations. With some overlap with the ACA’s mandates, California laws also require tax-exempt hospitals to conduct community needs assessment, to adopt implementation strategy and to have a charity care policy. It is possible that legislation may be proposed to strengthen the role of the California Franchise Tax Board and the California Attorney General in supervising nonprofit health systems. It is likely that the loss by the Corporation of federal tax exemption would also trigger a challenge to its state tax-exemptions. Depending on the circumstances, such event could be material and adverse to the Corporation.

State, county and local taxing authorities undertake audits and reviews of the operations of tax-exempt health care providers with respect to their real property tax exemptions. In some cases, particularly where authorities are dissatisfied with the amount of services provided to indigents, the real property tax-exempt status of the health care providers has been questioned. Subjecting significant amounts of real property to taxation could adversely affect health care organizations. The majority of the real property of the Corporation is currently treated as exempt from real property taxation. The Corporation’s real property has been examined by Santa Clara County and Santa Clara County determined that certain real estate leased to physicians was subject to property tax. Although the real property tax exemption of the Corporation with respect to their core hospital facilities has not, to the knowledge of management, been under challenge or investigation, an audit could lead to a challenge that could adversely affect the real property tax exemption of the Corporation.

It is not possible to predict the scope or effect of future state and local legislative or regulatory actions with respect to taxation of nonprofit corporations. There can be no assurance that future changes in the laws and regulations of state or local governments will not materially adversely affect the financial condition of the Corporation, by requiring payment of income, local property or other taxes.

***Maintenance of Tax-Exempt Status of Interest on the Bonds.*** The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and bond-financed property, limitations on the investment earnings of bond proceeds prior to expenditure, a requirement that certain investment earnings on bond proceeds be paid periodically to the United States Treasury, and a requirement that the issuer file an information report with the IRS. The Corporation has covenanted in the Loan Agreement that it will comply with such requirements. Future failure by the Corporation to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Bonds as taxable, retroactively to the date of issuance. In such event, the Bonds are not subject to redemption solely as a consequence of such adverse tax determination. The Authority has covenanted in the Bond Indenture that it will not take any action or refrain from taking any action that would cause interest on the Bonds to be included in gross income for federal income tax purposes.

IRS officials have indicated that more resources will be invested in audits of tax-exempt bonds, including the use of bond proceeds, in the charitable organization sector, with specific review of private use. In addition, under its compliance check program initiated in 2007, the IRS has from time to time sent post-issuance compliance questionnaires to several hundred nonprofit corporations that had borrowed on a tax-exempt basis regarding their post-issuance compliance with various requirements for maintaining the federal tax exemption of interest on their bonds. The questionnaire included questions relating to the borrower’s (i) record retention, which the IRS has particularly emphasized, (ii) qualified use of bond-financed property, (iii) compliance with arbitrage yield restriction and rebate requirements, (iv) debt management policies, and (v) voluntary compliance and education. After analyzing responses, IRS representatives indicated that it had commenced a number of examinations of hospital tax-exempt bond issues with wide-ranging areas of inquiry. In the final report summarizing findings and conclusions of

the questionnaire responses, issued July 1, 2011, the IRS stressed the importance of formal post-issuance compliance and recordkeeping procedures, which, once implemented, borrower should periodically review. Additional questionnaires may in the future be sent to additional nonprofit organizations.

Effective with the 2008 tax year, tax-exempt organizations must also complete new schedules to IRS Form 990-Return of Organizations Exempt From Income Tax, which create additional reporting responsibilities. On Schedule H, hospitals and health systems must report how they provide community benefit and specify certain billing and collection practices. Schedule K requires detailed information related to certain outstanding bond issues of tax-exempt borrowers, including information regarding operating, management and research contracts as well as private use compliance. Tax-exempt organizations must also complete Schedule J, which requires reporting of compensation information for the organizations' officers, directors, trustees, key employees, and other highly compensated employees.

The Corporation is not obligated to file a Form 990. The Corporation files a Form 990T when required. There can be no assurance that responses by the Corporation to an IRS examination or questionnaire, or Form 990T, will not lead to an IRS review that could adversely affect the tax-exempt status or the market value of the Bonds or of any other outstanding tax-exempt indebtedness of the Obligated Group. Additionally, the Bonds or other tax-exempt obligations issued for the benefit of the Corporation may be, from time to time, subject to examinations or audits by the IRS.

In addition, current and future legislative proposals, if enacted into law, could cause interest on the Bonds to be subject to federal income taxation or state income taxation. See "TAX MATTERS" herein.

The Corporation believes that the Bonds properly comply with the tax laws. In addition, on the date of issuance of the Bonds, Bond Counsel will render an opinion with respect to the tax-exempt status of the Bonds, as described under the caption "TAX MATTERS." No private letter ruling with respect to the Bonds has been or will be sought from the IRS, however, and opinions of counsel are not binding on the IRS or the courts. There can be no assurance that an examination of the Bonds will not adversely affect the Bonds or the market value of the Bonds, or that future legislative actions, regulations, rulings or court decisions will not limit or eliminate the tax-exempt status or affect the market value of the Bonds. See "TAX MATTERS" herein.

***Limitations on Contractual and Other Arrangements Imposed by the Internal Revenue Code.*** As a tax-exempt organization, the Corporation is limited with respect to its use of practice income guarantees, reduced rent on medical office space, low interest loans, joint venture programs and other means of recruiting and retaining physicians. Uncertainty in this area has been reduced somewhat by the issuance by the IRS of guidelines on permissible physician recruitment practices. The IRS scrutinizes a broad variety of contractual relationships commonly entered into by hospitals and has issued a detailed audit guide suggesting that field agents scrutinize numerous activities of the hospitals in an effort to determine whether any action should be taken with respect to limitations on or revocation of their tax-exempt status or assessment of additional tax. Any suspension, limitation, or revocation of the Corporation's tax-exempt status or assessment of significant tax liability would have a materially adverse effect on the Corporation and might lead to loss of tax exemption of interest on the Bonds and any other tax-exempt debt of the Corporation.

***Cost of Capital.*** From time to time, Congress has considered and is considering revisions to the Internal Revenue Code that may prevent or limit access to the tax-exempt debt market to borrowers or issuers such as the Corporation. Such legislation, if enacted into law, may have the effect of increasing the capital costs of the Corporation.

#### **Other Risk Factors**

***Earthquakes.*** A significant earthquake in Northern California could destroy or disable facilities of the Corporation.

***Compliance with Seismic Standards.*** California’s Hospital Seismic Safety Act (the “Seismic Safety Act”) requires each hospital building in the State of California used for acute care purposes either to comply with new hospital seismic safety standards on or before a deadline specified by the State of California or to cease acute care operations in noncompliant buildings. The deadlines and requirements for compliance for an acute care building depend on whether the building is within two of five classifications established by the state. Classification is a factor of the earthquake risk in the facility’s geographic area and the structural attributes of the building. The original Seismic Safety Act required hospital buildings in the highest category of risk (those that are determined to be a potential risk of collapse or pose significant loss of life in the event of an earthquake) to be replaced or retrofitted to higher seismic safety standards by 2008. Also, the legislation imposed a separate more rigorous set of seismic standards that become effective in 2030 for acute care facilities. The Seismic Safety Act has been amended on multiple occasions to extend deadlines and modify requirements.

Generally, owners of hospitals could apply for and obtain extensions from 2008 to 2013. Subsequent legislation allowed for further extensions up to two years to January 1, 2015 under certain circumstances and extensions beyond that in cases where more stringent criteria were met.

For information about the seismic compliance status of the Corporation’s facilities, see APPENDIX A – “INFORMATION CONCERNING EL CAMINO HOSPITAL AND AFFILIATES – HOSPITAL FACILITIES AND SERVICES – Status of Seismic Compliance.”

***Risks Related to Variable Rate Obligations.*** The Series 2009A Bonds secured by a Master Indenture Obligation are variable interest rate obligations, the interest rates on which could rise. Such interest rates vary on a periodic basis and may be converted to a fixed interest rate. This protection against rising interest rates is limited, however, because the Corporation would be required to continue to pay interest at the variable rate until it is permitted to convert the obligations to a fixed rate pursuant to the terms of the applicable transaction documents. Previous credit market turmoil in the auction rate markets and dislocation among various bond insurers and swap providers previously triggered suddenly high interest costs to many health care organizations holding debt with interest rates that varied on a periodic basis.

In addition, the Series 2009A Bonds are subject to optional and mandatory tender for purchase under certain circumstances. A Master Indenture Obligation has previously been issued to the provider of the credit facility supporting the Series 2009A Bonds. This agreement with such credit facility provider includes representations and covenants by the Corporation in addition to those included in the Master Indenture. The breach of a provision of any such agreement could result in the declaration of an event of default under such agreement and, under certain circumstances, could result in the declaration by the Master Trustee of an event of default under the Master Indenture. The additional covenants in this agreement may be waived or amended by the credit facility provider without the consent of, or any notice to, the Master Trustee, the Bond Trustee or the holders of the Bonds. Upon the occurrence of an event of default under this agreement, the outstanding amount due under such agreement could be declared immediately due and payable. The acceleration of amounts due under this agreement could have a material adverse effect on the cash position and financial condition of the Corporation.

Economic conditions affecting the credit markets resulted in a number of financial institutions restricting lending, including the extension of liquidity and credit facilities. This also resulted in the unwillingness of financial institutions to extend the term of existing liquidity facilities. No assurance can be given that the Corporation’s existing liquidity facility provider will renew the existing liquidity facility or that the Corporation will be able to obtain an alternate liquidity facility for the Series 2009A Bonds. No assurance can be given that the liquidity facility provider will provide funds to purchase tendered Series 2009A Bonds or honor draws on the liquidity facility to fund such purchases. Any funds advanced by the bank for purchase of such bonds would generally bear interest at rates higher than the rates borne by the Series 2009A Bonds held by the public and would be subject to repayment by the Obligated Group over a shorter term than required by the scheduled terms of the Series 2009A Bonds.

The ability of a bondholder to tender its Series 2009A Bonds for purchase is dependent on the ability of the remarketing agent to remarket tendered Series 2009A Bonds or the ability of the liquidity provider to purchase such bonds or the ability of the borrower (in this case, the Corporation) to provide its own funds to purchase such bonds.



Any upheavals in the financial markets may make the ability to remarket Series 2009A Bonds difficult or impossible. The inability to remarket a material amount of Series 2009A Bonds tendered for purchase could have a material adverse effect on the cash position and financial condition of the Obligated Group.

***Risks Related to Interest Rate Swaps.*** Interest rate swaps have experienced negative trading patterns, causing many to cease to function effectively to hedge interest rate exposure. Some swap counterparties have ceased to exist and others have suffered downgrading and negative market perception. Further, certain swap arrangements may be terminated by the counterparty and many may not be terminable except upon the payment of potentially significant termination fees by the borrowing party. In some cases, negative “mark-to-market” valuation of certain swap arrangements must be booked on a borrower’s balance sheet. These factors may have a material adverse impact on health systems involved in such arrangements. Pursuant to the swap arrangement, the counterparty will be obligated to make payments to the Corporation, which payments may be more or less than the interest rates the Corporation is required to pay with respect to a comparable principal amount of the related indebtedness. No determination can be made at this time as to the potential exposure to the Corporation relating to the difference in variable rate payments.

The interest rate swap of the Corporation is secured under the Master Indenture. The Corporation may in the future enter into additional interest rate swap agreements and other financial product and hedge devices that are also secured under the Master Indenture.

For a discussion of the Corporation’s swap arrangement, see APPENDIX A – “INFORMATION CONCERNING EL CAMINO HOSPITAL AND AFFILIATES – SELECTED UTILIZATION AND FINANCIAL INFORMATION – Interest Rate Swap.”

***Contributions.*** The Corporation regularly receives substantial contributions from the Foundation and members of the local community. While the Corporation has an active contribution development program, there can be no assurances that the Corporation will be the recipient of substantial contributions in the future.

***Investments.*** The Corporation has significant holdings in a broad range of investments. Market fluctuations may affect the value of those investments and those fluctuations may be material. For a discussion of the Corporation’s investments, see APPENDIX A – “INFORMATION CONCERNING EL CAMINO HOSPITAL AND AFFILIATES – MANAGEMENT’S DISCUSSION OF FINANCIAL OPERATIONS – Investment.”

***Pension and Benefit Funding.*** As large employers, hospitals may incur significant expenses to fund pension and benefit plans for employees and former employees, and to fund required workers’ compensation benefits. Plans are often underfunded, or may become underfunded and funding obligations in some cases may be erratic or unanticipated and may require significant commitments of available cash needed for other purposes. See also APPENDIX A – “INFORMATION CONCERNING EL CAMINO HOSPITAL AND AFFILIATES – OTHER INFORMATION – Employee Benefit Plans” and “– Post Retirement Medical Benefits.”

***Construction Risks.*** The Corporation is currently undertaking construction projects, including certain of the projects to be financed with proceeds of the Bonds, and are expected to undertake additional projects in the future. Construction projects are subject to a variety of risks, including but not limited to strikes, shortages of materials and labor, adverse weather conditions, and delays in issuance of required building permits or other necessary approvals or permits, including environmental approvals. Such events could delay occupancy. The anticipated costs and construction period for projects are based upon budgets, conceptual design documents and construction schedule estimates prepared by the Corporation in consultation with the Corporation’s architects, contractors and consultants. The cost of any project may vary significantly from initial expectations, and there may be a limited amount of capital resources to fund cost overruns. Cost overruns may occur due to change orders, delays in the construction schedule, scarcity of building materials and labor or other factors and could cause the costs to exceed available funds and completion of projects to be postponed until adequate funding is available. The completion dates of any of the projects could also differ significantly from expectations for construction-related or other reasons. Assurances cannot be given that any project will be completed, if at all, on time or within established budgets, or that any project will result in increased earnings. Significant delays, cost overruns or downsizing of the

construction or renovation projects could have a material adverse effect on the Corporation's business, financial condition and results of operations. Cost overruns could cause the costs to exceed available funds. See APPENDIX A – "INFORMATION CONCERNING EL CAMINO HOSPITAL AND AFFILIATES – HOSPITAL FACILITIES AND SERVICES – Capital Facilities Expenditures."

In addition, no assurances can be given that the construction and renovation of hospital facilities will not disrupt the ongoing operations of the Corporation or that it will be implemented as planned. Therefore, the construction and renovation of hospital facilities may adversely impact the ongoing business, operations and revenues of the Corporation.

**Bond Ratings.** There is no assurance that the ratings assigned to the Bonds will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price for and marketability of the Bonds. See "RATINGS" herein.

**Marketability of the Bonds.** There is no assurance as to the liquidity of markets that may develop for the Bonds, the ability of beneficial owners to sell the Bonds or the price at which beneficial owners would be able to sell the Bonds. Neither the Underwriter nor any other financial institution is obligated to make a market in the Bonds, and any financial institution that does so may discontinue its market-making activities at any time without notice. Any market for the Bonds may be subject to disruption which could adversely affect the prices at which beneficial owners may sell the Bonds. The Bonds may trade at a discount from their original purchase prices depending upon interest rates, the market for obligations similar to the Bonds, the financial condition of the Corporation and other factors.

**Amendments to Master Indenture, Loan Agreement and Bond Indenture.** The Obligated Group Members and the Master Trustee may modify the provisions of the Master Indenture in certain instances without the consent of the holders of Master Indenture Obligations and in other instances subject to the nature of the amendment(s), one of the following: the consent of the holders of not less than a majority in aggregate principal amount of the Outstanding Obligations issued under the Master Indenture, the consent of the holder of the Obligation affected by such amendment(s) or the consent of all holders of Outstanding Obligations issued under the Master Indenture. With respect to amendment(s), the holders of the requisite percentage of Outstanding Obligations may be composed wholly or partially of the holders of Obligations other than Obligation No. 6, and such amendment(s) may adversely affect the interests of the holder of Obligation No. 6. See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – MASTER INDENTURE – Supplements and Amendments – *Supplements Not Requiring Consent of Holders*" and "– *Supplements Requiring Consent of Holders.*"

Certain amendments to the Loan Agreement and Bond Indenture may be made without Bondholder consent or with the consent of the owners of not less than a majority of the outstanding aggregate principal amount of the Bonds. Such amendments that are subject to consent of Bondholders may adversely affect the security for the Bonds. APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – BOND INDENTURE – Amendment of Loan Agreement" and "–Modification or Amendment of Bond Indenture."

**Other Future Risks.** In the future, the following factors, among others, may adversely affect the operations of health care providers, including the Corporation, or the market value of health care revenue bonds, including the Bonds, to an extent that cannot be determined at this time:

- (1) Adoption of legislation or implementation of regulations that would modify national or state health programs or that would establish national, statewide, local or otherwise regulated rates applicable to hospitals and other health care providers.
- (2) Reduced demand for the services of the Corporation's health facilities that might result from decreases in population or loss of market share to competitors.
- (3) Bankruptcy of an indemnity/commercial insurer, managed care plan or other payor.

(4) Efforts by insurers, employers and governmental agencies to limit the cost of health care services, to reduce the number of hospital beds or other ancillary services, and to reduce the utilization of health facilities by such means as prescribed protocols, preventive medicine, improved occupational health and safety and outpatient care or comparable regulations or attempts by third-party payors to control or restrict the operations of certain health care facilities.

(5) Cost and availability of any insurance, such as professional liability, fire, automobile and general comprehensive liability coverages, which health care facilities of a similar size and type generally carry.

(6) Limitations on the availability of, and increased compensation necessary to secure and retain, nursing, technical and other professional personnel.

(7) The occurrence of a natural or man-made disaster, a pandemic or an epidemic that could damage the Corporation's health care facilities, interrupt utility service or access to the facilities, result in an abnormally high demand for health care services or otherwise impair the Corporation's operations or the generation of revenues from the facilities.

(8) Consolidation of managed care plans or other payors.

### **CONTINUING DISCLOSURE**

Since the Bonds are limited obligations of the Authority, payable solely from amounts received from the Corporation, financial or operating data concerning the Authority is not material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds, and the Authority is not providing any such information. The Corporation has undertaken all responsibilities for any continuing disclosure to Holders of the Bonds, as described below, and the Authority shall have no liability to the Holders of the Bonds or any other person with respect to Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "Rule").

The Corporation has covenanted for the benefit of Owners and Beneficial Owners of the Bonds to provide to the Municipal Securities Rule Making Board (the "MSRB"), or cause its dissemination agent, to provide to the MSRB, (i) certain financial information and operating data relating to the Corporation and any other Member of the Obligated Group, by not later than six months following the end of the Corporation's fiscal year (referred to as the "Annual Report"), commencing with the report for the fiscal year ended June 30, 2016, and (ii) notices of the occurrence of certain enumerated events.

The Corporation, additionally has covenanted to provide, or cause to be provided, to the MSRB, not later than 60 days after the end of each of the first three fiscal quarters of each fiscal year, commencing with the fiscal quarter ended March 31, 2017, unaudited financial information for the Corporation for such fiscal quarter, including a statement of net position and a statement of revenues, expenses, and changes in net position and certain additional financial and operating information as described further in APPENDIX E – "PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT."

The Annual Report and the notices of enumerated events will be filed with the Electronic Municipal Market Access system ("EMMA") of the MSRB. See APPENDIX E – "PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT" for the specific nature of the information to be contained in the Annual Report and the notices of enumerated events. These covenants have been made in order to assist the Underwriter in complying with the Rule.

### **TAX MATTERS**

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income

taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on such Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of such Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority and the Corporation have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

In addition, Bond Counsel has relied, among other things, on the opinion of Buchalter Nemer, A Professional Corporation, counsel to the Corporation, regarding the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications and limitations. Bond Counsel has also relied upon representations of the Corporation concerning the Corporation’s “unrelated trade or business” activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor counsel to the Corporation has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor counsel to the Corporation can give or has given any opinion or assurance about the future activities of the Corporation, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the IRS. Failure of the Corporation to be organized and operated in accordance with the IRS’s requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities financed by the Bonds in a manner that is substantially related to the Corporation’s charitable purpose under Section 513(a) of the Code, may result in interest payable with

respect to the Bonds being included in federal gross income, possibly from the date of the original issuance of the Bonds.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. For example, presidential budget proposals in previous years have proposed legislation that would limit the exclusion from gross income of interest on the Bonds to some extent for high-income individuals. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the Corporation, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the Corporation have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the Corporation or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the Corporation and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in, the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority or the Corporation legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Authority, the Corporation or the Beneficial Owners to incur significant expense.

#### **APPROVAL OF LEGALITY**

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. A complete copy of the proposed form of Bond Counsel opinion is set forth as APPENDIX D hereto. Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel, will provide certain other legal services for the Authority. Orrick, Herrington & Sutcliffe LLP undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain other legal matters will be passed upon for the Authority by the Attorney General of the State of California, for the Corporation by Buchalter Nemer, A Professional Corporation, San Francisco, California, for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, which firms also undertake no responsibility for the accuracy, completeness or fairness of this Official Statement.

## **INDEPENDENT AUDITORS**

The consolidated financial statements of El Camino Healthcare District as of June 30, 2016 and 2015 and for the years then ended, included in Appendix B, have been audited by Moss Adams LLP, independent auditors, as stated in its report included in Appendix B. Moss Adams has not been engaged to perform and has not performed since the date of the report included in Appendix B, any procedures on the financial statements addressed in that report.

## **FINANCIAL ADVISOR**

Ponder & Co. has served as financial advisor to the Corporation for purposes of assisting with the development and implementation of the capital plan and bond structure in connection with the Bonds. Ponder & Co. is an independent advisory firm and not engaged in the business of underwriting or distributing municipal securities or other public securities. Ponder & Co. is not obligated to undertake, and has not undertaken, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

## **ABSENCE OF MATERIAL LITIGATION**

### **The Corporation**

There is no controversy or litigation of any nature now pending against the Corporation or, to the knowledge of its officers, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds, any proceedings of the Corporation taken concerning the issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds. There can be no assurance, however, that future litigation will not have a material adverse effect on the Corporation.

As with most health care providers, the Corporation is subject to certain legal actions that, in whole or in part, are not or may not be covered by insurance (or reinsurance as to certain self-insured risks) because of the type of action or amount or types of damages requested (e.g., punitive damages), because of a reservation of rights by an insurance carrier, or because the action has not proceeded to a stage that permits full evaluation. There are certain legal actions currently pending against the Corporation known to management for which insurance coverage is uncertain or inapplicable for the above reasons. Management does not anticipate that any such suits will ultimately result in punitive damage awards or judgments in excess of applicable insurance limits, or if such awards or judgments were to be entered, that they would have a material adverse impact on the financial condition of the Corporation. See APPENDIX A – “INFORMATION CONCERNING EL CAMINO HOSPITAL AND AFFILIATES – OTHER INFORMATION – Litigation” and “– Regulatory Environment.”

Other than as described above, there is no litigation of any nature now pending against the Corporation or, to the knowledge of each Member’s respective officers, threatened, which, if successful, would materially adversely affect the operations or financial condition of the Corporation.

### **The Authority**

To the knowledge of the officers of the Authority, there is no litigation of any nature now pending (with service of process having been accomplished) or threatened against the Authority, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds, any proceedings of the Authority taken concerning the issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, or the existence or powers of the Authority relating to the issuance of the Bonds.

## RATINGS

S&P Global Ratings and Moody's Investors Service have assigned the Bonds the municipal bond ratings of "[A+]" and "[A1]", respectively. No application was made to any other rating agency for the purpose of obtaining additional ratings on the Bonds. Such ratings reflect only the views of such organizations, and any explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. The Corporation has furnished to such rating agencies certain information and materials concerning the Bonds and itself. Generally, rating agencies base their ratings on the information and materials furnished to them and on investigations, studies and assumptions by the rating agencies. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. Except as set forth herein under "CONTINUING DISCLOSURE," none of the Authority, the Underwriter, or the Corporation have undertaken any responsibility to bring to the attention of holders of the Bonds any proposed revision or withdrawal of the rating of the Bonds or to oppose any such proposed revision or withdrawal. Any such change in or withdrawal of such rating could have an adverse effect on the market price or marketability of the Bonds. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

## UNDERWRITING

The Bonds are being purchased by Citigroup Global Markets Inc. (the "Underwriter"). Pursuant to the Purchase Contract for the Bonds, the Underwriter has agreed to purchase the Bonds at a purchase price of \$\_\_\_\_\_ (consisting of the aggregate principal amount of the Bonds of \$287,040,000\*, plus original issue premium of \$\_\_\_\_\_, less an underwriter's discount of \$\_\_\_\_\_). The Purchase Contract for the Bonds provides that the Underwriter will purchase all of the Bonds, if any are purchased, and contains the agreements of the Corporation to indemnify the Underwriter and the Authority against certain liabilities.

Citigroup Global Markets Inc., the Underwriter of the Bonds, has entered into a retail distribution agreement with each of TMC Bonds L.L.C. ("TMC") and UBS Financial Services Inc. ("UBSFS"). Under these distribution agreements, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup Global Markets Inc. may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the Bonds.

The initial public offering price of the Bonds set forth on the inside cover page may be changed without notice by the Underwriter.

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriter and its affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Authority and the Corporation for which they received or will receive customary fees and expenses.

In the ordinary course of its various business activities, the Underwriter and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Authority or the Corporation.

## MISCELLANEOUS

The foregoing and subsequent summaries or descriptions of provisions of the Bonds, the Bond Indenture, the Loan Agreement, the Master Indenture, Supplement No. 6 and Obligation No. 6 and all references to other

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\* Preliminary, subject to change.

materials not purporting to be quoted in full are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof, and reference is made to said documents for full and complete statements of their provisions. The appendices attached hereto are a part of this Official Statement. Copies, in reasonable quantity, of the Bond Indenture, the Loan Agreement, the Master Indenture, Supplement No. 6 and Obligation No. 6 may be obtained during the offering period upon request directed to the Underwriter and, thereafter, upon request directed to the corporate trust office of the Bond Trustee.

The information contained in this Official Statement has been compiled or prepared from information obtained from the Corporation and official and other sources deemed to be reliable and, while not guaranteed as to completeness or accuracy, is believed to be correct as of the date of this Official Statement. The Authority furnished only the information contained under the captions "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION – The Authority" and, except for such information, makes no representation as to the adequacy, completeness or accuracy of this Official Statement or the information contained herein. Any statements involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.



This Official Statement has been delivered by the Authority and approved by the Corporation. This Official Statement is not to be construed as a contract or agreement among any of the Authority, the Corporation and the purchasers or Holders of the Bonds.

CALIFORNIA HEALTH FACILITIES FINANCING  
AUTHORITY

By \_\_\_\_\_  
Executive Director

Approved:

EL CAMINO HOSPITAL

By \_\_\_\_\_  
Chief Financial Officer

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## **Att. 06 05 Loan Agreement**

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

AND

EL CAMINO HOSPITAL

---

**LOAN AGREEMENT**

DATED AS OF MARCH 1, 2017

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RELATING TO

\$(PAR AMOUNT)  
CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY  
REVENUE BONDS  
(EL CAMINO HOSPITAL)  
SERIES 2017

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## LOAN AGREEMENT

This LOAN AGREEMENT, dated as of March 1, 2017 (the “Loan Agreement”), between the CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY, a public instrumentality of the State of California (the “Authority”), and EL CAMINO HOSPITAL, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California;

### WITNESSETH:

WHEREAS, the Authority is a public instrumentality of the State of California, created by the California Health Facilities Financing Authority Act (constituting Part 7.2 of Division 3 of Title 2 of the Government Code of the State of California) (the “Act”), authorized to issue revenue bonds to finance construction, expansion, remodeling, renovation, furnishing, equipping, and acquisition of health facilities (including by reimbursing expenditures made for such purpose) and to refund or refinance certain indebtedness; and

WHEREAS, El Camino Hospital is a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the “Corporation”) and is a participating health institution (as defined in the Act); 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 \$[PAR AMOUNT], and make one or more loans of the proceeds thereof to the Corporation to (i) reimburse, finance and refinance costs of the construction, expansion, remodeling, renovation, furnishing, equipping and acquisition of certain health facilities of the Corporation, as more particularly described under the caption “Project” in Exhibit A to the Loan Agreement (the “Project”), (ii) finance a portion of the interest payable on the Bonds through [\_\_\_\_\_] 30, 20\_\_ and (iii) pay costs of issuance of the Bonds (as defined below); and

WHEREAS, the Authority has authorized the issuance of the California Health Facilities Financing Authority Revenue Bonds (El Camino Hospital), Series 2017 (the “Bonds”), in an aggregate principal amount of \$[PAR AMOUNT] and the loan of the proceeds thereof to the Corporation for the purposes set forth in the above recital; and

WHEREAS, the Bonds are to be issued pursuant to a bond indenture, dated as of March 1, 2017 (the “Bond Indenture”), between the Authority and Wells Fargo Bank, National Association, as bond trustee (in such capacity, the “Bond Trustee”); and

WHEREAS, pursuant to a master trust indenture, dated as of March 1, 2007, as supplemented and amended (the “Master Indenture”), between the Corporation and Wells Fargo Bank, National Association, as master trustee (in such capacity, the “Master Trustee”), and a Supplemental Master Indenture for Obligation No. 6, dated as of March 1, 2017, between the Corporation and the Master Trustee (“Supplement No. 6”), the Corporation has issued its Obligation No. 6 to evidence the joint and several obligation of the Members to make all payments required of the Corporation under this Loan Agreement, including amounts sufficient to pay the principal of, premium, if any, and interest on the Bonds; and

WHEREAS, the Authority and the Corporation have each duly authorized the execution and delivery of this Loan Agreement, to specify the terms and conditions of the loan from the Authority to the Corporation of the proceeds of the Bonds and to require and confirm the obligation of the Corporation to make payments at such times and in such manner as may be necessary to provide for full payment of the principal of and interest and premium, if any, on the Bonds and certain related costs and expenses, as such become due, and for certain other purposes specified herein; and

WHEREAS, the Authority and the Corporation have each duly authorized the performance of its respective obligations under this Loan Agreement; and

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, the parties hereto hereby agree as follows:

## ARTICLE I

### DEFINITIONS; INTERPRETATION; CONTENT OF CERTIFICATES AND OPINIONS

Section 1.1 Definitions. Unless the context otherwise requires, all terms used herein shall have the meanings assigned to such terms in Section 1.01 of the Bond Indenture, dated as of March 1, 2017, between the Authority and Wells Fargo Bank, National Association, as Bond Trustee, as originally executed and as amended or supplemented from time to time.

Section 1.2 Interpretation. (a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(c) All references herein to “Articles,” “Sections” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Loan Agreement; the words “herein,” “hereof,” “hereby,” “hereunder” and other words of similar import refer to this Loan Agreement as a whole and not to any particular Article, Section or subdivision hereof.

Section 1.3 Content of Certificates and Opinions. Every certificate or opinion provided for in this Loan Agreement with respect to compliance with any provision hereof shall include the requirements set forth in Section 1.02 of the Bond Indenture.

## ARTICLE II

### FINDINGS BY THE AUTHORITY; REPRESENTATIONS AND WARRANTIES OF THE CORPORATION

Section 2.1 Findings by the Authority. The Authority hereby finds and determines, based upon the representations, warranties and agreements of the Corporation and such other information as the Authority deems necessary, that (i) the Corporation is a “participating health institution” as such term is defined in the Act; (ii) the loan to be made hereunder with the proceeds of the Bonds will promote the purposes of the Act by providing funds to pay the cost of acquiring, constructing, rehabilitating or improving a health facility or facilities or to refinance indebtedness incurred for such purpose; (iii) said loan is in the public interest, serves a public purpose, promotes the health, welfare and safety of the citizens of the State of California, and meets the requirements of the Act; (iv) the portion of the proceeds of the Bonds allocable to the cost of financing of the Project does not exceed the total cost allocable to the cost of financing thereof as determined by the Corporation; and (v) the Corporation has given reasonable assurance, as that term is defined in the Act, that services will be made available to all persons residing or employed in the areas served by the Corporation’s health facilities.

Section 2.2 Representations and Warranties of the Corporation. The Corporation on behalf of itself and as Credit Group Representative makes the following representations to the Authority that as of the date of the execution of this Loan Agreement and as of the date of delivery of the Bonds to the initial purchasers thereof (such representations to remain operative and in full force and effect regardless of delivery of the Bonds):

(a) The Corporation is a nonprofit public benefit corporation duly incorporated and in good standing under the laws of the State of California; the Corporation has the requisite corporate right, power and authority to enter into this Loan Agreement, Supplement No. 6, Obligation No. 6, the Continuing Disclosure Certificate and the Tax Certificate and to carry out and consummate all transactions contemplated with respect to the Corporation hereby and thereby, and by proper corporate action has duly authorized the execution and delivery of this Loan Agreement, Supplement No. 6 and Obligation No. 6.

(b) The officers of the Corporation executing this Loan Agreement, Supplement No. 6, Obligation No. 6, the Continuing Disclosure Certificate and the Tax Certificate are duly and properly in office and fully authorized to execute the same.

(c) The Corporation has duly authorized, executed and delivered this Loan Agreement, Supplement No. 6, Obligation No. 6, the Continuing Disclosure Certificate and the Tax Certificate and the Members have duly authorized, executed and delivered the Master Indenture and each constitutes the legal, valid and binding agreement of the Corporation (with respect to this Loan Agreement) and the Members (with respect to the Master Indenture and Obligation No. 6), enforceable against the Corporation and the Members, as applicable, in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting the enforcement of creditors’ rights, to the application of equitable principles, regardless of whether

enforcement is sought in a proceeding at law or in equity, to public policy and to the exercise of judicial discretion in appropriate cases.

(d) The Corporation as the sole Member under the Master Indenture has full legal right, power and authority to carry out and consummate all transactions contemplated thereby and to act as Credit Group Representative thereunder.

(e) The execution and delivery of this Loan Agreement, Supplement No. 6, Obligation No. 6, the Continuing Disclosure Certificate and the Tax Certificate the consummation of the transactions herein and therein and in the Master Indenture contemplated and the fulfillment of or compliance with the terms and conditions hereof and thereof, will not: conflict with or constitute a breach of, violation or default (with due notice or the passage of time or both) under the articles of incorporation of the Corporation, its bylaws or any applicable law or administrative rule or regulation or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, loan agreement, lease, contract or other agreement, evidence of indebtedness or instrument to which the Corporation is a party or to which or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Corporation, which conflict, violation, breach, default, lien, charge or encumbrance might have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Master Indenture, this Loan Agreement, Supplement No. 6, Obligation No. 6, the Continuing Disclosure Certificate and the Tax Certificate or the financial condition, assets, properties or operations of the Obligated Group taken as a whole.

(f) No consent or approval of any trustee or holder of any indebtedness (including, without limitation, guaranty and credit or liquidity enhancement, reimbursement obligations) of the Corporation, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority (except with respect to any state securities or “blue sky” laws) is necessary in connection with the execution and delivery of this Loan Agreement, Supplement No. 6, Obligation No. 6, the Continuing Disclosure Certificate and the Tax Certificate or the consummation of any transaction herein or therein or in the Master Indenture contemplated, or the fulfillment of or compliance with the terms and conditions hereof or thereof or of the Master Indenture, except as have been obtained or made and as are in full force and effect and except as may be required to acquire, construct and/or complete the Project, all of which are expected to be obtained in the ordinary course.

(g) The Corporation is an organization described in Section 501(c)(3) of the Code, and is exempt from federal income tax under Section 501(a) of the Code, except for unrelated business taxable income under Section 511 of the Code, which income is not expected to result from the consummation of any transaction contemplated by this Loan Agreement. The Corporation is not a private foundation as described in Section 509(a) of the Code. The facts and circumstances which form the basis of the Corporation’s status as an organization described in Section 501(c)(3) of the Code as represented to the Internal Revenue Service continue substantially to exist.

(h) There is no action, suit, proceeding, inquiry or investigation, before or by any court or federal, state, municipal or other governmental authority, pending, or to the knowledge of the Corporation, after reasonable investigation, threatened, against or affecting the Corporation or the assets, properties or operations of the Corporation:

(i) Seeking to restrain or enjoin the issuance or delivery of any Bonds or the collection of Revenues pledged under the Bond Indenture;

(ii) In any way contesting or affecting the validity of the Bonds, the Bond Indenture, the Master Indenture, this Loan Agreement, or Supplement No. 6, Obligation No. 6, the Continuing Disclosure Certificate and the Tax Certificate;

(iii) In any way contesting the corporate existence or powers of the Corporation necessary to consummate the transactions contemplated by the Master Indenture, this Loan Agreement, Supplement No. 6, Obligation No. 6, the Continuing Disclosure Certificate and the Tax Certificate;

(iv) Contesting or affecting the Corporation's status as an organization described in Section 501(c)(3) of the Code or which would subject any income of the Corporation to federal income taxation to such extent as would result in loss of the exclusion from gross income for federal income tax purposes of interest on any of the Bonds under Section 103 of the Code;

(v) Which, if determined adversely to the Corporation, would materially adversely affect the ability of the Corporation to perform its obligations under the Master Indenture, this Loan Agreement, or Supplement No. 6, Obligation No. 6, the Continuing Disclosure Certificate and the Tax Certificate.

(i) No representation made, nor any information, exhibit or report furnished to the Authority by the Corporation in connection with the negotiation of this Loan Agreement, the Bond Indenture, Supplement No. 6, Obligation No. 6, the Continuing Disclosure Certificate and the Tax Certificate contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. There is no fact that the Corporation has not disclosed to the Authority in writing (including in the Official Statement) that materially and adversely affects or in the future may (so far as the Corporation can now reasonably foresee) materially and adversely affect the properties, business, assets or operations (financial or otherwise) of the Corporation, or the ability of the Corporation to perform its or their obligations under this Loan Agreement or any documents or transactions contemplated hereby.

(j) The audited consolidated balance sheet of the Corporation and its Affiliates, as of [June 30, 2015], and the consolidated statements of activities and cash flows for the year then ended (copies of which have been furnished to the Authority) present fairly, in all material respects, the financial position of the Corporation and its Affiliates as of [June 30, 2015] and the changes in such activities and financial position for the year then ended in accordance with generally accepted accounting principles; and since [June 30, 2015], there has been no

material adverse change in the assets, operations or financial condition of the Corporation and its Affiliates, except as disclosed in the Official Statement.

(k) No facility financed or refinanced by any portion of the proceeds of the Bonds is or currently is expected to be used by any Person which is not an “exempt” person within the meaning of the Code and the regulations proposed and promulgated thereunder, or by a governmental unit or a 501(c)(3) organization (including the Corporation) in an “unrelated trade or business” within the meaning of Section 513(a) of the Code and the regulations proposed and promulgated thereunder, in such manner or to such extent as would result in loss of exclusion from gross income for federal tax purposes of interest on any of the Bonds under Section 103 of the Code.

(l) All tax returns (federal, state and local) required to be filed by or on behalf of the Corporation have been filed, and all taxes shown thereon to be due, including interest and penalties, except such, if any, as are being actively contested by the Corporation, in good faith, have been paid or adequate reserves have been made for the payment thereof which reserves, if any, are reflected in the audited financial statements described therein.

(m) The Corporation has good and marketable title to its facilities free and clear from all encumbrances other than Permitted Liens (as defined in the Master Indenture). The Corporation enjoys the peaceful and undisturbed possession of all of the premises upon which it is operating health care facilities.

(n) The Corporation complies in all material respects with all applicable Environmental Laws.

(o) Neither the Corporation nor its facilities is the subject of a federal, state or local investigation evaluating whether any remedial action is needed to respond to any alleged violation or condition regulated by Environmental Laws or to respond to a release of any Hazardous Materials into the environment.

(p) The Corporation does not have any material contingent liability in connection with any release of any Hazardous Materials into the environment.

(q) Except for such Hazardous Materials, toxic substances or wastes as occur, are handled and are disposed of in the ordinary course of business of the Corporation, no Hazardous Materials, toxic substances or wastes are located at, or have been removed from, the Corporation’s properties.

(r) The Corporation is a “participating health institution” and will operate a “health facility” as those terms are defined in the Act.

(s) The Project constitutes a “project” as such term is defined in the Act. No portion of the project includes any institution, place or building used or to be used primarily for sectarian instruction or study or as a place for devotional studies or religious worship.

(t) The Corporation does not restrict admission of patients, or grants preference in admissions to patients, to its health care facilities on racial or religious grounds.



(u) The Corporation hereby gives reasonable assurance, as that term is defined in the Act, that services will be made available to all persons residing or employed in the areas served by the Corporation's health facilities.

(v) The Corporation represents that the portion of the proceeds of the Bonds allocable to the cost of financing of the Project does not exceed the total cost allocable to the cost of financing thereof.

(w) Each ERISA Plan of the Corporation is in compliance in all material respects with the applicable provisions of ERISA and the Code. To the best knowledge of the Corporation, no ERISA Plan has engaged in, and compliance by the Corporation with the provisions of this Loan Agreement will not involve, any non-exempt prohibited transaction that would subject the Corporation to a material tax or penalty on prohibited transactions. No ERISA Plan that is subject to Part 3 of Subtitle B of Title I of ERISA or Section 412 of the Code has had an accumulated funding deficiency, whether or not waived as of the last day of the most recent plan year of such ERISA Plan ended prior to the date hereof. No liability to the Pension Benefit Guaranty Corporation has been, or is expected by the Corporation to be, incurred by the Corporation with respect to any ERISA Plan subject to Title IV of ERISA, other than for premium payments. There has been no material Reportable Event with respect to any ERISA Plan subject to Section 4043 of ERISA since the effective date of said Section 4043 for which the Corporation could have any liability, and since such date no event or condition has occurred that presents a material risk of termination of any such ERISA Plan by the Pension Benefit Guaranty Corporation. As of the most recent valuation date, the present value of all vested accrued benefits under each ERISA Plan subject to Title IV of ERISA as determined by each ERISA Plan's enrolled actuary within the meaning of Section 103 of ERISA under actuarial assumptions used in connection with the actuarial valuation of each such ERISA Plan, except as disclosed in the Official Statement, did not exceed the value of such ERISA Plan's assets (less all liabilities other than those attributable to accrued benefits), as determined by each such enrolled actuary, allocable to such vested accrued benefits. Neither the Corporation nor any Common Control Entity has incurred any withdrawal liability in connection with a Multiemployer Plan. As used in this paragraph (w), the terms "ERISA Plan," "Reportable Event," "Common Control Entity" and "Multiemployer Plan" shall have the respective meanings ascribed thereto in Section 5.5 of this Loan Agreement.

### ARTICLE III

#### ISSUANCE OF BONDS AND OBLIGATION NO. 6; LOAN OF PROCEEDS

Section 3.1 The Bonds and the Loan of Proceeds. Pursuant to the Bond Indenture, the Authority has authorized the issuance of the Bonds in the aggregate principal amount of \$[PAR AMOUNT]. The Authority hereby loans and advances to the Corporation, and the Corporation hereby borrows and accepts from the Authority (solely from the proceeds of the sale of the Bonds), the proceeds of the Bonds to be applied under the terms and conditions of this Loan Agreement and the Bond Indenture. The Corporation hereby approves the Bond Indenture and the issuance of the Bonds thereunder by the Authority, the assignment thereunder to the Bond Trustee of the right, title and interest of the Authority (1) in this Loan Agreement (except for (i) the right to receive any Administrative Fees and Expenses to the extent payable to the Authority,

(ii) any rights of the Authority to be indemnified, held harmless and defended and rights to inspection and to receive notices, certificates and opinions, (iii) express rights to give approvals, consents or waivers, and (iv) the obligation of the Corporation to make deposits pursuant to the Tax Certificate) and (2) in and to Obligation No. 6.

Section 3.2 Issuance of Obligation No. 6. In consideration of the issuance of the Bonds by the Authority and the application of the proceeds thereof as provided in the Bond Indenture, the Corporation agrees to issue, and to cause to be authenticated and delivered to the Authority or its designee, pursuant to the Master Indenture and Supplement No. 6, concurrently with the issuance and delivery of the Bonds, Obligation No. 6 in substantially the form set forth in Supplement No. 6. The Authority agrees that Obligation No. 6 shall be registered in the name of the Bond Trustee. The Corporation agrees that the aggregate principal amount of Obligation No. 6 shall be limited to \$[PAR AMOUNT], except for any Obligation No. 6 authenticated and delivered in lieu of another Obligation No. 6 as provided in Section 6 of Supplement No. 6 with respect to the mutilation, destruction, loss or theft of Obligation No. 6 or, subject to the provisions of Section 3.3 hereof, upon transfer of registration of Obligation No. 6. Issuance and delivery of the Bonds by the Authority shall be a condition of the issuance and delivery of Obligation No. 6.

Section 3.3 Restrictions on Number and Transfer of Obligation No. 6.

(a) The Corporation agrees that, except as provided in subsection (b) of this Section, so long as any Bond remains Outstanding, Obligation No. 6 shall be issuable only as a single obligation without coupons, registered as to principal and interest in the name of the Bond Trustee, and no transfer of Obligation No. 6 shall be registered under the Master Indenture or be recognized by the Corporation except for transfers to a successor Bond Trustee.

(b) Upon the principal of all Obligations Outstanding (within the meaning of that term as used in the Master Indenture) being declared immediately due and payable, Obligation No. 6 may be transferred if and to the extent that the Bond Trustee requests that the restrictions on transfers set out in subsection (a) of this Section be terminated.

Section 3.4 Condition Precedent. The obligation of the Authority to make the loan as herein provided shall be subject to the receipt by it of the proceeds of the issuance and sale of the Bonds.

## ARTICLE IV

### PAYMENTS

Section 4.1 Payments of Principal, Premium and Interest. (a) In consideration of the loan of such proceeds to the Corporation, the Corporation agrees that, on or before the twenty-fifth (25th) day of the calendar month preceding the calendar month in which each Interest Payment Date or Principal Payment Date falls and as long as any of the Bonds remain Outstanding, it shall pay to the Bond Trustee for deposit in the Revenue Fund such amount as is required by the Bond Trustee to make the transfers and deposits required on the next Interest Payment Date or Principal Payment Date by Section 5.02 of the Bond Indenture.

Notwithstanding the foregoing, if on any Interest Payment Date or Principal Payment Date, the aggregate amount in the Revenue Fund is for any reason insufficient or unavailable to make the required payments of principal (or Redemption Price) of or interest on the Bonds then becoming due (whether by maturity, redemption or acceleration), the Corporation shall forthwith pay the amount of any such deficiency to the Bond Trustee. Each payment by the Corporation to the Bond Trustee hereunder (the "Loan Repayments") shall be in lawful money of the United States of America and paid to the Bond Trustee at the Corporate Trust Office, and held, invested, disbursed and applied as provided in the Bond Indenture.

(b) Except as otherwise expressly provided herein, all amounts payable hereunder by the Corporation to the Authority shall be paid to the Bond Trustee as assignee of the Authority and this Loan Agreement and all right, title and interest of the Authority in any such payments are assigned and pledged to the Bond Trustee pursuant to the Bond Indenture so long as any Bonds remain Outstanding.

Section 4.2 Additional Payments. In addition to Loan Repayments and payments on Obligation No. 6, the Corporation shall also pay to the Authority or the Bond Trustee, as the case may be, "Additional Payments," as provided in this Section. Such Additional Payments may be discharged in whole or in part by payment actually received from amounts in the Costs of Issuance Fund or may be billed to the Corporation by the Authority or the Bond Trustee from time to time, together with a statement certifying the amount billed has been incurred or paid for one or more of the below items. After such a demand, amounts so billed shall be paid by the Corporation within thirty (30) days after receipt of the bill by the Corporation. The obligations of the Corporation under this Section shall survive the resignation and removal of the Bond Trustee, payment of the Bonds and discharge of the Bond Indenture.

(a) The Additional Payments to the Authority include:

(i) All taxes and assessments of any type or character charged to the Authority affecting the amount available to the Authority from payments to be received hereunder or in any way arising due to the transactions contemplated hereby (including taxes and assessments assessed or levied by any public agency or governmental authority of whatsoever character having power to levy taxes or assessments); provided, however, that the Corporation shall have the right to protest any such taxes or assessments and to require the Authority, at the Corporation's expense, to protest and contest any such taxes or assessments levied upon them and that the Corporation shall have the right to withhold payment of any such taxes or assessments pending disposition of any such protest or contest unless such withholding, protest or contest would adversely affect the rights or interests of the Authority and the Corporation has provided the Authority with security and indemnification reasonably deemed adequate by the Authority in respect of such affected rights or interests;

(ii) All amounts payable to the Authority under Section 5.4 hereof;

(iii) The reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority to prepare audits, financial statements, reports, opinions or provide such other services required under this Loan Agreement, Supplement No. 6, Obligation No. 6 or the Bond Indenture;

(iv) The annual fee of the Authority, any and all fees and expenses incurred primarily in connection with the authorization, issuance, sale and delivery of any Bonds and the reasonable fees and expenses of the Authority or any agency of the State of California selected by the Authority to act on its behalf in connection with this Loan Agreement, Supplement No. 6, Obligation No. 6, the Bonds or the Bond Indenture, including, without limitation, in connection with any litigation, investigation, inquiry or other proceeding which may at any time be instituted involving this Loan Agreement, Supplement No. 6, Obligation No. 6, the Bonds or the Bond Indenture or any of the other documents contemplated thereby, or by the Attorney General of the State of California or such other counsel as the Authority may select in connection with the reasonable supervision or inspection of the Corporation, its properties, assets or operations or otherwise in connection with the administration (both before and after the execution of this Loan Agreement) of this Loan Agreement or the Bond Indenture; and

(v) All other reasonable and necessary fees and expenses attributable to the Bonds, this Loan Agreement, Supplement No. 6, Obligation No. 6 or related documents, including without limitation all payments required pursuant to the Tax Certificate.

(b) The Additional Payments to the Bond Trustee include:

(i) All taxes and assessments of any type or character charged to the Bond Trustee affecting the amount available to the Bond Trustee from payments to be received hereunder or in any way arising due to the transactions contemplated hereby (including taxes and assessments assessed or levied by any public agency or governmental authority of whatsoever character having power to levy taxes or assessments, excluding any franchise tax or income tax); provided, however, that the Corporation shall have the right to protest any such taxes or assessments and to require the Bond Trustee, at the Corporation's expense, to protest and contest any such taxes or assessments levied upon them and that the Corporation shall have the right to withhold payment of any such taxes or assessments pending disposition of any such protest or contest unless such withholding, protest or contest would adversely affect the rights or interests of the Bond Trustee and the Corporation has provided the Bond Trustee with security and indemnification reasonably deemed adequate by the Bond Trustee in respect of such affected rights or interests;

(ii) All reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Bond Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under this Loan Agreement or the Bond Indenture;

(iii) All amounts payable to the Bond Trustee under Sections 5.3 and 5.4; and

(iv) All other reasonable and necessary fees and expenses attributable to the Bonds, this Loan Agreement, or related documents, including without limitation all payments required pursuant to the Tax Certificate.

Section 4.3 Credits for Payments. The Corporation shall receive credit against its payments required to be made under Section 4.1, in addition to any credits resulting from payment or repayment from other sources, as follows:

(a) on installments of interest in an amount equal to moneys deposited in the Interest Account, to the extent such amounts have not previously been credited against such payments;

(b) on installments of principal in an amount equal to moneys deposited in the Principal Account, to the extent such amounts have not previously been credited against such payments;

(c) on installments of principal and interest in an amount equal to the principal amount of Bonds for the payment at maturity or redemption of which sufficient amounts (as determined by Section 10.03 of the Bond Indenture) in cash or United States Government Obligations are on deposit as provided in Section 10.03 of the Bond Indenture to the extent such amounts have not previously been credited against such payments, and the interest on such Bonds from and after the date fixed for payment at maturity or redemption thereof. Such credits shall be made against the installments of principal, premium, if any, and interest which would have been used, but for such call for redemption, to pay principal of and interest on such Bonds when due at maturity; and

(d) on installments of principal and interest in an amount equal to the principal amount of Bonds acquired by the Corporation and surrendered to the Bond Trustee for cancellation or purchased by the Bond Trustee and cancelled, and the interest on such Bonds from and after the date interest thereon has been paid prior to cancellation. Such credits shall be made against the installments of principal and interest which would have been used, but for such cancellation, to pay principal of and interest on such Bonds when due.

Section 4.4 Prepayment. The Corporation shall have the right, so long as all amounts which have become due hereunder have been paid, at any time or from time to time to prepay all or any part of its Loan Repayments and the Authority agrees that the Bond Trustee shall accept such prepayments when the same are tendered. Prepayments may be made by payments of cash, deposit of United States Government Obligations or surrender of Bonds as contemplated by subsections 4.3(c) and (d). All such prepayments (and the additional payment of any amount necessary to pay the applicable premium, if any, payable upon the redemption of Bonds) shall be deposited upon receipt at the Corporation's direction in (i) the Principal Account; (ii) the Optional Redemption Account of the Redemption Fund if the Bonds are to be redeemed pursuant to Section 4.01(B) of the Bond Indenture; or (iii) in the Special Redemption Account of the Redemption Fund if the Bonds are to be redeemed pursuant to Section 4.01(C) or (D) of the Bond Indenture and, at the request of and as determined by the Corporation, credited against payments due hereunder or used for the redemption or purchase of Outstanding Bonds in the manner and subject to the terms and conditions set forth in the Bond Indenture. The Corporation also shall have the right to surrender Bonds acquired by it in any manner whatsoever to the Bond Trustee for cancellation, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired, and in the case of Bonds shall be allocated as set forth in the Bond Indenture. Notwithstanding any such prepayment or surrender of Bonds, as long as any Bonds

remain Outstanding or any Additional Payments required to be made hereunder remain unpaid, the Corporation shall not be relieved of its obligations hereunder. The Corporation shall also have the right to surrender Bonds acquired by it in any manner whatsoever to the Bond Trustee for cancellation, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired and allocated as set forth in a Request of the Corporation in accordance with the Bond Indenture.

Section 4.5 Obligations Unconditional. The obligations of the Corporation hereunder and under Obligation No. 6 are absolute and unconditional, notwithstanding any other provision of this Loan Agreement, Supplement No. 6, Obligation No. 6, the Master Indenture or the Bond Indenture. Until this Loan Agreement is terminated and all payments hereunder are made, the Corporation:

(a) shall pay all amounts required hereunder and under Obligation No. 6 without abatement, deduction or setoff except as otherwise expressly provided in this Loan Agreement;

(b) shall not suspend or discontinue any payments due hereunder or under Obligation No. 6 for any reason whatsoever, including, without limitation, any right of setoff or counterclaim;

(c) shall perform and observe all its other agreements contained in this Loan Agreement; and

(d) except as provided herein, shall not terminate this Loan Agreement for any cause including, without limiting the generality of the foregoing, damage, destruction or condemnation of the Project, the health facilities owned and operated by any of the Members or any part thereof, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State, or any political subdivision of either or any failure of the Authority to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Loan Agreement. Nothing contained in this Section shall be construed to release the Authority from the performance of any of the agreements on its part herein contained; and in the event the Authority should fail to perform any such agreement on its part, the Corporation may institute such action against the Authority as the Corporation may deem necessary to compel performance.

The rights of the Bond Trustee or any party or parties on behalf of whom the Bond Trustee is acting shall not be subject to any defense, setoff, counterclaim or recoupment whatsoever, whether arising out of any breach of any duty or obligation of the Authority, the Master Trustee or the Bond Trustee owing to the Corporation, or by reason of any other indebtedness or liability at any time owing by the Authority, the Master Trustee or the Bond Trustee to the Corporation.

## ARTICLE V

### PARTICULAR COVENANTS

Section 5.1 Prohibited Uses. No portion of the proceeds of the Bonds will be used to finance or refinance any facility, place or building used or to be used (i) primarily for sectarian instruction or study or as a place for devotional activities or religious worship; or (ii) by any person that is not an organization described in Section 501(c)(3) of the Code or by a 501(c)(3) organization, including the Corporation, in an “unrelated trade or business” (as such term is defined in Section 513 of the Code), in such manner or to such extent as would result in any of the Bonds being treated as an obligation not described in Section 103(a) of the Code. The covenant in clause (i) of this Section shall survive payment in full or defeasance of the Bonds.

Section 5.2 Nonliability of the Authority. The Authority shall not be obligated to pay the principal of, and premium, if any, and interest on the Bonds, except from Revenues and other assets pledged under the Bond Indenture. Neither the faith and credit nor the taxing power of the State of California or any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or interest on the Bonds. The Authority shall not be liable for any costs, expenses, losses, damages, claims or actions, of any conceivable kind or any conceivable theory, under or by reason of or in connection with this Loan Agreement, Obligation No. 6, the Bonds, the Continuing Disclosure Certificate, the Tax Certificate or the Bond Indenture, except only to the extent amounts are received for payment thereof from the Corporation under this Loan Agreement or from the Members under Obligation No. 6.

The Corporation hereby acknowledges that the Authority’s sole source of moneys to repay the Bonds will be provided by the payments made by the Corporation hereunder and pursuant to Obligation No. 6 and other Revenues, together with investment income on certain funds and accounts held by the Bond Trustee under the Bond Indenture, and hereby agrees that if the payments to be made hereunder and under Obligation No. 6 shall ever prove insufficient to pay all principal of, and premium, if any, and interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Bond Trustee, the Corporation shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal, premium or interest including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Bond Trustee, the Master Trustee, the Corporation, the Members, the Authority or any third party.

Section 5.3 Expenses. The Corporation covenants and agrees to pay and indemnify the Authority and the Bond Trustee against all reasonable fees, costs and charges, including reasonable fees and expenses of attorneys, accountants, consultants and other experts, incurred in good faith (and with respect to the Bond Trustee, without negligence) and arising out of or in connection with this Loan Agreement, Supplement No. 6, the Master Indenture, the Continuing Disclosure Certificate, the Bonds or the Bond Indenture. These obligations and those in Section 5.4 shall remain valid and in effect notwithstanding repayment of the loan hereunder or the Bonds or termination of this Loan Agreement or the Bond Indenture.

Section 5.4 Indemnification. (a) The Corporation, to the fullest extent permitted by law, shall indemnify, hold harmless the Authority, the State Treasurer and their members, officers, employees and agents (each an “Authority Indemnified Party”) and the Bond Trustee and its officers, directors, employees and agents (each, a “Bond Trustee Indemnified Party” and, together with each Authority Indemnified Party, an “Indemnified Party”) from and against any and all Indemnifiable Losses arising out of, resulting from or in any way connected with:

(i) the Project, including the facilities comprising any part of the Project to be financed or refinanced, or the conditions, occupancy, use, possession, conduct or management of, work done in or about, or from the planning, design, acquisition, installation or construction, of the Project or any part thereof, including, without limitation, Indemnifiable Losses resulting from or in any way relating to any generation, processing, handling, transportation, storage, treatment or disposal of solid wastes, Hazardous Materials or any other Hazardous Material Activity relating to the Project including, but not limited to, any of those activities occurring, to occur or having previously occurred on the Project and any Releases on, under or from the Project to the extent occurring or existing prior to the execution and delivery of this Loan Agreement;

(ii) the issuance, sale or remarketing of the Bonds or the carrying out of any of the transactions or undertakings contemplated by the Bond Indenture, the Bonds, this Loan Agreement, Supplement No. 6, Obligation No. 6, the Continuing Disclosure Certificate and the Tax Certificate or any document delivered by the Corporation pursuant to, or in connection with, any of the foregoing;

(iii) any untrue statement or misleading statement or alleged untrue statement or alleged misleading statement of any material fact in any official statement, offering statement, offering circular or continuing disclosure document for the Bonds or any statement made in connection with the purchase or sale of the Bonds (other than any such statement in the Official Statement under the caption “THE AUTHORITY” or “ABSENCE OF MATERIAL LITIGATION—The Authority” or any similar statement provided by the Authority expressly for use in any other official statement, offering statement, offering circular or continuing disclosure document for the Bonds), or any omission or alleged omission to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading;

(iv) any declaration of taxability of interest paid or payable on the Bonds, or allegations (or regulatory inquiry) that interest paid or payable on the Bonds is taxable, for federal or State income tax purposes;

(v) the Bond Trustee’s acceptance or administration of the trust of the Bond Indenture or the exercise or performance of any of its powers or duties thereunder or under any of the documents relating to the Bonds to which it is a party;

(vi) the refunding, retirement, tender for purchase and/or redemption, in whole or in part, of the Bonds;



(vii) any misrepresentation or breach of warranty by the Corporation of any representation or warranty in this Loan Agreement, Supplement No. 6, Obligation No. 6, the Continuing Disclosure Certificate and the Tax Certificate or any document delivered by the Corporation pursuant to, or in connection with, any of the foregoing or the Bonds; or

(viii) any breach by the Corporation of any covenant or undertaking set forth in this Loan Agreement, Supplement No. 6, Obligation No. 6, the Continuing Disclosure Certificate and the Tax Certificate or any document delivered by the Corporation pursuant to, or in connection with, any of the foregoing or the Bonds; provided that such indemnification pursuant to this Section shall not apply to Indemnifiable Losses resulting because of the negligence or willful misconduct of any Bond Trustee Indemnified Party or the gross negligence or willful misconduct of any Authority Indemnified Party.

(b) The Authority agrees to notify the Corporation promptly, but in no event later than twenty (20) business days, after written notice to the Authority that any third party has brought any action, suit or proceeding against an Indemnified Party that may result in an Indemnifiable Loss (a "Third Party Action"). Upon such notice or other notice from an Indemnified Party of a Third Party Action, the Corporation shall assume the investigation and defense thereof, including the employment of counsel selected by the Indemnified Party and reasonably acceptable to the Corporation (which may be the Attorney General of the State of California), and shall assume the payment of all Litigation Expenses related thereto, with full power to litigate, compromise or settle the same in its discretion; provided that the Indemnified Party shall have the right to review and approve or disapprove (in its sole and absolute discretion) any such compromise or settlement and the Indemnified Party has no liability with respect to any compromise or settlement of any Third Party Action effected without its written approval. Each Indemnified Party shall have the right to employ separate counsel in any Third Party Action and participate in the investigation and defense thereof, and the Corporation shall pay the reasonable fees and disbursements of such separate counsel; provided, however, that a Bond Trustee Indemnified Party may only employ separate counsel at the expense of the Corporation if in the reasonable judgment of such Bond Trustee Indemnified Party a conflict of interest exists by reason of common representation or if all parties commonly represented do not agree as to the action (or inaction) of counsel. If the Indemnified Party fails to provide such notice to the Corporation, the Corporation is still obligated to indemnify the Indemnified Party for Indemnifiable Losses.

(c) The rights and undertakings set forth in this Section do not terminate and survive the final payment or defeasance of the Bonds, the termination or defeasance of this Loan Agreement, and any resignation or removal of the Bond Trustee.

For purposes of this Section "Indemnifiable Losses" means the aggregate of Losses and Litigation Expenses.

For purposes of this Section "Losses" means any liability, loss, claim, settlement payment, cost and expense, interest, award, judgment, damages (other than punitive damages to the extent they may not, under law, be indemnified), diminution in value, fine, fee and penalty, and other charge, of every conceivable kind, character and nature whatsoever, contingent or otherwise, known or unknown, except Litigation Expenses.

For purposes of this Section “Litigation Expenses” means any court filing fee, court cost, witness fee, and each other fee and cost of investigating and defending or asserting a claim, including any claim made to enforce the terms of indemnification provided in this Section 5.4, and including, without limitation, in each case, attorneys’ fees, other professionals’ fees and disbursements.

Section 5.5 ERISA.

(a) The Corporation shall not, with respect to any ERISA Plan:

(i) incur any “accumulated funding deficiency,” as such term is defined in Section 412 of the Code, whether or not waived, if the amount of such accumulated funding deficiency, plus any accumulated funding deficiencies previously incurred with respect to such ERISA Plan and not eliminated, would aggregate more than \$100,000; provided that the incurring of such an accumulated funding deficiency will not be an “event of default” hereunder if it is reduced below \$100,000 or eliminated within 90 days after the date upon which the Corporation becomes aware of such accumulated funding deficiency; or

(ii) terminate any such ERISA Plan in a manner which could result in the imposition of a material lien on the property of the Corporation pursuant to Section 4068 of ERISA and which could materially adversely affect the business, earnings, properties or financial condition of the Corporation; or

(iii) withdraw from a Multiemployer Plan in a “complete withdrawal” or a “partial withdrawal” as defined in Sections 4203(a) and 4205(a), respectively, of ERISA, if such withdrawal could materially adversely affect the Corporation’s ability to comply at any time with any of the provisions of this Loan Agreement.

(b) The Corporation shall:

(i) fund all current and past service pension liabilities under the provisions of all ERISA Plans such that if all such ERISA Plans were terminated at the same time by the Corporation any liens imposed on the Corporation under Section 4068 of ERISA would not be in an amount in the aggregate which would materially affect the Corporation’s ability to comply at any time with any of the provisions of this Loan Agreement; and

(ii) otherwise comply in all material respects with the provisions applicable to its ERISA Plans contained in ERISA, the Code and the regulations published thereunder; and

(iii) notify the Bond Trustee and the Authority promptly after the Corporation knows (i) of the happening of any material Reportable Event with respect to any ERISA Plan and, in any event, at least five days prior to any notification of such material Reportable Event given to the Pension Benefit Guaranty Corporation pursuant to the terms of Section 4043 of ERISA or (ii) of an assessment against the Corporation or any Common Control Entity of any withdrawal liability to a Multiemployer Plan. Notwithstanding anything herein to the contrary, the Corporation need not notify the Bond Trustee or the Authority of such material

Reportable Event or withdrawal liability unless it might materially adversely affect the business, prospects, earnings, properties or condition (financial or otherwise) of the Corporation.

(iv) For purposes of this paragraph (iv) and the representations and warranties of the Corporation contained in subsection (w) of Section 2.2, the following terms shall have the following meanings. The term “ERISA Plan” means any “employee benefit plan” (as such term is defined in Section 3(3) of ERISA) established by the Corporation or, with respect to any such plan that is subject to Section 412 of the Code or Title IV of ERISA, any Common Control Entity. The term “Common Control Entity” means any entity which is a member of a “controlled group of corporations” with, or is under “common control” with, the Corporation as defined in Section 414(b) or (c) of the Code. The term “Multiemployer Plan” has the meaning set forth in Section 4001(a)(3) of ERISA and all rules and regulations promulgated from time to time thereunder. The term “Reportable Event” means any of the events set forth in Section 4043(c) of ERISA, other than events for which the 30-day notice period has been waived.

**Section 5.6 Tax Covenant.** The Corporation covenants and agrees that it will at all times do and perform all acts and things permitted by law, the Tax Certificate and this Loan Agreement which are necessary in order to assure that interest paid on the Bonds (or any of them) will be excluded from gross income for federal income tax purposes pursuant to Sections 103 and 141 through 150 of the Code and will take no action that would result in such interest not being so excluded pursuant to Sections 103 and 141 through 150 of the Code. Without limiting the generality of the foregoing, the Corporation agrees to comply with the provisions of the Tax Certificate, which is incorporated herein by this reference. This covenant shall survive payment in full or defeasance of the Bonds.

**Section 5.7 Continuing Disclosure.** The Corporation hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of this Loan Agreement or the Master Indenture, failure of the Corporation to enter into and comply with the Continuing Disclosure Certificate shall not be considered a Loan Default Event or an Event of Default; however, the Bond Trustee may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Certificate) or the Holders of at least 25% in aggregate principal amount of Outstanding Bonds, shall) or any Bondholder or Beneficial Owner may, take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Corporation to comply with its obligations under this Section 5.7.

**Section 5.8 Acquisition, Construction and Installation of the Project.** The Corporation shall acquire, construct and install the Project or cause such Project to be acquired, constructed and installed and shall proceed with due diligence and use its best efforts to cause the construction and installation of the Project to be completed by no later than the third anniversary date of the Date of Issuance, delays beyond the reasonable control of the Corporation only excepted. The Corporation has entered or will enter into purchase commitments and agreements which provide, in the aggregate, for the acquisition, installation and construction of the Project by such date and at a price which will permit completion of the Project for an amount not to exceed the amount of money deposited in the Project Fund and other available funds. The Corporation hereby grants, subject to applicable law, to the Authority, until completion of the

Project, all reasonable rights of access necessary for the Authority to carry out its obligations and to enforce its rights hereunder. It is expressly understood and agreed that the Authority and the Bond Trustee shall be under no liability of any kind or character whatsoever for the payment of any cost of the Project or any expense incurred in connection with the Project and that all such costs and expenses shall be paid by the Corporation. The acquisition, installation and construction of the Project shall be in accordance with all applicable zoning, planning and building regulations, and the Corporation shall obtain all necessary governmental permits, licenses, certificates, authorizations and approvals necessary to be obtained for the acquisition, installation, construction and operation of the Project.

Section 5.9 Disbursements from the Project Fund. Disbursements will be made from the Project Fund to pay the costs of the Project and subject to the terms and conditions set forth in the Bond Indenture. If amounts in the Project Fund are not sufficient to pay the costs of the Project in full, the Corporation shall use its best efforts to cause the completion of the Project elements financed with proceeds of the Bonds and shall pay at its own expense such costs in excess of amounts available in the Project Fund, from its own funds, without any diminution or postponement of any Loan Repayment or Additional Payment and without any right of reimbursement from the Authority or the Bond Trustee. Nothing herein shall obligate the Corporation to complete every element of the Project.

Section 5.10 Extension of Ground Lease. The Corporation hereby covenants and agrees to keep the Ground Lease, dated December 17, 1992, including all extensions executed through the date hereof relating to the real property on which the its campus in Mountain View, California, is located between El Camino Hospital District (the "District"), as lessor, and the Corporation, as lessee in place through the expiration date of December 31, 2049 (the "Expiration Date") or the final maturity of the Bonds, whichever is earlier. The Corporation agrees to provide a copy of any further extensions of the Expiration Date to the Authority and the Bond Trustee.

Section 5.11 Incorporation by Reference. The covenants of the Obligated Group as set forth in the Master Indenture are hereby incorporated by reference and reaffirmed for the benefit of the Authority and the Holders of the Bonds.

Section 5.12 Waiver of Personal Liability. No member, officer, official, agent or employee of the Authority or any member, director, officer, agent or employee of the Corporation shall be individually or personally liable for the payment of any principal of, premium, if any, or interest on the Bonds or any other sum hereunder or be subject to any personal liability or accountability by reason of the execution and delivery of this Loan Agreement; but nothing herein contained shall relieve any such member, director, officer, official, agent or employee of the Authority from the performance of any official duty provided by law or by this Loan Agreement.

Section 5.13 Delivery of Reports and Records. The Corporation will furnish to the Authority so long as any Bonds remain Outstanding the certificates and documents as are required to be delivered by the Credit Group Representative to the Master Trustee under Section 3.12 of the Master Indenture as follows:

(a) As soon as practicable, but in no event more than five months after the last day of each Fiscal Year, one or more financial statements which, in the aggregate, shall include the Material Credit Group Members (as defined in the Master Indenture). Such financial statements:

(1) may consist of (i) consolidated or combined financial results including one or more Members of the Credit Group (as defined in the Master Indenture) and one or more other Persons required to be consolidated or combined with such Member(s) of the Credit Group under generally accepted accounting principles (including consolidated financial results with El Camino Hospital District) or (ii) special purpose financial statements including only Members of the Credit Group;

(2) shall be audited by a firm of nationally recognized independent certified public accountants approved by the Credit Group Representative as having been prepared in accordance with generally accepted accounting principles (except, in the case of special purpose financial statements, for required consolidations);

(3) shall include a combined balance sheet, statement of operations and changes in net assets and cash flow statement; and

(4) if financial statements delivered pursuant to this clause (a) include financial information with respect to any Person who is not an Obligated Group Member or do not include financial information with respect to all Obligated Group Members, then the financial statements shall contain a consolidated or combined schedule for all Obligated Group Members that reflects combining entries that eliminate material inter-company balances and transactions.

(b) Unless a single financial statement (including a single special purpose financial statement) is delivered pursuant to clause (a) above for the entire Credit Group, as soon as practicable, but in no event more than five months after the last day of each Fiscal Year, an unaudited balance sheet, statement of operations and changes in net assets and cash flow statement for such Fiscal Year for the Credit Group (such balance sheet, statement of operations and changes in net assets and cash flow statement being referred to as the "Credit Group Financial Statements"), prepared by the Credit Group Representative based on (a) for all Material Credit Group Members which have the same fiscal year as the Fiscal Year of the Credit Group, the accompanying unaudited combining or consolidating schedules delivered with the audited financial statements described in clause (i) above and (b) for all other Credit Group Members, unaudited financial statements for such Fiscal Year (including, at the option of the Credit Group Representative, Credit Group Members that are not Material Credit Group Members, whether or not financial statements were delivered for such Credit Group Members pursuant to clause (a) above).

(c) At the time of the delivery of the Credit Group Financial Statements, a certificate of the chief financial officer of the Credit Group Representative stating that (A) the Credit Group Financial Statements were prepared in accordance with generally accepted accounting principles (except for the inclusion of Credit Group Members that are not permitted to be consolidated in accordance with generally accepted accounting principles and the exclusion

of entities that are not Credit Group Members that are required to be consolidated in accordance with generally accepted accounting principles), (B), subject to clause (v) below, the Credit Group Financial Statements reflect the results of the operations of only Credit Group Members, (C) the Credit Group Financial Statements reflect the results of the operations of the Material Credit Group Members, and (iv) the combined net assets of the Material Credit Group Members for which financial statements have been delivered to the Master Trustee pursuant to clause (i) above and that are included in the Credit Group Financial Statements are equal to or greater than 90% of the combined or consolidated net assets of the Credit Group for the most recently completed Fiscal Year of the Credit Group.

(d) At the time of the delivery of the Credit Group Financial Statements, a certificate of the chief financial officer of the Credit Group Representative, stating that the Credit Group Representative has made a review of the activities of the Credit Group Members during the preceding Fiscal Year for the purpose of determining whether or not the Credit Group Members have complied with all of the terms, provisions and conditions of the Master Indenture and that each Credit Group Member has kept, observed, performed and fulfilled each and every covenant, provision and condition of the Master Indenture on its part to be performed and none of such Credit Group Members is in default in the performance or observance of any of the terms, covenants, provisions or conditions, or if any Credit Group Member shall be in default such certificate shall specify all such defaults and the nature thereof.

(e) Notwithstanding the foregoing, the results of operation and financial position of Immaterial Affiliates (as defined in the Master Indenture) need not be excluded from financial statements delivered pursuant to this Section 5.13 or Section 3.12 of the Master Indenture, and such results of operation and financial position may be considered as if they were a portion of the results of operation and financial position of the Material Credit Group Members for all purposes of the Master Indenture notwithstanding the inclusion of the results of operation and financial position of such Immaterial Affiliates.

(f) promptly upon the request of the Authority or the Bond Trustee, such other information regarding the financial position, results of operations, business or prospects of the Corporation and the Obligated Group as such party may reasonably request from time to time;

In addition to the foregoing, the Corporation shall, at any reasonable time and from time to time, upon prior written notice, permit the Authority and the Bond Trustee, and their respective representatives and agents, to (i) inspect the premises and the accounting records and the books of the Corporation for the purpose of verifying compliance by the Corporation with the covenants contained herein and all of the terms of the Act, (ii) examine and make copies of and abstracts from the accounting records and books of account of the Corporation, (iii) discuss the affairs, finances and accounts of the Corporation with any of its officers or directors and (iv) upon notice to the Corporation, communicate with the Corporation's independent certified public accountants.

Section 5.14 Post-Issuance Compliance Undertaking. The Corporation acknowledges that the Internal Revenue Service mandates certain filing requirements with respect to post-issuance tax compliance, private use and/or unrelated trade or business use, including the proper

method for computing whether any such use has occurred under Section 145 of the Code. The Corporation covenants that it will undertake to determine (or have determined on its behalf) the information required to be reported on the IRS Form 990 (Schedule K) Supplemental Information on Tax-Exempt Bonds on an annual basis and will undertake to comply with the aforementioned filing requirements and any related requirements that may be applicable to the Bonds and the Corporation (collectively, the “Post-Issuance Requirements”). The Corporation is currently not required to file IRS Form 990. Further, the Corporation covenants that it has adopted, or, if not, will promptly adopt, management practices and procedures to ensure the Corporation complies with the Post-Issuance Requirements with respect to the Bonds.

Section 5.15 Retention of Post-Issuance Compliance Expert. The Corporation has retained the firm of Bond Logistix LLC to provide certain post-issuance tax compliance services that may be required from time to time with respect to the Bonds.

Section 5.16 Compliance With United States And California Constitutions. The Corporation covenants and agrees that it will not restrict, or grant preferences in, admissions of patients to its health care facilities on racial or religious grounds. On or before June 30 of each year, the Corporation will furnish to the Authority a Certificate of the Corporation stating that (i) no facility, place or building financed or refinanced with any portion of the proceeds of the Bonds has been used primarily for sectarian instruction or study or is a place for devotional activities or religious worship; (ii) the Corporation does not restrict admissions of patients to its health care facilities on grounds of race, national origin, ethnic group identification, religion, age, sex, sexual orientation, color, genetic information, or disability, and (iii) the Corporation is a “participating health institution” and operates “health facilities” as those terms are defined in the Act. The Authority and its designees shall have the right, but shall not be obligated, to inspect such health care facilities at all reasonable times for the purpose of verifying the foregoing Certificate of the Corporation and due compliance by the Corporation with the Constitutions of the United States and of the State. This covenant shall survive the payment in full or defeasance of the Bonds.

The Corporation covenants and agrees that it will comply with Sections 15459.1 through 15459.4 of the California Health Facilities Financing Authority Act, constituting Part 7.2 of Division 3 of Title 2 of the Government Code of the State, as amended.

Section 5.17 Compliance with Bond Indenture. The Corporation hereby agrees to all of the terms and provisions of the Bond Indenture and accepts each of its obligations thereunder. Without limiting the foregoing, the Authority may assign its rights under this Loan Agreement as set forth in the Bond Indenture. The Corporation hereby approves the initial appointment under the Bond Indenture of the Bond Trustee

## ARTICLE VI

### EVENTS OF DEFAULT AND REMEDIES

Section 6.1 Events of Default. Each of the following events shall constitute and be referred to herein as a “Loan Default Event”:

(a) failure by the Corporation to pay in full any payment required hereunder or under Obligation No. 6 when due, whether on an interest payment date at maturity, upon a date fixed for prepayment, by declaration, upon purchase pursuant to the Bond Indenture, or otherwise pursuant to the terms hereof or thereof;

(b) if any material representation or warranty made by the Corporation herein or made by the Corporation or any Member in any document, instrument or certificate furnished to the Bond Trustee or the Authority in connection with the issuance of Obligation No. 6 or the Bonds shall at any time prove to have been incorrect in any respect as of the time made;

(c) If the Corporation shall fail to observe or perform any other covenant, condition, agreement or provision in this Loan Agreement on its part to be observed or performed, other than as referred to in subsection (a) or (b) of this Section, or shall breach any warranty by the Corporation herein contained, for a period of sixty (60) days after written notice, specifying such failure or breach and requesting that it be remedied, has been given to the Corporation by the Authority or the Bond Trustee; except that, if such failure or breach can be remedied but not within such sixty-(60) day period and if the Corporation has taken all action reasonably possible to remedy such failure or breach within such sixty-(60) day period, such failure or breach shall not become a Loan Default Event for so long as the Corporation shall diligently proceed to remedy such failure or breach in accordance with and subject to any directions or limitations of time established by the Bond Trustee;

(d) If the Corporation files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of the Corporation's facilities;

(e) If a court of competent jurisdiction shall enter an order, judgment or decree declaring the Corporation an insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Corporation or of the whole or any substantial part of the Corporation's facilities, or approving a petition filed against the Corporation seeking reorganization of the Corporation under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof;

(f) If, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Corporation's facilities, and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control;

(g) Any Event of Default as defined in and under the Bond Indenture;

(h) Any Event of Default as defined in and under the Master Indenture; or



(i) if the Corporation shall abandon the Corporation's facilities or any substantial part thereof and such abandonment shall continue for a period of sixty (60) days after written notice thereof shall have been given to the Corporation by the Authority or the Bond Trustee.

Section 6.2 Remedies in General. Upon the occurrence and during the continuance of any Loan Default Event, the Authority or the Bond Trustee, on behalf of the Authority, but subject to the limitations in the Bond Indenture as to the enforcement of remedies, may take such action as it deems necessary or appropriate to collect amounts due hereunder, to enforce performance and observance of any obligation or agreement of the Corporation hereunder or to protect the interests securing the same, and may, without limiting the generality of the foregoing:

(a) Exercise any or all rights and remedies given hereby or available hereunder or given by or available under any other instrument of any kind securing the Corporation's performance hereunder (including, without limitation, Obligation No. 6 and the Master Indenture);

(b) By written notice to the Corporation declare all Loan Repayments and Additional Payments to be immediately due and payable under this Loan Agreement, whereupon the same shall become immediately due and payable; and

(c) Take any action at law or in equity to collect the payment required hereunder then due, whether on the stated due date or by declaration of acceleration or otherwise, for damages or for specific performance or otherwise to enforce performance and observance of any obligation, agreement or covenant of the Corporation hereunder.

Section 6.3 Discontinuance or Abandonment of Default Proceedings. If any proceeding taken by the Bond Trustee on account of any Loan Default Event shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Bond Trustee, then and in every case, the Authority, the Bond Trustee and the Corporation shall be restored to their former position and rights hereunder, respectively, and all rights, remedies and powers of the Authority and the Bond Trustee shall continue as though no such proceeding had taken place.

Section 6.4 Remedies Cumulative. No remedy conferred upon or reserved to the Authority or the Bond Trustee hereby or now or hereafter existing at law or in equity or by statute, shall be exclusive but shall be cumulative with all others. Such remedies are not mutually exclusive and no election need be made among them, but any such remedy or any combination of such remedies may be pursued at the same time or from time to time so long as all amounts realized are properly applied and credited as provided herein. No delay or omission to exercise any right or power accruing upon any Loan Default Event shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient by the Authority or the Bond Trustee. In the event of any waiver of a Loan Default Event hereunder, the parties shall be restored to their former positions and rights hereunder, but no such waiver shall extend to any other or subsequent Loan Default Event or impair any right arising as a result thereof. In order

to entitle the Bond Trustee to exercise any remedy reserved to it, it shall not be necessary to give notice other than as expressly required herein.

Section 6.5 Attorney's Fees and Other Expenses. If, as a result of the occurrence of a Loan Default Event, the Bond Trustee employs attorneys or incurs other expenses for the collection of payments due hereunder or for the enforcement of performance or observance of any obligation or agreement on the part of the Corporation, the Corporation shall, on demand, reimburse the Bond Trustee for the reasonable fees of such attorneys and such other reasonable expenses so incurred.

Section 6.6 Notice of Default. As soon as is practicable and in any event within ten (10) days after the Corporation has actual knowledge of the occurrence of any event which is a Loan Default Event, the Corporation shall furnish the Bond Trustee and the Authority notice of such event to the extent it has occurred and is continuing on the date of such notice, which notice shall set forth the nature of such event and the action which the Corporation proposes to take with respect thereto.

Section 6.7 Application of Moneys Collected. Any amounts collected pursuant to action taken under this Article shall be applied in accordance with the provisions of Article VII of the Bond Indenture, and to the extent applied to the payment of amounts due on the Bonds shall be credited against amounts due on Obligation No. 6.

Section 6.8 No Prevailing Party. Nothing in this Loan Agreement shall be construed to provide for award of attorneys' fees and costs to the Authority or the Corporation for the enforcement of this Loan Agreement as described in Section 1717 of the Civil Code. Nothing in this Section affects the rights of the Bond Trustee provided herein.

## ARTICLE VII

### MISCELLANEOUS

Section 7.1 Amendments and Supplements. This Loan Agreement may be amended, changed or modified only as provided in Section 6.08 of the Bond Indenture.

Section 7.2 Time of the Essence; Non-Business Days. Time shall be of the essence for purposes of this Loan Agreement. When any action is provided for herein to be done on a day named or within a specified time period, and the day or the last day of the period falls on a day other than a Business Day, such action may be performed on the next ensuing Business Day with the same effect as though performed on the appointed day or within the specified period.

Section 7.3 Binding Effect. This Loan Agreement binds and benefits the parties and their respective successors and assigns, however, that the Bond Trustee shall have only such duties and obligations as are expressly given to it hereunder.

Section 7.4 Entire Agreement. This Loan Agreement constitutes the entire agreement between the Corporation and the Authority with respect to the subject matter of this Loan Agreement and supersedes all prior agreements and understandings, both written and oral, with respect to the subject matter of this Loan Agreement.

Section 7.5 Severability. If any covenant, agreement or provision, or any portion thereof contained in this Loan Agreement, where the application thereof to any Person or circumstance is held to be unconstitutional, invalid or unenforceable, the remainder of this Loan Agreement and the application of such covenant, agreement or provision, or portion thereof, to other Persons or circumstances, shall be deemed severable and shall not be affected thereby, and this Loan Agreement shall remain valid, and the Bondholders shall retain all valid rights and benefits accorded to them under this Loan Agreement and the Constitution and laws of the State of California.

Section 7.6 Notices. (a) Unless otherwise expressly specified or permitted by the terms hereof, all notices, consents or other communications required or permitted hereunder shall be deemed sufficiently given or served if given by electronic transmission, facsimile transmission or in writing, mailed by first-class mail, postage prepaid and addressed as follows:

(i) to the Authority at:

California Health Facilities Financing Authority  
915 Capitol Mall, Suite 435  
Sacramento, California 95843  
Attention: Executive Director  
Telephone: (916) 653-2799  
Facsimile: (916) 654-5362

(ii) to the Corporation or the Credit Group Representative at:

El Camino Hospital  
2500 Grant Road  
Mountain View, CA 94040  
Attn: Chief Financial Officer  
Telephone: (650) 940-7073  
Facsimile: (650) 940-7261

(iii) to the Bond Trustee at:

Wells Fargo Bank, National Association  
333 Market Street, 18th Floor  
San Francisco, CA 94105  
Attention: Corporate Trust Services  
Telephone: (415) 371-3357  
Facsimile: (415) 371-3400

(b) The Corporation, the Authority, the Bond Trustee or the Credit Group Representative may at any time and from time to time by notice in writing to the other Persons listed in Section 7.6(a) designate a different address or addresses for notice under this Loan Agreement.

Section 7.7 Rules of Construction. The parties hereto acknowledge that each such party and its respective counsel have participated in the drafting and revision of this Loan Agreement and the Bond Indenture. Accordingly, the parties agree that the Authority shall not be deemed to be the drafting party of this Loan Agreement or the Bond Indenture for purposes of any rule of construction which disfavors the drafting party.

Section 7.8 Benefits of Agreement. The Indemnified Parties (other than the Authority) are third party beneficiaries of Section 5.4 in accordance with its terms. Any amendment or modification of this Loan Agreement executed by the parties is binding upon such Indemnified Parties, and any action or consent taken by the Authority on its own behalf is binding on such Indemnified Parties for the purposes of this Loan Agreement; provided no Indemnified Party other than the Authority shall be bound without its consent to any amendment or modification of the provisions of Section 5.4 providing (i) rights and performance of Indemnified Parties other than the Authority or (ii) performance by the Corporation for the benefit of Indemnified Parties other than the Authority.

The Bond Trustee is a third party beneficiary of Section 4.2 in accordance with its terms. Subject to the Bond Indenture, any amendment or modification of this Loan Agreement executed by the parties is binding upon the Bond Trustee, and any action or consent taken by the Authority on its own behalf is binding on the Bond Trustee for the purposes of this Loan Agreement; provided the Bond Trustee shall not be bound without its consent to any amendment or modification of the provisions of Section 4.2 providing (i) rights and performance of the Bond Trustee or (ii) performance by the Corporation for the benefit of the Bond Trustee.

This Loan Agreement is not intended to, nor may it be deemed to, create any rights of enforcement in any Person who is not a party to this Loan Agreement, an Indemnified Party or the Bond Trustee.

Section 7.9 Term. Except as otherwise provided herein this Loan Agreement shall remain in full force and effect from the date of execution hereof until no Bonds remain Outstanding under the Bond Indenture and all payments required hereunder have been made.

Section 7.10 Counterparts. This Loan Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute one instrument.

Section 7.11 Governing Law; Venue. The laws of the State of California govern all matters arising out of or relating to this Loan Agreement, including, without limitation, its validity, interpretation, construction, performance, and enforcement.

Any party bringing a legal action or proceeding against any other party arising out of or relating to this Loan Agreement shall bring the legal action or proceeding in the Sacramento County Superior Court, Sacramento, California, unless the Authority waives this requirement in writing. Each party agrees that the exclusive (subject to waiver as set forth herein) choice of forum set forth in this section does not prohibit the enforcement of any judgment obtained in that forum or any other appropriate forum. Each party waives, to the fullest extent permitted by law, (a) any objection which may now or later have to the laying of venue of any legal action or proceeding arising out of or relating to this Loan Agreement brought in the Sacramento County Superior Court, Sacramento, California, and (b) any claim that any such action or proceeding brought in such court has been brought in an inconvenient forum.

IN WITNESS WHEREOF, the Authority and the Corporation have caused this Loan Agreement to be executed in their respective corporate names as of the day and year first above written.

CALIFORNIA HEALTH FACILITIES  
FINANCING AUTHORITY

By: \_\_\_\_\_  
Deputy Treasurer  
For Chairman, State Treasurer John Chiang

By: \_\_\_\_\_  
Executive Director

EL CAMINO HOSPITAL

By: \_\_\_\_\_  
Authorized Representative

## **EXHIBIT A**

### **Project:**

To reimburse, finance and/or refinance the costs of the construction, expansion, remodeling, renovation, furnishing, equipping and acquisition of health facilities of the Corporation, which includes upgrades and capital projects at El Camino Hospital – Mountain View, located at or on the campus generally located at 2500 Grant Road in Mountain View, California 94040, including constructing, furnishing and equipping a new Behavioral Health Services Building and a new Integrated Medical Office Building, and constructing and equipping a new parking structure associated with such Integrated Medical Office Building, constructing and equipping the North Drive Garage expansion, demolition of the North Addition to the old main hospital building preparatory to construction of the Integrated Medical Office Building, additional construction, furnishing and equipping of the Central Utility Plant, and expanding, remodeling, renovating, furnishing and equipping the Women’s Hospital Building.

## **Att. 06 06 Bond Indenture**



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CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

and

WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Bond Trustee

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**BOND INDENTURE**

DATED AS OF MARCH 1, 2017

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\$(PAR AMOUNT)

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY  
REVENUE BONDS  
(EL CAMINO HOSPITAL)  
SERIES 2017

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This BOND INDENTURE, made and entered into as of March 1, 2017 (the “Bond Indenture”), by and between the CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY, a public instrumentality of the State of California (the “Authority”), and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, being qualified to accept and administer the trusts hereby created (in such capacity, the “Bond Trustee”);

W I T N E S S E T H:

WHEREAS, the Authority is a public instrumentality of the State of California, created by the California Health Facilities Financing Authority Act (constituting Part 7.2 of Division 3 of Title 2 of the Government Code of the State of California) (the “Act”), authorized to issue revenue bonds to finance construction, expansion, remodeling, renovation, furnishing, equipping, and acquisition of health facilities (including by reimbursing expenditures made for such purpose) and to refund and refinance certain indebtedness; and

WHEREAS, El Camino Hospital is a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the “Corporation”) and is a participating health institution (as defined in the Act); 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 \$[PAR AMOUNT], and make one or more loans of the proceeds thereof to the Corporation to (i) reimburse, finance and refinance costs of the construction, expansion, remodeling, renovation, furnishing, equipping and acquisition of certain health facilities of the Corporation, as more particularly described under the caption “Project” in Exhibit A to the Loan Agreement (the “Project”), (ii) finance a portion of the interest payable on the Bonds through \_\_\_\_\_, 2017 and (iii) pay costs of issuance of the Bonds (as defined below); and

WHEREAS, the Authority has authorized the issuance of the California Health Facilities Financing Authority Revenue Bonds (El Camino Hospital), Series 2017 (the “Bonds”), in an aggregate principal amount of \$[PAR AMOUNT] and the loan of the proceeds thereof to the Corporation for the purposes set forth in the above recital; and

WHEREAS, the Authority has entered into a loan agreement, dated as of March 1, 2017 (the “Loan Agreement”), with the Corporation, specifying the terms and conditions of a loan by the Authority to the Corporation of the proceeds of the Bonds to finance the Project and providing for the payment by the Corporation to the Authority of amounts sufficient for the full payment of the principal of and interest and premium, if any, on the Bonds and certain related costs and expenses; and

WHEREAS, pursuant to a master trust indenture, dated as of March 1, 2007, as supplemented and amended (the “Master Indenture”), between the Corporation and Wells Fargo Bank, National Association, as master trustee (in such capacity, the “Master Trustee”), and a Supplemental Master Indenture for Obligation No. 6, dated as of March 1, 2017, between the Corporation and the Master Trustee (“Supplement No. 6”), the Corporation has issued its Obligation No. 6 to evidence the joint and several obligation of the Members to make all

payments under the Loan Agreement, including amounts sufficient to pay the principal of, premium, if any, and interest on the Bonds; and

WHEREAS, in order to provide for the authentication and delivery of the Bonds, to establish and declare the terms and conditions upon which the Bonds are to be issued and secured and to secure the payment of the principal thereof, premium, if any, and interest thereon, the Authority has authorized the execution and delivery of this Bond Indenture; and

WHEREAS, the Bonds and the Bond Trustee's certificate of authentication and assignment to appear thereon shall be in substantially the form set forth in Exhibit A hereto and incorporated into this Bond Indenture by this reference, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Bond Indenture; and

WHEREAS, all acts and proceedings required by law necessary to make the Bonds, when executed by the Authority, authenticated and delivered by the Bond Trustee and duly issued, the valid, binding and legal limited obligations of the Authority, and to constitute this Bond Indenture a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Bond Indenture have been in all respects duly authorized; and

NOW, THEREFORE, THIS BOND INDENTURE WITNESSETH, that in order to secure the payment of the principal of, premium, if any, and the interest on all Bonds at any time issued and outstanding under this Bond Indenture, according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the holders thereof, and for other valuable consideration, the receipt whereof is hereby acknowledged, the Authority does hereby covenant and agree with the Bond Trustee, for the benefit of the respective holders from time to time of the Bonds, as follows:

## ARTICLE I

### DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

SECTION 1.01 Definitions. Unless the context otherwise requires, the terms defined in this Section shall, for all purposes of this Bond Indenture and of any indenture supplemental hereto and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined.

#### Act

“Act” means the California Health Facilities Financing Authority Act, constituting Part 7.2 of Division 3 of Title 2 of the Government Code of the State of California as now in effect and as it may from time to time hereafter be amended or supplemented.

### Additional Payments

“Additional Payments” means the payments so designated and required to be made by the Corporation pursuant to Section 4.2 of the Loan Agreement.

### Administrative Fees and Expenses

“Administrative Fees and Expenses” means any application, commitment, financing or similar fee charged, or reimbursement for administrative or other expenses incurred, by the Authority or the Bond Trustee, including Additional Payments.

### Authority

“Authority” means the California Health Facilities Financing Authority created pursuant to, and as defined in, the Act, and its successors and assigns.

### Authorized Representative

“Authorized Representative” means with respect to the Corporation in whatever capacity it may then be acting, the chairperson, vice-chairperson, or secretary of its governing body, its chief executive officer, its chief financial officer or any other person designated as an Authorized Representative of the Corporation by a Certificate of the Corporation signed by one of the above parties and filed with the chairperson and the Bond Trustee.

“Authorized Representative” means with respect to the Authority, its Chairman (or any Deputy), Executive Director, or any other Person or Persons designated as an Authorized Representative of the Authority by a Certificate of the Authority signed by its Chairman (or any Deputy), or Executive Director. Such authorization shall remain in effect until the Bond Trustee has received written notice to the contrary accompanied by a new designation.

### Beneficial Owner

“Beneficial Owner” means any Person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any of the Bonds (including any Person holding Bonds through nominees, depositories or other intermediaries).

### Bond Counsel

“Bond Counsel” means Orrick, Herrington & Sutcliffe LLP or another attorney at law, or firm of such attorneys, of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on obligations issued by states and their political subdivisions and acceptable to the Authority.

### Bond Indenture

“Bond Indenture” means this Bond Indenture, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Bond Indenture.

### Bond Trustee

“Bond Trustee” means Wells Fargo Bank, National Association, a national banking association organized and existing under and by virtue of the laws of the United States, or its successor, as Bond Trustee hereunder, as provided in Section 8.01.

### Bonds; Serial Bonds; Term Bonds

“Bonds” means the California Health Facilities Financing Authority Revenue Bonds (El Camino Hospital), Series 2017, authorized by, and at any time Outstanding pursuant to, this Bond Indenture.

“Serial Bonds” means Bonds, falling due by their terms in specified years, for which no Mandatory Sinking Account Payments have been established.

“Term Bonds” means the Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for the purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

### Business Day

“Business Day” means a day that is not a Saturday, Sunday or legal holiday on which banking institutions in the State, the State of New York or in any state in which the office of the Master Trustee or the Bond Trustee is located are authorized to remain closed or a day on which the New York Stock Exchange is closed.

### Certificate, Statement, Request, Requisition or Order of the Authority or the Corporation

“Certificate,” “Statement,” “Request,” “Requisition” and “Order” of the Authority or the Corporation, mean, respectively, a written certificate, statement, request, requisition or order signed (i) in the name of the Authority by an Authorized Representative of the Authority, or (ii) in the name of the Corporation by an Authorized Representative of the Corporation. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by Section 1.02, each such instrument shall include the statements provided for in Section 1.02.

### Code

“Code” means the Internal Revenue Code of 1986, or any successor statute thereto, and any regulations promulgated thereunder.

### Continuing Disclosure Certificate

“Continuing Disclosure Certificate” means the continuing disclosure certificate executed by the Corporation with respect to the Bonds on the Date of Issuance pursuant to Section 5.7 of the Loan Agreement.



### Corporate Trust Office

“Corporate Trust Office” means the office of the Bond Trustee, which as of the date hereof is located at 333 Market Street, 18th Floor, San Francisco, California 94105, Attention: Corporate Trust Department (facsimile: 415-371-3400), or such other or additional offices as shall be specified by the Bond Trustee in writing delivered to the Authority and the Corporation.

### Corporation

“Corporation” means El Camino Hospital, a California nonprofit public benefit corporation duly organized and existing under the laws of the State, or any corporation that is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of all or substantially all assets permitted under the Master Indenture.

### Costs of Issuance

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority or the Corporation and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Bond Trustee and the Master Trustee, initial and ongoing fees and charges of the Authority, legal fees and charges, fees and disbursements of consultants and professionals, Rating Agency fees, fees and charges for preparation, execution, transportation and safekeeping of the Bonds, and any other cost, charge or fee in connection with the original issuance of the Bonds.

### Costs of Issuance Fund

“Costs of Issuance Fund” means the fund by that name established pursuant to Section 3.04.

### Credit Group Representative

“Credit Group Representative” shall have the meaning set forth in Section 1.01 of the Master Indenture.

### Date of Issuance

“Date of Issuance” means March 22, 2017.

### Environmental Laws

“Environmental Laws” means any federal, state or local law, statute, code, ordinance, regulation, requirement or rule relating to dangerous, toxic or hazardous pollutants, Hazardous Materials, chemical waste, materials or substances to which the Corporation or any properties of the Corporation are subject.

## ERISA

“ERISA” means the Employee Retirement Income Security Act of 1974.

## Event of Default

“Event of Default” means any of the events specified in Section 7.01.

## Favorable Opinion of Bond Counsel

“Favorable Opinion of Bond Counsel” means, with respect to any action the occurrence of which requires such an opinion, an opinion of Bond Counsel, addressed to the Authority and the Bond Trustee, to the effect that such action is permitted under the Bond Indenture and will not in and of itself result in the inclusion of interest on the Bonds in gross income for federal income tax purposes.

## Fiscal Year

“Fiscal Year” shall have the meaning set forth in the Master Indenture.

## Fitch

“Fitch” means Fitch Ratings, Inc. a corporation organized and existing under the laws of the State of New York, its successors and assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice to the Authority and the Bond Trustee.

## Hazardous Materials

“Hazardous Materials” means (a) any oil, flammable substance, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other wastes, materials or pollutants which (i) pose a hazard to the Project or to persons on or about the Project or (ii) cause the Project to be in violation of any Environmental Laws; (b) asbestos in any form which is or could become friable, urea formaldehyde foam insulation, transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls, or radon gas; (c) any chemical, material or substance defined as or included in the definition of “waste,” “hazardous substances,” “hazardous wastes,” “hazardous materials,” “extremely hazardous waste,” “restricted hazardous waste,” or “toxic substances” or words of similar import under any Environmental Laws including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), 42 USC §§ 9601 et seq.; the Resource Conservation and Recovery Act (“RCRA”), 42 USC §§ 6901 et seq.; the Hazardous Materials Transportation Act, 49 USC §§ 1801 et seq.; the Federal Water Pollution Control Act, 33 USC §§ 1251 et seq.; the California Hazardous Waste Control Law (“HWCL”), Cal. Health & Safety Code §§ 25100 et seq.; the Hazardous Substance Account Act (“HSAA”), Cal. Health & Safety Code §§ 25300 et seq.; the Underground Storage of Hazardous Substances Act, Cal. Health & Safety Code §§ 25280 et seq.; the Porter-Cologne Water Quality Control Act (the “Porter-Cologne Act”), Cal. Water Code §§ 13000 et seq., the Safe Drinking Water and Toxic

Enforcement Act of 1986 (Proposition 65); and Title 22 of the California Code of Regulations, Division 4, Chapter 30; (d) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority or agency or may or could pose a hazard to the health and safety of the occupants of the Project or the owners and/or occupants of property adjacent to or surrounding the Project, or any other person coming upon the Project or adjacent property; or (e) any other chemical, materials or substance which may or could pose a hazard to the environment.

#### Hazardous Material Activity

“Hazardous Material Activity” means any actual, proposed or threatened storage, holding, existence, release, emission, discharge, generation, processing, abatement, removal, disposition, handling or transportation or any Hazardous Materials from, under into or on the Project or surrounding property.

#### Holder or Bondholder

“Holder” or “Bondholder,” whenever used herein with respect to a Bond, means the Person in whose name such Bond is registered.

#### Interest Account

“Interest Account” means the account by that name established in the Revenue Fund pursuant to Section 5.02.

#### Interest Payment Date

“Interest Payment Date” means February 1 and August 1 of each year, commencing August 1, 2017.

#### Investment Securities

“Investment Securities” means any of the following:

- (a) United States Government Obligations;
- (b) direct obligations of any United States Government agency or instrumentality;
- (c) obligations issued by any state of the United States of America, or any political subdivision thereof, rated by at least two Rating Agencies at the time of purchase in one of the three highest Rating Categories, and obligations fully secured by and payable solely from an escrow fund held by a trustee consisting of cash or obligations described in (1) of the definition of United States Government Obligations;
- (d) (1) debt obligations of any United States corporation or trust, which obligations are rated by at least two Rating Agencies at the time of purchase in one of the three highest Rating Categories, or (2) commercial paper rated by at least two nationally recognized

Rating Agencies at the time of purchase in the highest Rating Category (without incorporating refinements or gradation of Rating Category by numerical modifier or otherwise);

(e) certificates of deposit or time deposits of any bank, trust company or savings and loan which deposits are fully insured by a federally sponsored deposit insurance program;

(f) bankers acceptances of any bank which bank or its parent holding company's debt conforms to the rating requirements of (d) above;

(g) repurchase agreements, entered in conformance with prevailing industry standard guidelines, of obligations described in (1) of the definition of United States Government Obligations or (b) above, delivered versus payment to the trustee and continuously collateralized at 102% or greater, with counterparties having debt rated in conformance with the rating requirements of (d) above;

(h) investment agreements of any corporation which agreements or the corporation's long term debt is rated by at least two nationally recognized rating agencies at the time of entrance into such agreement in one of the three highest rating categories;

(i) shares of a money market fund (including funds of the Bond Trustee or its affiliates) or commingled trust which fund or trust's investments are restricted to these Investment Securities.

#### Loan Agreement

"Loan Agreement" means that certain loan agreement by and between the Authority and the Corporation, dated as of March 1, 2017, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of this Bond Indenture.

#### Loan Default Event

"Loan Default Event" means any of the events specified in Section 6.1 of the Loan Agreement.

#### Loan Repayments

"Loan Repayments" means the payments so designated and required to be made by the Corporation pursuant to Section 4.1 of the Loan Agreement.

#### Mandatory Sinking Account Payment

"Mandatory Sinking Account Payment" means the amount required by Section 5.04 to be paid on any single date for the retirement of Bonds.

### Master Indenture

“Master Indenture” means that certain master trust indenture, dated as of March 1, 2007, between the Corporation and the Master Trustee, as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

### Master Trustee

“Master Trustee” means Wells Fargo Bank, National Association, a national banking association duly organized and existing under the laws of the United States of America, or its successor, as master trustee under the Master Indenture.

### Members

“Members” means the Corporation and each other Person that is then obligated as a Member under and as defined in the Master Indenture.

### Moody’s

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice to the Authority and the Bond Trustee.

### MSRB

“MSRB” means the Municipal Securities Rulemaking Board.

### Obligated Group

“Obligated Group” means the Corporation and each other Member.

### Obligation No. 6

“Obligation No. 6” means the obligation issued under the Master Indenture and Supplement No. 6.

### Official Statement

“Official Statement” means the official statement relating to the Bonds dated March [\_\_\_], 2017, as supplemented and amended.

### Opinion of Counsel

“Opinion of Counsel” means a written opinion of counsel (who may be counsel for the Authority, the Corporation or the Bond Trustee) selected by the Corporation and not objected to by the Authority. If and to the extent required by the provisions of Section 1.02, each Opinion of Counsel shall include the statements provided for in Section 1.02.

### Optional Redemption Account

“Optional Redemption Account” means the account by that name in the Redemption Fund established pursuant to Section 5.05.

### Outstanding

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 11.09) all Bonds theretofore, or thereupon being, authenticated and delivered by the Bond Trustee under this Bond Indenture except: (1) Bonds theretofore cancelled by the Bond Trustee or surrendered to the Bond Trustee for cancellation; (2) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with Section 10.02, including Bonds (or portions of Bonds) referred to in Section 11.10; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Bond Trustee pursuant to this Bond Indenture.

### Person

“Person” means an individual, corporation, firm, association, partnership, trust or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

### Principal Account

“Principal Account” means the account by that name established in the Revenue Fund pursuant to Section 5.02.

### Principal Payment Date

“Principal Payment Date” means, with respect to a Bond, the date on which principal evidenced by such Bond becomes due and payable, whether at maturity, upon redemption, including but not limited to mandatory sinking account redemption, by declaration of acceleration or otherwise.

### Program

“Program” means the Authority’s program of making loans under the Act.

### Project

“Project” has the meaning set forth under the caption “Project” in Exhibit A to the Loan Agreement.

### Project Fund

“Project Fund” means the fund by that name established pursuant to Section 3.03.

Rating Agency

“Rating Agency” means Fitch, Moody’s and S&P.

Rating Category

“Rating Category” means a generic securities rating category without regard to any refinement or gradation of such rating category by numerical modifier or otherwise.

Rebate Fund

“Rebate Fund” means the fund by that name established pursuant to Section 5.06.

Record Date

“Record Date” means, with respect to each Interest Payment Date, the fifteenth (15th) day (whether or not a Business Day) of the calendar month preceding the calendar month in which such Interest Payment Date falls.

Redemption Fund

“Redemption Fund” means the fund by that name established pursuant to Section 5.05.

Redemption Price

“Redemption Price” means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and this Bond Indenture.

Release

“Release” means any release, spill, emission, leaking, pumping, pouring, injection, escaping, deposit, disposal, discharge, dispersal, leaching, or migration into the indoor or outdoor environment (including, without limitation, the abandonment or disposal of any barrels, containers or other closed receptacles containing any Hazardous Materials), or into or out of the Project, including the movement of any Hazardous Materials through the air, soil, surface water, groundwater or property.

Revenue Fund

“Revenue Fund” means the fund by that name established pursuant to Section 5.01.

Revenues

“Revenues” means all amounts received by the Authority or the Bond Trustee for the account of the Authority pursuant or with respect to the Loan Agreement or Obligation No. 6, including, without limiting the generality of the foregoing, Loan Repayments (including both

timely and delinquent payments and any late charges, and whether paid from any source), prepayments, insurance proceeds, condemnation proceeds and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to this Bond Indenture, but not including any indemnification payments or any Administrative Fees and Expenses (or Additional Payments) or any moneys required to be deposited in the Rebate Fund.

### S&P

“S&P” means Standard & Poor’s Ratings Services, a Standard and Poor’s Financial Services LLC business, which is a subsidiary of The McGraw-Hill Companies, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, or, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice to the Authority and the Bond Trustee.

### Securities Depository

“Securities Depository” means The Depository Trust Company and its successors and assigns, or any other securities depository selected as set forth in Section 2.09 which agrees to follow the procedures required to be followed by such securities depository in connection with the Bonds.

### Sinking Account

“Sinking Account” means each subaccount in the Principal Account so designated and established pursuant to Section 5.04(B).

### Special Record Date

“Special Record Date” means the date established by the Bond Trustee pursuant to Section 2.02 as a record date for the payment of defaulted interest on the Bonds.

### Special Redemption Account

“Special Redemption Account” means the account by that name in the Redemption Fund established pursuant to Section 5.05.

### State

“State” means the State of California.

### Supplement No. 6

“Supplement No. 6” means that certain supplemental master trust indenture for obligation No. 6, dated as of March 1, 2017, between the Corporation and the Master Trustee



pursuant to which Obligation No. 6 is issued, as originally executed and as amended or supplemented from time to time in accordance with the terms of the Master Indenture.

### Supplemental Bond Indenture

“Supplemental Bond Indenture” means any indenture hereafter duly authorized and entered into between the Authority and the Bond Trustee, supplementing, modifying or amending this Bond Indenture; but only if and to the extent that such Supplemental Bond Indenture is specifically authorized hereunder.

### Tax Certificate

“Tax Certificate” means the Tax Certificate and Agreement delivered by the Authority and the Corporation at the time of issuance and delivery of the Bonds, as the same may be amended or supplemented in accordance with its terms.

### United States Government Obligations

“United States Government Obligations” means:

(1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of which are fully guaranteed by the United States of America;

(2) certificates or other instruments that evidence direct ownership of future principal and/or interest on obligations described in clause (1), provided that such obligations are held in the custody of a bank or trust company in a special account separate from the general assets of such custodian; and

(3) obligations (a) the interest on which is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, (b) the timely payment of the principal of and interest on which is fully provided for by the deposit in trust or escrow of cash or obligations described in clauses (1) or (2), and (c) that are rated in the highest Rating Category by each Rating Agency then rating both the Bonds and such obligations (but in all cases by at least one Rating Agency then rating the Bonds).

**SECTION 1.02**      Content of Certificates and Opinions. Every certificate or opinion provided for herein with respect to compliance with any provision hereof shall include (1) a statement that the Person making or giving such certificate or opinion has read such provision and the definitions herein relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement that, in the opinion of such Person, such person has made or caused to be made such examination or investigation as is necessary to enable such Person to express an informed opinion with respect to the subject matter referred to in the instrument to which such Person’s signature is affixed; and (4) a statement as to whether, in the opinion of such Person, such provision has been complied with (5) a statement of the assumptions upon which such certificate or opinion is based, and that such assumptions are reasonable.

Any such certificate or opinion made or given by an officer of the Authority or the Corporation may be based, insofar as it relates to legal, accounting or health care matters, upon a certificate or opinion of or representation by counsel, an accountant or a management consultant, unless such officer knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate or opinion made or given by counsel, an accountant or a management consultant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the Authority or the Corporation, as the case may be) upon a certificate or opinion of or representation by an officer of the Authority or the Corporation, unless such counsel, accountant or management consultant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such person's certificate or opinion or representation may be based, as aforesaid, is erroneous. The same officer of the Authority or the Corporation, or the same counsel or accountant or management consultant, as the case may be, need not certify to all of the matters required to be certified under any provision of this Bond Indenture, but different officers, counsel, accountants or management consultants may certify to different matters, respectively.

SECTION 1.03      Interpretation.

(A) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender, as appropriate.

(B) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(C) All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Bond Indenture; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Bond Indenture as a whole and not to any particular Article, Section or subdivision hereof.

ARTICLE II

THE BONDS

SECTION 2.01      Authorization of Bonds. An issue of Bonds to be issued hereunder to obtain money to carry out the purpose of the Program and for the benefit of the Corporation is hereby created. The Bonds are designated as "California Health Facilities Financing Authority Revenue Bonds (El Camino Hospital), Series 2017." The aggregate principal amount of Bonds that may be issued and Outstanding under this Bond Indenture shall not exceed \$[PAR AMOUNT]. This Bond Indenture constitutes a continuing agreement with the Holders from time to time of the Bonds to secure the full payment of the principal of and interest on all such Bonds subject to the covenants, provisions and conditions herein contained.

SECTION 2.02 Terms of the Bonds. The Bonds shall be issued as fully registered Bonds in denominations of \$5,000 or any integral multiple thereof within a maturity. The Bonds shall be initially registered in the name of Cede & Co., as nominee of the Securities Depository, or any successor thereto. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except as set forth in this Article II. The Bonds shall be dated as of the Date of Issuance, and interest thereon shall be payable on each Interest Payment Date. The Bonds shall mature on the following dates in the following amounts (subject to the right of prior redemption set forth in Article IV) and shall bear interest at the following rates per annum:

Maturity Date (February 1)	Principal Amount	Interest Rate
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The principal or Redemption Price of the Bonds shall be payable in lawful money of the United States of America at the Corporate Trust Office of the Bond Trustee upon surrender of the Bonds to the Bond Trustee for cancellation. Payment of the interest on any Bond shall be made on each Interest Payment Date to the Holder thereof as of the Record Date for each Interest Payment Date by check mailed by first-class mail on each Interest Payment Date to such Holder at his address as it appears on the registration books maintained by the Bond Trustee or, upon the written request of any Holder of at least \$1,000,000 in principal amount of Bonds, submitted to the Bond Trustee at least one Business Day prior to the Record Date, by wire transfer in immediately available funds to an account within the United States of America designated by such Bondholder.

The Bonds shall be numbered in consecutive numerical order from R-1 upwards, and each such Bond shall bear interest from the Date of Issuance. Interest shall be calculated on a three hundred sixty (360)-day year basis of twelve (12) thirty (30)-day months.

Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the Holder on such Record Date and shall be paid to the Person in whose name the Bond is registered at the close of business on a special record date (“Special Record Date”) for the payment of such defaulted interest to be fixed by the Bond Trustee, notice of which shall be given to the Holders by first-class mail not less than ten (10) days prior to such Special Record Date.

The Bonds shall be subject to redemption as provided in Article IV.

SECTION 2.03      Execution of Bonds. The Bonds shall be executed in the name and on behalf of the Authority with the manual or facsimile signature of its Chairman (or any duly authorized Deputy to the Chairman) under its seal attested by the manual or facsimile signature of its Executive Director. Such seal may be in the form of a facsimile of the Authority’s seal and may be reproduced, imprinted or impressed on the Bonds. The Bonds shall then be delivered to the Bond Trustee for authentication by it. In case any of the officers who shall have signed or attested any of the Bonds shall cease to be such officer or officers of the Authority before the Bonds so signed or attested shall have been authenticated or delivered by the Bond Trustee or issued by the Authority, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the Authority as though those who signed and attested the same had continued to be such officers of the Authority, and also any Bond may be signed and attested on behalf of the Authority by such persons as at the actual date of execution of such Bond shall be the proper officers of the Authority although at the nominal date of such Bond any such person shall not have been such officer of the Authority.

Only such of the Bonds as shall bear thereon a certificate of authentication substantially in the form attached hereto as Exhibit A, manually executed by an authorized signatory of the Bond Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of this Bond Indenture, and such certificate of the Bond Trustee shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this Bond Indenture.

SECTION 2.04      Transfer of Bonds. Subject to the provisions of Section 2.09, any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of Section 2.06, by the Person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Bond Trustee, and such other documentation as the Bond Trustee may reasonably require.

Whenever any Bond or Bonds shall be surrendered for transfer, the Authority shall execute and the Bond Trustee shall authenticate and deliver a new Bond or Bonds, of the same maturity and for a like aggregate principal amount of authorized denominations. The Bond Trustee shall require the Bondholder requesting such transfer to pay any tax or other governmental charge or charge imposed by the Bond Trustee required to be paid with respect to such transfer. The Bond Trustee shall not be required to transfer (i) any Bond during the fifteen

(15) days next preceding the date on which notice of redemption of Bonds is given or (ii) any Bond called for redemption.

SECTION 2.05 Exchange of Bonds. Subject to the provisions of Section 2.09, Bonds may be exchanged at the Corporate Trust Office of the Bond Trustee for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity. The Bond Trustee shall require the Bondholder requesting such exchange to pay any tax or other governmental charge or charge imposed by the Bond Trustee required to be paid with respect to such exchange. The Bond Trustee shall not be required to exchange (i) any Bond during the fifteen (15) days next preceding the date on which notice of redemption of Bonds is given or (ii) any Bond called for redemption.

SECTION 2.06 Bond Register. The Bond Trustee will keep or cause to be kept sufficient books for the registration and transfer of the Bonds, which shall at all times, upon reasonable notice, be open to inspection by any Bondholder or his agent duly authorized in writing, the Authority or the Corporation; and, upon presentation for such purpose, the Bond Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, Bonds as hereinbefore provided.

The Person in whose name any Bond shall be registered shall be deemed the owner thereof for all purposes thereof, and payment of or on account of the interest and principal or Redemption Price represented by such Bond shall be made only to or upon the order in writing of such Holder, which payment shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

SECTION 2.07 Temporary Bonds. The Bonds may be issued in temporary form exchangeable for definitive Bonds when ready for delivery. Any temporary Bond may be printed, lithographed or typewritten, shall be of such authorized denominations as may be determined by the Authority, shall be in fully registered form without coupons and may contain such reference to any of the provisions of this Bond Indenture as may be appropriate. A temporary Bond may be in the form of a single fully registered Bond payable in installments, each on the date, in the amount and at the rate of interest established for the Bonds maturing on such date. Every temporary Bond shall be executed by the Authority and be authenticated by the Bond Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the Authority issues temporary Bonds it will execute and deliver definitive Bonds as promptly thereafter as practicable, and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the Corporate Trust Office of the Bond Trustee, and the Bond Trustee shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations of the same maturity or maturities. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Bond Indenture as definitive Bonds authenticated and delivered hereunder.

SECTION 2.08 Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Authority, at the expense of the Holder of said Bond, shall execute, and the Bond Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Bond Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Bond Trustee

shall be cancelled by it. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Bond Trustee and, if such evidence be satisfactory and indemnity satisfactory to the Bond Trustee and the Authority shall be given, the Authority, at the expense of the Holder, shall execute, and the Bond Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured, instead of issuing a substitute Bond, the Bond Trustee may pay the same without surrender thereof upon receipt of the above-mentioned indemnity). The Bond Trustee may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under this Section and of the expenses which may be incurred by the Authority and the Bond Trustee in complying with this Section. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Authority whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of this Bond Indenture with all other Bonds secured by this Bond Indenture.

SECTION 2.09      Use of Securities Depository.

(A)      The Bonds shall initially be issued as provided in Section 2.02. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except:

(i)      To any successor to the Securities Depository or its nominee, or to any substitute Securities Depository designated pursuant to clause (ii) of this subsection (A) (“substitute Securities Depository”); provided that the successor to the Securities Depository or substitute Securities Depository shall be qualified under any applicable laws to provide the service proposed to be provided by it;

(ii)      To any substitute Securities Depository designated by the Authority (at the direction of the Corporation) and not objected to by the Bond Trustee, upon (1) the resignation of the Securities Depository or its successor (or any substitute Securities Depository or its successor); or (2) a determination by the Authority (at the direction of the Corporation) that the Securities Depository or its successor (or any substitute Securities Depository or its successor) is no longer able to carry out its functions as Securities Depository; provided, that any such substitute Securities Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(iii)      To any Person as provided below, upon (1) the resignation of the Securities Depository (or substitute Securities Depository or its successor) from its functions as Securities Depository; provided, that no substitute Securities Depository which is not objected to by the Bond Trustee can be obtained or (2) a determination by the Authority (with the concurrence of the Corporation) that it is in the best interests of the Authority to remove the Securities Depository (or any substitute Securities Depository or its successor) from its functions as Securities Depository.

(B)      In the case of any transfer pursuant to clause (i) or clause (ii) of subsection (A) hereof, upon receipt of the Outstanding Bonds by the Bond Trustee, together with a Certificate of the Authority to the Bond Trustee, a single new Bond for each maturity shall be

executed and delivered in the aggregate principal amount of the Bonds of such maturity then Outstanding, registered in the name of the Securities Depository or such substitute Securities Depository, or their nominees, as the case may be, all as specified in such Certificate of the Authority. In the case of any transfer pursuant to clause (iii) of subsection (A) hereof, upon receipt of the Outstanding Bonds by the Bond Trustee, new Bonds shall be executed and delivered in such denominations numbered in consecutive order from R-1 up and registered in the names of such Person as are requested in such a Statement of the Authority, subject to the limitations of Section 2.02, provided the Bond Trustee shall not be required to deliver such new Bonds within a period less than sixty (60) days from the date of receipt of such Certificate of the Authority.

(C) If the Bonds are registered in the name of a Securities Depository as provided herein, in the case of partial redemption or an advance refunding of the Bonds evidencing all or a portion of the principal amount then Outstanding, the Securities Depository or its agent shall make an appropriate notation on the Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Bond Trustee.

(D) The Authority, the Corporation and the Bond Trustee shall be entitled to treat the Person in whose name any Bond is registered as the Bondholder thereof for all purposes of this Bond Indenture and any applicable laws, notwithstanding any notice to the contrary received by an officer of the Bond Trustee or the Authority; and the Authority and the Bond Trustee shall have no responsibility for transmitting payments to, communication with, notifying, or otherwise dealing with any Beneficial Owners of the Bonds. Neither the Authority, the Corporation nor the Bond Trustee shall have any responsibility or obligation, legal or otherwise, to the Beneficial Owners or to any other party including the Securities Depository or its successor (or substitute Securities Depository or its successor), except to the Holder of any Bond.

(E) Notwithstanding any other provision of this Bond Indenture to the contrary, so long as all Bonds are registered in the name of any nominee of the Securities Depository, any requirement for transfer or delivery of the Bonds, with respect to redemption or otherwise, may be effectuated by providing appropriate transfer instructions to the Securities Depository.

### ARTICLE III

#### ISSUANCE OF BONDS; APPLICATION OF PROCEEDS

SECTION 3.01 Issuance of Bonds. At any time after the execution of this Bond Indenture, the Authority may execute and the Bond Trustee shall authenticate and, upon Request of the Authority, deliver the Bonds in the aggregate principal amount of \$[PAR AMOUNT].

SECTION 3.02 Application of Proceeds of Bonds. The proceeds received from the sale of the Bonds (\$[\_\_\_\_\_]), consisting of the aggregate principal amount of the Bonds of \$[PAR AMOUNT].00, plus/less original issue premium/discount of \$[\_\_\_\_\_] and less an underwriters' discount of \$[\_\_\_\_\_]), shall be deposited in trust with the Bond Trustee, who shall forthwith deposit such proceeds as follows:

(A) The Bond Trustee shall deposit the sum of \$[\_\_\_\_\_] in the Project Fund.

(B) The Bond Trustee shall deposit the sum of \$[\_\_\_\_\_] in the Costs of Issuance Fund.

(C) The Bond Trustee shall deposit \$[\_\_\_\_\_] in a “capitalized interest subaccount,” which the Bond Trustee shall establish, maintain and hold in trust within the Interest Account.

The Bond Trustee may, in its discretion, establish a temporary fund or account in its books and records to facilitate such transfers.

SECTION 3.03      Establishment and Application of Project Fund.

(A) The Bond Trustee shall establish, maintain and hold in trust a separate fund designated as the “Project Fund.” The moneys in the Project Fund shall be used and withdrawn by the Bond Trustee to pay the costs of the Project, upon receipt of written direction of the Corporation. No moneys in the Project Fund shall be used to pay Costs of Issuance.

(B) Before any payment from the Project Fund for costs of the Project shall be made, the Corporation shall file or cause to be filed with the Bond Trustee a Requisition, in substantially the form attached hereto as Exhibit B, stating:

(i) the item number of such payment;

(ii) the name of the Person to whom each such payment is due, which may be the Corporation in the case of reimbursement for Project costs theretofore paid by the Corporation;

(iii) the respective amounts to be paid;

(iv) the purpose by general classification for which each obligation to be paid was incurred; and

(v) that obligations in the stated amounts have been incurred by the Corporation and are presently due and payable and that each item thereof is a proper charge against the Project Fund and has not been previously paid from the Project Fund.

(C) Upon receipt of such a Requisition, the Bond Trustee shall pay the amount set forth in such Requisition as directed by the terms thereof out of the Project Fund. The Bond Trustee shall not make any such payment if it has received any written notice of claim of lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the monies to be so paid, that has not been released or will not be released simultaneously with such payment. Each such Requisition shall be sufficient evidence to the Bond Trustee of the facts stated therein and the Bond Trustee shall have no duty to confirm the accuracy of such facts.



(D) When the Project shall have been completed, there shall be delivered to the Bond Trustee a Certificate of the Corporation stating the fact and date of such completion and stating that all of the costs thereof have been determined and paid (or that all of such costs have been paid less specified claims that are subject to dispute and for which a retention in the Project Fund is to be maintained in the full amount of such claims until such dispute is resolved). Upon the receipt of such Certificate, the Bond Trustee shall, as directed by said Certificate, transfer any remaining balance in the Project Fund to the Revenue Fund. Upon such transfer, the Project Fund shall be closed.

SECTION 3.04 Establishment and Application of Costs of Issuance Fund.  
The Bond Trustee shall establish, maintain and hold in trust a separate fund designated as the “Costs of Issuance Fund.” The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Bond Trustee to pay the Costs of Issuance upon Requisition of the Corporation substantially in the form attached hereto as Exhibit C stating the Person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against the Costs of Issuance Fund. On the date no later than 180 days after the Date of Issuance, or upon the earlier Request of the Corporation, amounts, if any, remaining in the Costs of Issuance Fund shall be transferred to the Project Fund and the Costs of Issuance Fund shall be closed.

SECTION 3.05 Validity of Bonds. The validity of the authorization and issuance of the Bonds is not dependent on and shall not be affected in any way by any proceedings taken by the Authority or the Bond Trustee with respect to or in connection with the Loan Agreement. The recital contained in the Bonds that the same are issued pursuant to the Act and the Constitution and laws of the State shall be conclusive evidence of their validity and of compliance with the provisions of law in their issuance.

## ARTICLE IV

### REDEMPTION OF BONDS

SECTION 4.01 Terms of Redemption.

(A) The Bonds maturing on February 1, 20[\_\_\_], [and bearing interest at [\_\_\_] percent], are subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments established in Section 5.04(C) on any February 1, on or after February 1, 20[\_\_\_], at the principal amount thereof without premium.

(B) The Bonds maturing on February 1, 20[\_\_\_], [and bearing interest at [\_\_\_] percent], are subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments established in Section 5.04(D) on any February 1, on or after February 1, 20[\_\_\_], at the principal amount thereof without premium.

(C) The Bonds maturing on February 1, 20[\_\_\_], [and bearing interest at [\_\_\_] percent], are subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments established in Section 5.04(E) on any February 1, on or after February 1, 20[\_\_\_], at the principal amount thereof without premium.

(D) The Bonds maturing on February 1, 20[\_\_\_], [and bearing interest at [\_\_\_] percent], are subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments established in Section 5.04(F) on any February 1, on or after February 1, 20[\_\_\_], at the principal amount thereof without premium.

(E) The Bonds maturing on or after February 1, 20[\_\_\_] are subject to redemption prior to their stated maturity, at the option of the Corporation, which option shall be exercised upon Request of the Corporation given to the Bond Trustee (unless waived by the Bond Trustee in its sole discretion) at least twenty-five (25) days prior to such redemption date), from any source of available funds, as a whole or in part on any date, (in such amounts and maturities as may be specified by the Corporation), on or after February 1, 20[\_\_\_], by lot, at a Redemption Price equal to 100% of the principal amount of Bonds called for redemption, together with interest accrued thereon (if any) to the date fixed for redemption.

(F) The Bonds are subject to redemption prior to their stated maturity, at the option of the Corporation, which option shall be exercised upon Request of the Corporation given to the Bond Trustee (unless waived by the Bond Trustee in its sole discretion) at least twenty-five (25) days prior to the date fixed for redemption) in whole or in part (in such amounts and maturities as may be specified by the Corporation), by lot, on any date, from hazard insurance or condemnation proceeds received with respect to the facilities of any of the Members and deposited in the Special Redemption Account, at a Redemption Price equal to the principal amount thereof, together with interest accrued thereon (if any) to the date fixed for redemption, without premium.

(G) The Bonds are also subject to redemption prior to maturity at the option of the Corporation, which option shall be exercised upon Request of the Corporation given to the Bond Trustee, as a whole (but not in part) on any date at the principal amount thereof and interest accrued thereon (if any) to the date fixed for redemption, without premium, if as a result of any changes in the Constitution of the United States of America or any state, or legislative or administrative action or inaction by the United States of America or any state, or any agency or political subdivision thereof, or by reason of any judicial decisions there is a good faith determination by any Member that (a) the Master Indenture has become void or unenforceable or impossible to perform, or (b) unreasonable burdens or excessive liabilities have been imposed on such Member, including without limitation, federal, state or other ad valorem property, income or other taxes being then imposed which were not being imposed on the Date of Issuance.

SECTION 4.02      Selection of Bonds for Redemption. Whenever provision is made in this Bond Indenture for the redemption of less than all of the Bonds or any given portion thereof, the Bond Trustee shall select the Bonds to be redeemed, from all Bonds subject to redemption or such given portion thereof not previously called for redemption, by lot; provided, however that in such instances as provided for herein where the Corporation is to specify the maturities of Bonds to be redeemed, the Bond Trustee shall redeem Bonds in accordance with any such specification.

SECTION 4.03      Notice of Redemption.

(A) Notice of redemption shall be mailed by first-class mail by the Bond Trustee, not less than twenty (20) days and not more than sixty (60) days prior to the redemption date, to (i) the respective Holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Bond Trustee, and (ii) the Authority, the Securities Depository and the MSRB. Each notice of redemption shall state the date of such notice, the Date of Issuance, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Bond Trustee) the maturity (including CUSIP numbers, if any), and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. The Corporation may instruct the Bond Trustee to make any notice of optional redemption conditional upon receipt of funds for the redemption or any other conditions specified in such notice.

(B) Any notice of optional redemption hereunder may be rescinded by written notice given by the Corporation to the Bond Trustee no later than five (5) Business Days prior to the date specified for redemption. The Bond Trustee shall give notice of such rescission as soon thereafter as practicable to the same parties and in the same manner as the notice of redemption was given pursuant to this Section 4.03, no Event of Default shall exist hereunder and the Bonds shall remain Outstanding.

(C) Failure by the Bond Trustee to give notice pursuant to this Section 4.03 to the Authority or any one or more of the Securities Depository, MSRB or Rating Agencies, or the insufficiency of any such notice shall not affect the sufficiency of the proceedings for redemption. Failure by the Bond Trustee to mail notice of redemption (or failure by any such Holder or Holders to receive said notice) pursuant to this Section 4.03 to any one or more of the respective Holders of any Bonds designated for redemption shall not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed.

(D) Notice of redemption of Bonds shall be given by the Bond Trustee, at the expense of the Corporation, for and on behalf of the Authority.

SECTION 4.04      Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the Authority shall execute and the Bond Trustee shall authenticate and deliver to the Holder thereof, at the expense of the Corporation, a new Bond or Bonds of authorized denominations, and of the same maturity, equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

SECTION 4.05      Effect of Redemption.

(A) Notice of redemption having been duly given as aforesaid, and any conditions set forth therein being satisfied and such notice has not been rescinded (in each case

as provided in Section 4.03), and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Bonds (or portions thereof) so called for redemption being held by the Bond Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice, together with interest accrued thereon to the redemption date, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Bond Indenture, and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest to the date fixed for redemption from funds held by the Bond Trustee for such payment.

(B) All Bonds redeemed pursuant to the provisions of this Article shall be cancelled by the Bond Trustee upon surrender thereof and disposed of in a manner deemed appropriate by it.

SECTION 4.06 Purchase in Lieu of Redemption. Each Holder or Beneficial Owner, by purchase and acceptance of any Bond, irrevocably grants to the Corporation the option to purchase such Bond at any time such Bond is subject to optional redemption as described in Section 4.01 of this Bond Indenture. Such Bond is to be purchased at a purchase price equal to the then applicable redemption price of such Bond. The Corporation shall deliver a Favorable Opinion of Bond Counsel to the Bond Trustee, and shall direct the Bond Trustee to provide notice of mandatory purchase, such notice to be provided, as and to the extent applicable, in accordance with Section 4.03 of this Bond Indenture and to select Bonds subject to mandatory purchase in the same manner as Bonds called for optional redemption pursuant to this Bond Indenture. On the date fixed for purchase of any Bond in lieu of redemption as described in this Section, the Corporation shall pay the purchase price of such Bond to the Bond Trustee in immediately available funds, and the Bond Trustee shall pay the same to the Holders of the Bonds being purchased against delivery thereof. No purchase of any Bond in lieu of redemption as described in this Section shall operate to extinguish the indebtedness of the Corporation evidenced by such Bond. No Holder or Beneficial Owner may elect to retain a Bond subject to mandatory purchase in lieu of redemption. The Corporation may exercise its option to purchase Bonds, in whole or in part, in accordance with this Section.

## ARTICLE V

### REVENUES; FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

#### SECTION 5.01 Pledge and Assignment; Revenue Fund.

(A) Subject only to the provisions of this Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein, there are hereby pledged to secure the payment of the principal (and Redemption Price) of and interest on the Bonds in accordance with their terms and the provisions of this Bond Indenture, all of the Revenues and any other amounts (including proceeds of the sale of Bonds) held in any fund or account established pursuant to this Bond Indenture, excepting only moneys on deposit in the Rebate Fund. Said pledge shall constitute a lien on and security interest in such assets and shall

attach, be perfected and be valid and binding from and after delivery by the Bond Trustee of the Bonds, without any physical delivery thereof or further act.

(B) The Authority hereby transfers in trust, grants a security interest in and assigns to the Bond Trustee, for the benefit of the Holders from time to time of the Bonds, all of the Revenues and other assets pledged in subsection (A) of this Section and all of the right, title and interest of the Authority in (1) the Loan Agreement (except for (i) the right to receive any Administrative Fees and Expenses to the extent payable to the Authority, (ii) any rights of the Authority to be indemnified, held harmless and defended and rights to inspection and to receive notices, certificates and opinions, (iii) express rights to give approvals, consents or waivers, and (iv) the obligation of the Corporation to make deposits pursuant to the Tax Certificate) and (2) Obligation No. 6. The Bond Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Bond Trustee and shall forthwith be paid by the Authority to the Bond Trustee. The Bond Trustee shall also be entitled to and subject to the provisions of this Bond Indenture, shall take all steps, actions and proceedings to enforce all of the rights of the Authority, other than for those rights retained by the Authority, and all of the obligations of the Corporation under the Loan Agreement and all of the obligations of the Members under Obligation No. 6.

(C) All Revenues shall be promptly deposited by the Bond Trustee upon receipt thereof in a special fund designated as the "Revenue Fund" which the Bond Trustee is hereby directed to establish, maintain and hold in trust, except as otherwise provided in Sections 5.06 and 5.07 and except that all moneys received by the Bond Trustee and required by the Loan Agreement or Obligation No. 6 to be deposited in the Redemption Fund (which the Bond Trustee is hereby directed to establish as a separate account under this Indenture) shall be promptly deposited in the Redemption Fund. All Revenues deposited with the Bond Trustee shall be held, disbursed, allocated and applied by the Bond Trustee only as provided in this Bond Indenture.

(D) If by the twenty-fifth (25th) day of the calendar month preceding the calendar month in which there is an Interest Payment Date or a Principal Payment Date, the Bond Trustee has not received Loan Repayments or other Revenues sufficient to make the transfers required by Section 5.02, the Bond Trustee shall immediately notify the Corporation and the Credit Group Representative of such insufficiency (stating in such notice that (i) the Bond Trustee has not received Loan Repayments or other Revenues sufficient to make the transfers required by Section 5.02; (ii) the amount by which the obligation to make such transfer exceeds the amount available therefore; and (iii) such insufficiency shall constitute a Loan Default Event if not satisfied by such Interest Payment Date or Principal Payment Date) by telephone or telecopy and confirm such notification, as soon thereafter as practicable, by written notice.

#### SECTION 5.02            Allocation of Revenues.

(A) On or before the dates specified below, the Bond Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Bond Trustee is hereby directed to establish and maintain within the Revenue Fund) and the

Rebate Fund the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

First: after accounting for the transfers required by Section 5.03 from the “capitalized interest subaccount,” on or before each Interest Payment Date, to the Interest Account, the amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding, until the balance in said account is equal to said amount of interest;

Second: on or before each Serial Bond maturity date and each Mandatory Sinking Account Payment date, to the Principal Account, the amount of the Serial Bond principal payment and Mandatory Sinking Account Payment becoming due and payable on such date, until the balance in said account is equal to the sum of the amount of such Serial Bond principal payment and Mandatory Sinking Account Payment; and

Third: on or before each Interest Payment Date, to the Rebate Fund, such amounts as are required to be deposited therein by this Bond Indenture (including the Tax Certificate).

(B) Any moneys remaining in the Revenue Fund after the foregoing transfers shall be transferred to the Corporation as an overpayment of Loan Repayments.

SECTION 5.03 Application of Interest Account. On or before each of the following Interest Payment Dates the Bond Trustee shall transfer to the Interest Account, from the amount deposited in the capital interest subaccount established therein in accordance with Section 3.02(C), on August 1, 2017, an amount equal to the interest due on all Bonds on such Interest Payment Date; on February 1, 2018, \$[\_\_\_\_\_]; on August 1, 2018, \$[\_\_\_\_\_]; and on February 1, 2019, \$[\_\_\_\_\_]. All amounts in the Interest Account shall be used and withdrawn by the Bond Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to this Bond Indenture).

SECTION 5.04 Application of Principal Account.

(A) All amounts in the Principal Account shall be used and withdrawn by the Bond Trustee solely for the purpose of paying the principal of the Bonds when due and payable, except that all amounts in a Sinking Account shall be used and withdrawn by the Bond Trustee to purchase or redeem or pay at maturity Term Bonds, as provided herein.

(B) The Bond Trustee shall establish and maintain within the Principal Account separate subaccounts for each maturity of Term Bonds designated as the “\_\_\_\_\_ Sinking Account.” With respect to each Sinking Account, on each Mandatory Sinking Account Payment date established for such Sinking Account, the Bond Trustee shall transfer the amount deposited in the Principal Account pursuant to Section 5.02 for the purpose of making a Mandatory Sinking Account Payment from the Principal Account to the applicable Sinking Account. On each Mandatory Sinking Account Payment date, the Bond Trustee shall apply the

Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Bonds of the maturity for which such Sinking Account was established, upon the notice and in the manner provided in Article IV; provided that, at any time prior to giving such notice of such redemption, the Bond Trustee shall apply such moneys to the purchase of Bonds of such maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Corporation may direct, in writing, except that the purchase price (excluding accrued interest) shall not exceed the par amount of such Bonds. If, during the twelve-month period immediately preceding said Mandatory Sinking Account Payment date, the Bond Trustee has purchased Bonds of the maturity for which such Sinking Account was established with moneys in the Sinking Account, or, during said period and prior to giving said notice of redemption, the Corporation has deposited Bonds of such maturity with the Bond Trustee, or Bonds of such maturity were at any time purchased or redeemed by the Bond Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Bonds purchased or deposited pursuant to this subsection shall be delivered to the Bond Trustee and cancelled. Any amounts remaining in the Sinking Account when all of the Bonds of the maturity for which such Sinking Account was established are no longer Outstanding shall be withdrawn by the Bond Trustee and transferred to the Revenue Fund. All Bonds purchased from the Sinking Account or deposited by the Corporation with the Bond Trustee shall be allocated to the Mandatory Sinking Account Payments as the Corporation directs.

(C) Subject to the terms and conditions set forth in this Section and in Section 4.01(A), the Bonds maturing on February 1, 20[\_\_\_], [and bearing interest at [\_\_\_] percent] shall be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments in the following amounts and on the following dates:

Mandatory Sinking Account Payment Dates (February 1)	Mandatory Sinking Account Payments
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\_\_\_\_\_  
\* Maturity

(D) Subject to the terms and conditions set forth in this Section and in Section 4.01(A), the Bonds maturing on February 1, 20[\_\_\_], [and bearing interest at [\_\_\_] percent] shall be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments in the following amounts and on the following dates:

Mandatory Sinking Account Payment Dates	Mandatory Sinking Account Payments
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(February 1)

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\* Maturity

(E) Subject to the terms and conditions set forth in this Section and in Section 4.01(A), the Bonds maturing on February 1, 20[\_\_\_], [and bearing interest at [\_\_\_] percent] shall be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments in the following amounts and on the following dates:

Mandatory Sinking  
Account Payment Dates  
(February 1)

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Mandatory Sinking  
Account Payments

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\* Maturity

(F) Subject to the terms and conditions set forth in this Section and in Section 4.01(A), the Bonds maturing on February 1, 20[\_\_\_], [and bearing interest at [\_\_\_] percent] shall be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments in the following amounts and on the following dates:

Mandatory Sinking  
Account Payment Dates  
(February 1)

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Mandatory Sinking  
Account Payments

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\* Maturity

SECTION 5.05 Application of Redemption Fund. The Bond Trustee shall establish and maintain within the Redemption Fund a separate Optional Redemption Account and a separate Special Redemption Account and shall accept all moneys deposited for redemption and shall deposit such moneys into said Optional Redemption Account and Special



Redemption Account, as applicable. All amounts deposited in the Optional Redemption Account and in the Special Redemption Account shall be accepted and used and withdrawn by the Bond Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in Article IV, at the next succeeding date of redemption for which notice has not been given and at the Redemption Prices then applicable to redemptions from the Optional Redemption Account and the Special Redemption Account, respectively; provided that, at any time prior to giving such notice of redemption, the Bond Trustee shall, upon written direction of the Corporation, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Corporation may direct, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to such Bonds (or, if such Bonds are not then subject to redemption, the par value of such Bonds); and provided further that in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may be transferred to the Revenue Fund and credited against Loan Repayments in order of their due date as set forth in a Request of the Corporation. All Bonds purchased or redeemed from the Redemption Fund shall be allocated to applicable Mandatory Sinking Account Payments designated in a Certificate of the Corporation (or if the Corporation fails to deliver such a Certificate to the Bond Trustee, in inverse order of their payment dates).

SECTION 5.06      Rebate Fund.

(A) The Bond Trustee shall establish and maintain, when required, a fund separate from any other fund established and maintained hereunder designated as the Rebate Fund. Within the Rebate Fund, the Bond Trustee shall maintain such accounts as shall be necessary to comply with instructions of the Corporation given pursuant to the terms and conditions of the Tax Certificate. Subject to the transfer provisions provided in subsection (E) below, all money at any time deposited in the Rebate Fund shall be held by the Bond Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the federal government of the United States of America. Neither the Authority, the Corporation nor the Holder of any Bonds shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by this Section and by Section 6.06 and by the Tax Certificate (which is incorporated herein by reference). The Bond Trustee shall be deemed conclusively to have complied with such provisions if it follows the directions of the Corporation including supplying all necessary information in the manner provided in the Tax Certificate, and shall have no liability or responsibility to enforce compliance by the Corporation or the Authority with the terms of the Tax Certificate or any other tax covenants contained herein. The Bond Trustee shall not be responsible for calculating rebate amounts or for the adequacy or correctness of any rebate report or rebate calculations. The Bond Trustee shall have no independent duty to review such calculations or enforce the compliance by the Corporation with such rebate requirements. The Bond Trustee shall have no duty or obligation to determine the applicability of the Code and shall only be obligated to act in accordance with written instructions provided by the Corporation.

(B) Upon the Corporation's written direction, an amount shall be deposited to the Rebate Fund by the Bond Trustee from deposits by the Corporation, if and to the extent required, so that the balance in the Rebate Fund shall equal the Rebate Requirement. The Bond

Trustee shall supply to the Corporation and/or the Authority all necessary information in the manner provided in the Tax Certificate to the extent such information is reasonably available to the Bond Trustee.

(C) The Bond Trustee shall have no obligation to rebate any amounts required to be rebated pursuant to this Section, other than from moneys held in the funds and accounts created under this Bond Indenture or from other moneys provided to it by the Corporation.

(D) At the written direction of the Corporation, the Bond Trustee shall invest all amounts held in the Rebate Fund solely in Investment Securities, subject to the restrictions set forth in the Tax Certificate. Moneys shall not be transferred from the Rebate Fund except as provided in subsection (E) below. The Bond Trustee shall not be liable for any consequences arising from such investment.

(E) Upon receipt of the Corporation's written directions, the Bond Trustee shall remit part or all of the balances in the Rebate Fund to the United States, as so directed. In addition, if the Corporation so directs, the Bond Trustee will deposit money into or transfer money out of the Rebate Fund from or into such accounts or funds as directed by the Corporation's written directions; provided, however, only moneys in excess of the Rebate Requirement may, at the written direction of the Corporation or the Authority, be transferred out of the Rebate Fund to such other accounts or funds or to anyone other than the United States in satisfaction of the arbitrage rebate obligation. Any funds remaining in the Rebate Fund after each five year remission to the United States of America, redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Requirement, or provision made therefor, shall be withdrawn and remitted to the Corporation upon receipt of the Corporation's written direction by the Bond Trustee.

(F) Notwithstanding any other provision of this Bond Indenture, including in particular Article X, the Corporation's obligation to remit the Rebate Requirement to the United States and to comply with all other requirements of this Section, Section 6.06 and the Tax Certificate shall survive the defeasance or payment in full of the Bonds. Upon defeasance or payment in full of the Bonds, the Bond Trustee shall not be required to maintain the Rebate Fund.

#### SECTION 5.07 Investment of Moneys in Funds and Accounts.

(A) All moneys in any of the funds and accounts established pursuant to this Bond Indenture shall be invested by the Bond Trustee, upon direction of the Corporation, solely in Investment Securities. Investment Securities shall be purchased at such prices as the Corporation may direct. The directions of the Corporation shall be subject to the limitations set forth in Section 6.06. All Investment Securities shall be acquired subject to the limitations as to maturities hereinafter in this Section set forth and such additional limitations or requirements consistent with the foregoing as may be established by Request of the Corporation. No Request of the Corporation shall impose any duty on the Bond Trustee inconsistent with its fiduciary responsibilities. In the absence of directions from the Corporation, the Bond Trustee shall invest in Investment Securities specified in subsection (i) of the definition thereof in Section 1.01, initially the Wells Fargo Government Money Market Fund.

(B) Moneys in all other funds and accounts shall be invested in Investment Securities maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in this Bond Indenture. Investment Securities purchased under a repurchase agreement or investment contract may be deemed to mature on the date or dates on which the Bond Trustee may deliver such Investment Securities for repurchase under such agreement.

(C) All interest, profits and other income received from the investment of moneys in the Rebate Fund shall be deposited when received in such fund. All interest, profits and other income received from the investment of moneys in any other fund or account established pursuant to this Bond Indenture shall be deposited when received (1) prior to the delivery of the Certificate of the Corporation required by Section 3.03(D) in the Project Fund and (2) thereafter in the Revenue Fund. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund or account for the credit of which such Investment Security was acquired.

(D) Investment Securities acquired as an investment of moneys in any fund or account established under this Bond Indenture shall be credited to such fund or account. For the purpose of determining the amount in any such fund or account all Investment Securities credited to such fund or account shall be valued at the lower of cost (exclusive of accrued interest after the first payment of interest following acquisition) or par value (plus, prior to the first payment of interest following acquisition, the amount of interest paid as part of the purchase price).

(E) The Bond Trustee may commingle any of the amounts on deposit in the funds or accounts established pursuant to this Bond Indenture (other than the Rebate Fund) into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Bond Trustee hereunder shall be accounted for separately as required by this Bond Indenture. The Bond Trustee may act as principal or agent in the making or disposing of any investment. The Bond Trustee may sell at the best price reasonably obtainable, or present for redemption, any Investment Securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited, and, subject to the provisions of Section 8.03 with respect to the Bond Trustee, neither the Authority nor the Bond Trustee shall be liable or responsible for any loss resulting from any investment made in accordance with the provisions of this Section 5.07.

(F) The Authority (and the Corporation by its execution of the Loan Agreement) acknowledges that, to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority or the Corporation the right to receive brokerage confirmations of security transactions as they occur, the Authority and the Corporation will not receive such confirmations to the extent permitted by law. The Bond Trustee will furnish the Authority and the Corporation periodic cash transaction statements as provided herein which include detail for all investment transactions made by the Bond Trustee hereunder.

## ARTICLE VI

### PARTICULAR COVENANTS

SECTION 6.01 Punctual Payment. The Authority shall punctually cause to be paid the principal or Redemption Price and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of this Bond Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in this Bond Indenture.

SECTION 6.02 Extension of Payment of Bonds. Except as set forth in Section 9.01, the Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default hereunder, to the benefits of this Bond Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this Section shall be deemed to limit the right of the Authority to issue obligations for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

SECTION 6.03 Against Encumbrances. The Authority shall not create any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under this Bond Indenture while any of the Bonds are Outstanding, except the pledges and assignments created by this Bond Indenture, and will assist the Bond Trustee in contesting any such pledge, lien, charge or other encumbrance which may be created. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the Act, and reserves the right to issue other obligations for such purposes.

SECTION 6.04 Power to Issue Bonds and Make Pledge and Assignment. The Authority is duly authorized pursuant to law to issue the Bonds and to enter into this Bond Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned, respectively, under this Bond Indenture in the manner and to the extent provided in this Bond Indenture. The Bonds and the provisions of this Bond Indenture are and will be the legal, valid and binding limited obligations of the Authority in accordance with their terms, and the Authority and Bond Trustee shall at all times, to the extent permitted by law and as set forth herein, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bondholders under this Bond Indenture against all claims and demands of all Persons whomsoever.

SECTION 6.05      Accounting Records and Financial Statements.

(A) The Bond Trustee shall at all times keep, or cause to be kept, proper books of record and account prepared in accordance with trust accounting standards, in which complete and accurate entries shall be made of all transactions relating to the receipt, investment, disbursement, allocation and application of the proceeds of the Bonds, the Revenues, the Loan Agreement and all funds and accounts established pursuant to this Bond Indenture. Such books of record and account shall be available for inspection by the Authority, the Corporation and any Bondholder or such Bondholder's agent or representative duly authorized in writing, during the Bond Trustee's business hours on days on which the Bond Trustee is open for business.

(B) The Bond Trustee shall file and furnish to the Authority (if requested in writing), an account statement (which need not be audited) covering receipts, disbursements, allocation and application of Revenues and any other moneys (including proceeds of Bonds) in any of the funds and accounts established pursuant to this Bond Indenture for the preceding month. The Bond Trustee shall also furnish a copy of any such monthly statement to the Corporation.

SECTION 6.06      Tax Covenants. The Authority shall at all times do and perform all acts and things permitted by law and this Bond Indenture which are necessary or desirable in order to assure that interest paid on the Bonds (or any of them) will be excluded from gross income for federal income tax purposes and shall take no action that would result in such interest not being so excluded. Without limiting the generality of the foregoing, the Authority agrees to comply with the provisions of the Tax Certificate. This covenant shall survive payment in full or defeasance of the Bonds.

SECTION 6.07      Enforcement of Loan Agreement and Obligation No. 6. The Bond Trustee shall promptly collect all amounts due from the Corporation pursuant to the Loan Agreement and from the Obligated Group pursuant to Obligation No. 6, shall perform all duties imposed upon it pursuant to the Loan Agreement and shall enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of, all of the rights of the Authority (other than those specifically retained by the Authority pursuant to this Bond Indenture) and all of the obligations of the Corporation.

SECTION 6.08      Amendment of Loan Agreement.

(A) Except as provided in Section 6.08(B), the Authority shall not amend, modify or terminate any of the terms of the Loan Agreement, or consent to any such amendment, modification or termination unless the written consent of the Holders of a majority in principal amount of the Bonds then Outstanding to such amendment, modification or termination is filed with the Bond Trustee, provided that no such amendment, modification or termination shall reduce the amount of Loan Repayments to be made to the Authority or the Bond Trustee by the Corporation pursuant to the Loan Agreement, or extend the time for making such payments, without the written consent of all of the Holders of the Bonds then Outstanding.

(B) Notwithstanding the provisions of Section 6.08(A), the terms of the Loan Agreement may also be modified or amended from time to time and at any time by the Authority without the necessity of obtaining the consent of any Bondholders, only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Authority or the Corporation contained in the Loan Agreement other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority or the Corporation; provided such amendment does not materially adversely affect the interests of the Bondholders;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Loan Agreement, or in regard to matters or questions arising under the Loan Agreement, as the Authority may deem necessary or desirable and not inconsistent with the Loan Agreement or this Bond Indenture; and which does not materially adversely affect the interests of the Bondholders; or

(iii) to maintain the exclusion from gross income for federal income tax purposes of interest payable with respect to the Bonds.

SECTION 6.09 Waiver of Laws. The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in this Bond Indenture or in the Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the Authority to the extent permitted by law.

SECTION 6.10 Further Assurances. The Authority will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Bond Indenture and for the better assuring and confirming unto the Holders of the Bonds of the rights and benefits provided in this Bond Indenture.

SECTION 6.11 Continuing Disclosure. Pursuant to Section 5.7 of the Loan Agreement, the Corporation has undertaken all responsibility for compliance with continuing disclosure requirements to the extent set forth therein, and the Authority shall have no liability to the Holders of the Bonds or any other Person with respect to S.E.C. Rule 15c2-12. Notwithstanding any other provision of this Bond Indenture, failure of the Corporation or any Dissemination Agent (as defined in the Continuing Disclosure Certificate) to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, the Bond Trustee may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Certificate) or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall) or any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation to comply with its obligations under Section 5.7 of the Loan Agreement.

SECTION 6.12      Replacement of Obligation No. 6. At the option of the Corporation, Obligation No. 6 shall be surrendered by the Bond Trustee and delivered to the Master Trustee for cancellation upon receipt by the Bond Trustee of all of the following:

(i) a Request of the Corporation requesting such surrender and delivery and stating that the Corporation has become a member of an obligated group under a master indenture (other than the Master Indenture) or has obligated itself pursuant to another form of indebtedness security arrangement, and that an obligation is being issued to the Bond Trustee under such replacement master indenture or security arrangement (“Replacement Arrangement”);

(ii) a properly executed obligation (the “Replacement Obligation”) issued under the Replacement Arrangement and registered in the name of the Bond Trustee with the same tenor and effect as Obligation No. 6, duly authenticated by the master trustee under the Replacement Arrangement;

(iii) an Opinion of Counsel to the effect that the Replacement Obligation has been validly issued under the Replacement Arrangement and constitutes a valid and binding obligation of the Corporation and each other member of the obligated group under the Replacement Arrangement;

(iv) a copy of the Replacement Arrangement, certified as a true and accurate copy by the master trustee under the Replacement Arrangement; and

(v) written confirmation from each Rating Agency then rating the Bonds that the replacement of Obligation No. 6 in accordance with the provisions of this Section will not, by itself, result in a reduction in the then-current ratings on the Bonds.

Upon satisfaction of such conditions, all references herein and in the Loan Agreement to Obligation No. 6 shall be deemed to be references to the Replacement Obligation, all references to the Master Indenture shall be deemed to be references to the Replacement Arrangement, all references to the Master Trustee shall be deemed to be references to the master trustee under the Replacement Arrangement, all references to the Obligated Group and the Members shall be deemed to be references to the obligated group and the members of the obligated group under the Replacement Arrangement and all references to Supplement No. 6 shall be deemed to be references to the document pursuant to which the Replacement Obligation is issued.

## ARTICLE VII

### EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS

SECTION 7.01      Events of Default. The following events shall be Events of Default:

(A) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable;

(B) default in the due and punctual payment of any installment of interest on any Bond when and as the same shall become due and payable;

(C) except as provided in 7.01(D), default in any material respect by the Authority in the observance of any of the other covenants, agreements or conditions on its part contained in this Bond Indenture or in the Bonds, if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority and the Corporation by the Bond Trustee, or to the Authority, the Corporation and the Bond Trustee by the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding;

(D) a Loan Default Event.

Upon actual knowledge of the existence of any Event of Default, the Bond Trustee shall notify the Corporation, the Authority and the Master Trustee in writing as soon as practicable (but no later than 30 days after obtaining actual knowledge thereof); provided, however, that the Bond Trustee need not provide notice of any Loan Default Event if the Corporation has expressly acknowledged the existence of such Loan Default Event in a writing delivered to the Bond Trustee, the Authority and the Master Trustee.

SECTION 7.02 Acceleration of Maturities. Whenever any Event of Default referred to in Section 7.01 hereof shall have happened and be continuing, the Bond Trustee may take the following remedial steps:

(A) In the case of an Event of Default described in Section 7.01 (A) or (B) of this Bond Indenture, the Bond Trustee may notify the Master Trustee of such Event of Default, may make a demand for payment under Obligation No. 6 and request the Master Trustee in writing to give notice to the Members pursuant to Section 4.02 of the Master Indenture declaring the principal of all obligations issued under the Master Indenture then outstanding to be due and immediately payable. Thereupon, the Bond Trustee shall declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Bond Indenture to the contrary notwithstanding. In addition, the Bond Trustee and the Authority may take whatever action at law or in equity is necessary or desirable to collect the payments due under Obligation No. 6;

(B) In the case of an Event of Default described in Section 7.01(C) of this Bond Indenture, the Bond Trustee may take whatever action at law or in equity is necessary or desirable to enforce the performance, observance or compliance by the Authority with any covenant, condition or agreement by the Authority under this Bond Indenture; and

(C) In the case of an Event of Default described in Section 7.01(D) of this Bond Indenture, the Bond Trustee may take whatever action the Authority would be entitled to take pursuant to the Loan Agreement in order to remedy the Loan Default Event.



Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Authority or the Corporation shall deposit with the Bond Trustee a sum sufficient to pay all the principal, Mandatory Sinking Account Payments or Redemption Price of and installments of interest on the Bonds, payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds, and the reasonable charges and expenses of the Bond Trustee and the Authority (including fees and expenses of their respective attorneys), and if the Bond Trustee has received notification from the Master Trustee that the declaration of acceleration of Obligation No. 6 has been annulled pursuant to the Master Indenture and any and all other defaults known to the Bond Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Bond Trustee or provision deemed by the Bond Trustee to be adequate shall have been made therefor, then, and in every such case, the Bond Trustee shall, on behalf of the Holders of all of the Bonds, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Notwithstanding anything to the contrary in this Bond Indenture, the Authority shall have no obligation to and instead the Bond Trustee may, without further direction from the Authority, take any and all steps, actions and proceedings, to enforce any or all rights of the Authority (other than those specifically retained by the Authority pursuant to this Bond Indenture) under this Bond Indenture and the Loan Agreement and Obligation No. 6, including, without limitation, the rights to enforce the remedies upon the occurrence and continuation of an Event of Default and the obligations of the Corporation under the Loan Agreement.

Nothing contained herein, however, shall require the Bond Trustee to exercise any remedies in connection with an Event of Default unless the Bond Trustee shall have actual knowledge or shall have received written notice of such Event of Default, and in the absence of such knowledge or notice the Bond Trustee may conclusively assume no Event of Default exists.

SECTION 7.03 Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Bond Trustee under any of the provisions of this Bond Indenture (subject to Section 11.10 and other than moneys required to be deposited in the Rebate Fund) shall be applied by the Bond Trustee as follows and in the following order:

(A) To the payment of any fees and expenses necessary in the opinion of the Bond Trustee to protect the interests of the Holders of the Bonds and payment of reasonable fees, charges and expenses of the Bond Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under this Bond Indenture;

(B) To the payment of the principal or Redemption Price of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of this Bond Indenture (including Section 6.02), as follows:

(i) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal or Redemption Price of any Bonds that shall have become due, whether at maturity or by call for redemption, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date to the Persons entitled thereto, without any discrimination or preference.

(ii) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on the overdue principal at the rate borne by the Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference.

**SECTION 7.04**      Bond Trustee to Represent Bondholders. The Bond Trustee is hereby irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Bond Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, this Bond Indenture, the Loan Agreement, Obligation No. 6, the Act and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Bond Trustee to represent the Bondholders, the Bond Trustee in its discretion may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Bond Trustee or in such Holders under this Bond Indenture, the Loan Agreement, Obligation No. 6, the Act or any other law; and upon instituting such proceeding, the Bond Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other amounts

and assets pledged under this Bond Indenture, pending such proceedings. If more than one such request is received by the Bond Trustee from the Holders, and being indemnified to its satisfaction therefor, the Bond Trustee shall follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of twenty-five percent (25%). All rights of action under this Bond Indenture or the Bonds or otherwise may be prosecuted and enforced by the Bond Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Bond Trustee shall be brought in the name of the Bond Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of this Bond Indenture (including Section 6.02).

SECTION 7.05 Bondholders' Direction of Proceedings. Anything in this Bond Indenture to the contrary notwithstanding, the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Bond Trustee, and upon indemnifying the Bond Trustee to its satisfaction therefor, to direct the method of conducting all remedial proceedings taken by the Bond Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law and the provisions of this Bond Indenture, and that the Bond Trustee shall have the right to decline to follow any such direction that in the opinion of the Bond Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

SECTION 7.06 Limitation on Bondholders' Right to Sue. No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under this Bond Indenture, the Loan Agreement, Obligation No. 6 or any other applicable law with respect to such Bond, unless (1) such Holder shall have given to the Bond Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Bond Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; provided, however, that if more than one request is received by the Bond Trustee from the Holders, the Bond Trustee shall follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of twenty-five percent (25%); (3) such Holder or said Holders shall have tendered to the Bond Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Bond Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Bond Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy hereunder or under law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Bond Indenture or the rights of any other Holders of Bonds, or to enforce any right under this Bond Indenture, the Loan Agreement, Obligation No. 6, the Act or other applicable law with respect to the Bonds, except in the manner herein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained

in the manner herein provided and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of this Bond Indenture (including Section 6.02).

SECTION 7.07 Absolute Obligation of Authority. Nothing contained in Section 7.06 or in any other provision of this Bond Indenture or in the Bonds shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal or Redemption Price of and interest on the Bonds to the respective Holders of the Bonds at their respective dates of maturity, or upon call for redemption, as herein provided, but only out of the Revenues and other assets herein pledged therefor, or affect or impair the right of such Holders, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

SECTION 7.08 Termination of Proceedings. In case any proceedings taken by the Bond Trustee or any one or more Bondholders on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Bond Trustee or the Bondholders, then in every such case the Authority, the Bond Trustee and the Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Bond Trustee and the Bondholders shall continue as though no such proceedings had been taken.

SECTION 7.09 Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Bond Trustee or to the Holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or otherwise.

SECTION 7.10 No Waiver of Default. No delay or omission of the Bond Trustee or of any Holder of the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by this Bond Indenture to the Bond Trustee or the Holders of the Bonds may be exercised from time to time and as often as may be deemed expedient.

## ARTICLE VIII

### THE BOND TRUSTEE

SECTION 8.01 Duties, Immunities and Liabilities of Bond Trustee.

(A) The Authority hereby appoints Wells Fargo Bank, National Association, as Bond Trustee. The Bond Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in this Bond Indenture, and, except to the extent required by law, no implied covenants or obligations shall be read into this Bond Indenture against the Bond Trustee. The Bond Trustee shall, during the existence of any Event of Default (which has not been cured or waived in accordance herewith), exercise such of the rights and powers vested in it

by this Bond Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(B) The Authority may, and upon written request of the Corporation shall, remove the Bond Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Bond Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Bond Trustee shall cease to be eligible in accordance with subsection (E) of this Section, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Bond Trustee or its property shall be appointed, or any public officer shall take control or charge of the Bond Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Bond Trustee, and thereupon shall appoint, with the written consent of the Corporation, a successor Bond Trustee by an instrument in writing.

(C) The Bond Trustee may at any time resign by giving (30) days' written notice of such resignation to the Authority and the Corporation, and by giving the Bondholders notice of such resignation by mail at the addresses shown on the registration books maintained by the Bond Trustee. Upon receiving such notice of resignation, the Authority shall promptly appoint, with the consent of the Corporation, a successor Bond Trustee by an instrument in writing.

(D) The Bond Trustee shall not be relieved of its duties hereunder until its successor Bond Trustee has accepted its appointment and assumed the duties of Bond Trustee hereunder. Any removal or resignation of the Bond Trustee and appointment of a successor Bond Trustee shall become effective upon acceptance of appointment by the successor Bond Trustee. If no successor Bond Trustee shall have been appointed and have accepted appointment within thirty (30) days of giving notice of removal or notice of resignation as aforesaid, the resigning Bond Trustee or any Bondholder (on behalf of himself and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Bond Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Bond Trustee. Any successor Bond Trustee appointed under this Bond Indenture, shall signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Bond Trustee a written acceptance thereof, and thereupon such successor Bond Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Bond Trustee, with like effect as if originally named Bond Trustee herein; but, nevertheless at the request of the successor Bond Trustee, such predecessor Bond Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be requested by the successor Bond Trustee for more fully and certainly vesting in and confirming to such successor Bond Trustee all the right, title and interest of such predecessor Bond Trustee in and to any property held by it under this Bond Indenture and shall pay over, transfer, assign and deliver to the successor Bond Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Bond Trustee, the Authority shall execute and deliver any and all instruments as may be reasonably required for

more fully and certainly vesting in and confirming to such successor Bond Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Bond Trustee as provided in this subsection, the successor Bond Trustee shall mail a notice of the succession to the Bondholders at the addresses shown on the registration books maintained by the Bond Trustee. The Bond Trustee's rights to indemnity and reimbursement of outstanding fees and expenses shall survive the Bond Trustee's resignation or removal.

(E) Any successor Bond Trustee shall be a trust company, national banking association or bank having the powers of a trust company having (or, in the case of a trust company, national banking association or bank included in a bank holding company system, with a bank holding company having) a combined capital and surplus of at least fifty million dollars (\$50,000,000) and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Bond Trustee shall cease to be eligible in accordance with the provisions of this subsection (E), the Bond Trustee shall resign immediately in the manner and with the effect specified in this Section.

SECTION 8.02 Merger or Consolidation. Any company into which the Bond Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Bond Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible under subsection (E) of Section 8.01, shall be the successor to such Bond Trustee without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

SECTION 8.03 Liability of Bond Trustee.

(A) The recitals of facts herein and in the Bonds contained shall be taken as statements of the Authority, and the Bond Trustee assumes no responsibility for the correctness of the same, and makes no representations as to the legality, validity or sufficiency of this Bond Indenture, the Loan Agreement, Obligation No. 6 or any other document related hereto, or of the Bonds, and shall incur no responsibility in respect thereof, other than in connection with the duties or obligations herein or in the Bonds assigned to or imposed upon it except for any recital or representation specifically describing the Bond Trustee. The Bond Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Bond Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct as finally determined by a court of competent jurisdiction; provided, that this shall not be construed to limit the effect of subsection (F) hereof. The Bond Trustee may become the owner of Bonds with the same rights it would have if it were not Bond Trustee, and, to the extent permitted by law, may act as depositary for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders, whether or

not such committee shall represent the Holders of a majority in principal amount of the Bonds then Outstanding.

(B) The Bond Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Bond Trustee was negligent in ascertaining the pertinent facts.

(C) The Bond Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a majority in aggregate principal amount (or such lesser principal amount as is provided hereby) of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Bond Trustee, or exercising any trust or power conferred upon the Bond Trustee under this Bond Indenture.

(D) The Bond Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Bond Indenture at the request, order or direction of any of the Bondholders pursuant to the provisions of this Bond Indenture unless such Bondholders shall have offered to the Bond Trustee security or indemnity reasonable to it against the costs, expenses and liabilities which may be incurred therein or thereby.

(E) The Bond Trustee shall not be liable for any action taken by it in good faith and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Bond Indenture unless it shall be proved that the Bond Trustee was negligent.

(F) No provision of this Bond Indenture shall require the Bond Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers.

(G) Whether or not therein expressly so provided, every provision of this Bond Indenture, the Loan Agreement, Obligation No. 6 or other documents relating to the issuance of the Bonds, relating to the conduct or affecting the liability of or affording protection to the Bond Trustee shall be subject to the provisions of this Article.

(H) The Bond Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, requisition, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other paper or document, but the Bond Trustee, in its discretion, may make such further investigation or inquiry into such facts of matters as it may deem fit.

(I) The Bond Trustee shall have no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds. Under no circumstances shall the Bond Trustee be liable in its individual capacity for the obligations evidenced by the Bonds.

(J) The Bond Trustee shall not be deemed to have knowledge of an Event of Default hereunder, under the Loan Agreement, Obligation No. 6 or any other document related to the Bonds unless it shall have actual knowledge at its Corporate Trust Office. As used herein, “actual knowledge” shall mean the actual fact or statement of knowing without any independent duty to make any investigation with regard thereto.

SECTION 8.04 Right of Bond Trustee to Rely on Documents. The Bond Trustee shall be protected in acting upon any notice, resolution, request, statement, requisition, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. Before the Bond Trustee acts or refrains from acting, it may consult with counsel, who may be counsel of or to the Authority, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

With the exception of Persons in whose names Bonds are registered on the books maintained by the Bond Trustee for such purpose, the Bond Trustee shall not be bound to recognize any Person as the Holder of a Bond unless and until such Bond is submitted for inspection, if required, and his title thereto is satisfactorily established, if disputed.

Whenever in the administration of the trusts imposed upon it by this Bond Indenture the Bond Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate of the Authority, and such Certificate shall be full warrant to the Bond Trustee for any action taken or suffered in good faith under the provisions of this Bond Indenture in reliance upon such Certificate, but in its discretion the Bond Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may deem reasonable.

SECTION 8.05 Preservation and Inspection of Documents. All documents received by the Bond Trustee under the provisions of this Bond Indenture shall be retained in its possession in accordance with its own document retention policies then in effect and shall be subject at all reasonable times to the inspection of the Authority, the Corporation, and any Bondholder, and their agents and representatives duly authorized in writing (if such Bondholder provides to the Bond Trustee thirty (30) days prior written notice and such notice specifies a date upon which such inspection shall occur), during normal business hours and under reasonable conditions.

SECTION 8.06 Performance of Duties. The Bond Trustee may execute any of the trusts or powers hereof and perform the duties required of it under either directly or by or through attorneys or agents and shall be entitled to advice of counsel concerning all matters of trust and its duties hereunder and shall be absolutely protected in relying thereon. The Bond Trustee shall not be responsible for the negligence or willful misconduct of such persons selected by it with reasonable care.



SECTION 8.07            Compensation and Indemnification. Pursuant to a separate fee agreement between the Bond Trustee and the Corporation, the Corporation has agreed to pay to the Bond Trustee from time to time reasonable compensation for all services rendered under this Bond Indenture, and also all reasonable fees, expenses, charges, legal and consulting fees and other disbursements and those of its attorneys, agents and employees, incurred in and about the performance of its powers and duties under this Bond Indenture.

No provision of this Bond Indenture shall require the Bond Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of its rights or powers, if it has not received the agreed compensation for such services or, in cases where the Bond Trustee has a right to reimbursement or indemnification for such performance or exercise, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

## ARTICLE IX

### MODIFICATION OR AMENDMENT OF THE INDENTURE

#### SECTION 9.01            Amendments Permitted.

(A) This Bond Indenture and the rights and obligations of the Authority, of the Bond Trustee and of the Holders of the Bonds may be modified or amended from time to time and at any time by a Supplemental Bond Indenture, which the Authority and the Bond Trustee may enter into with the written consent of the Corporation when the written consent of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding, shall have been filed with the Bond Trustee. No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under this Bond Indenture prior to or on a parity with the lien created by this Bond Indenture, or deprive the Holders of the Bonds of the lien created by this Bond Indenture on such Revenues and other assets (except as expressly provided in this Bond Indenture), without the consent of the Holders of all Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Bond Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Authority and the Bond Trustee of any Supplemental Bond Indenture pursuant to this subsection (A), the Bond Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Bond Indenture to the Bondholders at the addresses shown on the registration books maintained by the Bond Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Bond Indenture.

(B) This Bond Indenture and the rights and obligations of the Authority, of the Bond Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Bond Indenture, which the Authority and the Bond Trustee may enter into without the consent of any Bondholders, but with the written consent of the Corporation, but only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Authority in this Bond Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power herein reserved to or conferred upon the Authority; provided that no such amendment shall materially adversely affect the interests of Bondholders;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in this Bond Indenture, or in regard to matters or questions arising under this Bond Indenture, as the Authority, the Corporation or the Bond Trustee may deem necessary or desirable and not inconsistent with this Bond Indenture; and which shall not materially adversely affect the interests of Bondholders;

(iii) to modify, amend or supplement this Bond Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute; and which shall not materially adversely affect the interests of Bondholders;

(iv) to provide any additional procedures, covenants or agreements to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, including the amendment of any Tax Certificate;

(v) to facilitate (a) the transfer of Bonds from one Securities Depository to another in the succession of Securities Depositories, or (b) the withdrawal from a Securities Depository of Bonds held in a Book-Entry System and the issuance of replacement Bonds in fully registered form to Persons other than a Securities Depository;

(vi) to make any changes required by a Rating Agency in order to obtain or maintain a rating for the Bonds; or

(vii) to make any other changes which will not materially adversely affect the interests of the Holders of the Bonds.

(C) The Bond Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Bond Indenture authorized by subsections (A) or (B) of this Section which materially adversely affects the Bond Trustee's own rights, duties or immunities under this Bond Indenture or otherwise. In executing, or accepting the additional trusts created by, any Supplemental Bond Indenture permitted by this Article or the modifications thereby of the trusts created by this Bond Indenture, the Bond Trustee and the Authority shall be entitled to receive, and shall be fully protected in relying upon, an Opinion of Counsel, which may include a

Favorable Opinion of Bond Counsel, stating that the execution of such Supplemental Bond Indenture is authorized by and in compliance with this Bond Indenture.

SECTION 9.02 Effect of Supplemental Bond Indenture. Upon the execution of any Supplemental Bond Indenture pursuant to this Article, this Bond Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Bond Indenture of the Authority, the Bond Trustee and all Holders of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Bond Indenture shall be deemed to be part of the terms and conditions of this Bond Indenture for any and all purposes.

SECTION 9.03 Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the execution of any Supplemental Bond Indenture pursuant to this Article may, and if the Authority so determines shall, bear a notation by endorsement or otherwise in form approved by the Authority and the Bond Trustee as to any modification or amendment provided for in such Supplemental Bond Indenture, and, in that case, upon demand of the Holder of any Bond Outstanding at the time of such execution and presentation of his Bond for the purpose at the Corporate Trust Office of the Bond Trustee or at such additional offices as the Bond Trustee may select and designate for that purpose, a suitable notation shall be made on such Bond. If the Supplemental Bond Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the Authority, to any modification or amendment contained in such Supplemental Bond Indenture, shall be prepared by the Bond Trustee at the expense of the Corporation, executed by the Authority and authenticated by the Bond Trustee, and upon demand of the Holders of any Bonds then Outstanding shall be exchanged at the Corporate Trust Office of the Bond Trustee, without cost to any Bondholder, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amounts of the same maturity.

SECTION 9.04 Amendment of Particular Bonds. The provisions of this Article shall not prevent any Bondholder from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

## ARTICLE X

### DEFEASANCE

#### SECTION 10.01 Discharge of Bond Indenture.

(A) The Bonds may be paid by the Authority or the Bond Trustee on behalf of the Authority in any of the following ways:

(i) by paying or causing to be paid the principal or Redemption Price of and interest on all Bonds Outstanding, as and when the same become due and payable;

(ii) by depositing with the Bond Trustee, in trust, at or before maturity, moneys or securities in the necessary amount (as provided in Section 10.03) to pay when due or redeem all Bonds then Outstanding; or

(iii) by delivering to the Bond Trustee, for cancellation by it, all Bonds then Outstanding.

(B) If the Authority shall pay all Bonds Outstanding and shall also pay or cause to be paid all other sums payable hereunder by the Authority, then and in that case at the election of the Authority (evidenced by a Certificate of the Authority filed with the Bond Trustee signifying the intention of the Authority to discharge all such indebtedness and this Bond Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, this Bond Indenture and the pledge of Revenues and other assets made under this Bond Indenture and all covenants, agreements and other obligations of the Authority under this Bond Indenture (except as otherwise specifically provided herein) shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the request of the Authority, the Bond Trustee shall cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the Authority and shall execute and deliver to the Authority all such instruments as may be necessary to evidence such discharge and satisfaction, and the Bond Trustee shall pay over, transfer, assign or deliver to the Corporation all moneys or securities or other property held by it pursuant to this Bond Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption; provided that in all events moneys in the Rebate Fund shall be subject to the provisions of Section 5.06; and provided further that, prior to the Bond Trustee paying over, transferring, assigning or delivering to the Corporation such moneys, securities or other property, all Administrative Fees and Expenses and any indemnification owed the Authority and the Bond Trustee shall have been paid.

#### SECTION 10.02 Discharge of Liability on Bonds.

(A) Upon the deposit with the Bond Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bond shall cease, terminate become void and be completely discharged and satisfied, except only that thereafter the Holder thereof shall be entitled to payment of the principal of and interest on such Bond by the Authority, and the Authority shall remain liable for such payments, but only out of such money or securities deposited with the Bond Trustee as aforesaid for their payment, subject, however, to the provisions of Section 10.04.

(B) The Authority may at any time surrender to the Bond Trustee for cancellation by it any Bonds previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

#### SECTION 10.03 Deposit of Money or Securities with Bond Trustee.

(A) Whenever in this Bond Indenture it is provided or permitted that there be deposited with or held in trust by the Bond Trustee money or securities in the necessary amount

to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Bond Trustee in the funds and accounts established pursuant to this Bond Indenture (other than the Rebate Fund) and shall be:

(i) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(ii) United States Government Obligations (not callable by the issuer thereof prior to maturity), the principal of and interest on which when due (without any income from the reinvestment thereof) will provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice;

provided, in each case, that the Bond Trustee shall have been irrevocably instructed (by the terms of this Bond Indenture or by Request of the Corporation) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bond.

#### SECTION 10.04 Payment of Bonds After Discharge of Bond Indenture.

Notwithstanding any provisions of this Bond Indenture, any moneys held by the Bond Trustee in trust for the payment of the principal of, or interest on, any Bonds and remaining unclaimed for the period which is one year less than the statutory escheat period after the principal of all of the Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in this Bond Indenture), if such moneys were so held at such date, or the period which is one year less than the statutory escheat period after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the Corporation free from the trusts created by this Bond Indenture upon receipt of an indemnification agreement acceptable to the Authority and the Bond Trustee indemnifying the Authority and the Bond Trustee with respect to claims of Holders of Bonds which have not yet been paid, and all liability of the Authority and the Bond Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Corporation as aforesaid, the Bond Trustee may (at the cost of the Corporation) first mail to the Holders of Bonds which have not yet been paid, at the addresses shown on the registration books maintained by the Bond Trustee, a notice, in such form as may be deemed appropriate by the Bond Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Corporation of the moneys held for the payment thereof.

## ARTICLE XI

### MISCELLANEOUS

SECTION 11.01 Limited Liability of Authority. The Bonds shall not be deemed to constitute a debt or liability of the State of California or of any political subdivision thereof other than the Authority or a pledge of the faith and credit of the State of California or of any political subdivision thereof, but shall be payable solely from the funds herein provided. Neither the State of California nor the Authority shall be obligated to pay the principal of the Bonds or the premium, if any, or the interest thereon except from Revenues and the other assets pledged hereunder and neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or the premium, if any, or the interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Authority has no taxing power. Notwithstanding anything in this Bond Indenture or in the Bonds contained, the Authority shall have no pecuniary liability under this Bond Indenture except that which can be satisfied from Revenues and the other assets pledged hereunder, and the Authority shall not be required to advance any moneys derived from any source other than Revenues and the other assets pledged hereunder for any of the purposes in this Bond Indenture mentioned, whether for the payment of the principal of or the premium, if any, or the interest on the Bonds or for any other purpose of this Bond Indenture. Nevertheless, the Authority may, but shall not be required to, advance for any of the purposes hereof any funds of the Authority which may be made available to it for such purposes.

SECTION 11.02 Successor is Deemed Included in All References to Predecessor. Whenever in this Bond Indenture either the Authority or the Bond Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Bond Indenture contained by or on behalf of the Authority or the Bond Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

SECTION 11.03 Limitation of Rights to Parties, Corporation and Bondholders. Nothing in this Bond Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any Person other than the Authority, the Bond Trustee, the Corporation and the Holders of the Bonds, any legal or equitable right, remedy or claim under or in respect of this Bond Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Authority, the Bond Trustee, the Corporation and the Holders of the Bonds.

SECTION 11.04 Waiver of Notice. Whenever in this Bond Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the Person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 11.05 Destruction of Bonds. Whenever in this Bond Indenture provision is made for the cancellation by the Bond Trustee and the delivery to the Authority of any Bonds, the Bond Trustee shall, in lieu of such cancellation and delivery, destroy such Bonds, and deliver a certificate of such destruction to the Authority.

SECTION 11.06 Severability of Invalid Provisions. If any one or more of the provisions contained in this Bond Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Bond Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of this Bond Indenture, and this Bond Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein.

SECTION 11.07 Notices. All notices to Bondholders shall be given by telex, telegram, telecopier or other telecommunication device unless otherwise provided herein and, if by a telecommunications device not capable of producing a written notice, confirmed in writing as soon as practicable. Any notice to or demand upon the Bond Trustee may be served or presented, and such demand may be made, at the Corporate Trust Office of the Bond Trustee or at such other address as may have been filed in writing by the Bond Trustee with the Authority. Any notice to or demand upon the Authority or the Corporation shall be deemed to have been sufficiently given or served for all purposes by being delivered or sent by telex or telecopy or by being deposited, postage prepaid, in a U.S. Postal Service letter box, addressed as follows:

- (i) to the Authority at:  
California Health Facilities Financing Authority  
915 Capitol Mall, Suite 435  
Sacramento, California 95843  
Attention: Executive Director  
Telephone: (916) 653-2799  
Facsimile: (916) 654-5362
  
- (ii) to the Corporation at:  
El Camino Hospital  
2500 Grant Road  
Mountain View, CA 94040  
Attn: Chief Financial Officer  
Telephone: (650) 940-7073  
Facsimile: (650) 940-7261

- (iii) to the Bond Trustee at:  
Wells Fargo Bank, National Association  
333 Market Street, 18th Floor  
San Francisco, CA 94105  
Attention: Corporate Trust Services  
Telephone: (415) 371-3357  
Facsimile: (415) 371-3400

Notwithstanding the foregoing provisions of this Section 11.07, the Bond Trustee shall not be deemed to have received, and shall not be liable for failing to act upon the contents of any notice, unless and until the Bond Trustee actually receives such notice.

SECTION 11.08 Evidence of Rights of Bondholders. Any request, consent or other instrument required or permitted by this Bond Indenture to be signed and executed by Bondholders may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bondholders in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any Person of Bonds transferable by delivery, shall be sufficient for any purpose of this Bond Indenture and shall be conclusive in favor of the Bond Trustee and of the Authority if made in the manner provided in this Section.

The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds shall be proved by the bond registration books held by the Bond Trustee.

Any request, consent, or other instrument or writing of the Holder of any Bond shall bind every future Holder of the same Bond and the Holder of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Bond Trustee or the Authority in accordance therewith or reliance thereon.

SECTION 11.09 Disqualified Bonds. In determining whether the Holders of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under this Bond Indenture, Bonds which are owned or held by or for the account of the Authority, the Corporation, any other Member or by any other obligor on the Bonds, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority, the Corporation, any other Member or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination, but only to the extent the Bond Trustee has actual knowledge of such ownership. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section if the pledgee shall establish to the satisfaction of the Bond Trustee the pledgee's right to vote such Bonds and that the pledgee is not a person



directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority, the Corporation, any other Member or any other obligor on the Bonds. In case of a dispute as to such right, any decision by the Bond Trustee taken upon the advice of counsel shall be full protection to the Bond Trustee.

SECTION 11.10 Money Held for Particular Bonds. The money held by the Bond Trustee for the payment of the interest, principal or Redemption Price due on any date with respect to particular Bonds (or portions of Bonds in the case of Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust uninvested by it for the Holders of the Bonds entitled thereto, subject, however, to the provisions of Section 10.04.

SECTION 11.11 Funds and Accounts. The Bond Trustee may establish such funds and accounts as it deems necessary or appropriate to fulfill its obligations under this Bond Indenture. Any fund required by this Bond Indenture to be established and maintained by the Bond Trustee may be established and maintained in the accounting records of the Bond Trustee either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds shall at all times be maintained in accordance with customary standards of the corporate trust industry, to the extent practicable, and with due regard for the requirements of Section 6.06 and for the protection of the security of the Bonds and the rights of every Holder thereof. Notwithstanding any other provision of this Bond Indenture, the Bond Trustee shall only be required to open any funds or accounts when it receives, or is notified that it will receive, funds or moneys to be deposited and maintained in such funds or accounts.

SECTION 11.12 Waiver of Personal Liability. No member, officer, official, agent or employee of the Authority shall be individually or personally liable for the payment of the principal of the Bonds or the premium, if any, or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such member, officer, official, agent or employee of the Authority from the performance of any official duty provided by law or by this Bond Indenture.

SECTION 11.13 Business Days. If any date specified herein shall not be a Business Day, any action required on such date may be made on the next succeeding Business Day with the same effect as if made on such date.

SECTION 11.14 Affiliates Not Liable. No organization with whom the Corporation is affiliated in any manner, other than the Members, is liable under the Bond Indenture, the Master Indenture, Obligation No. 6, or the Loan Agreement for the commitments of the Corporation or any of the Members.

SECTION 11.15 Governing Law and Venue. The laws of the State of California govern all matters arising out of or relating to this Bond Indenture and the Bonds, including, without limitation, their validity, interpretation, construction, performance, and enforcement.

Any party bringing a legal action or proceeding against any other party arising out of or relating to this Bond Indenture shall bring the legal action or proceeding in Sacramento County Superior Court, Sacramento, California, unless the Authority waives this requirement in writing. Each party agrees that the exclusive (subject to waiver as set forth herein) choice of forum set forth in this section does not prohibit the enforcement of any judgment obtained in that forum or any other appropriate forum. Each party waives, to the fullest extent permitted by law, (a) any objection which it may now or later have to the laying of venue of any legal action or proceeding arising out of or relating to this Bond Indenture brought in the Sacramento County Superior Court, Sacramento, California, and (b) any claim that any such action or proceeding brought in such court has been brought in an inconvenient forum.

SECTION 11.16      Execution in Several Counterparts. This Bond Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Authority and the Bond Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY has caused this Bond Indenture to be signed in its name by its Deputy Treasurer for its Chairman and by its Executive Director, and WELLS FARGO BANK, NATIONAL ASSOCIATION, in token of its acceptance of the trusts created hereunder, has caused this Bond Indenture to be signed in its corporate name by the officer thereunto duly authorized, all as of the day and year first above written.

CALIFORNIA HEALTH FACILITIES  
FINANCING AUTHORITY

By: \_\_\_\_\_  
Deputy Treasurer  
For Chairman, State Treasurer John Chiang

By: \_\_\_\_\_  
Executive Director

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Bond Trustee

By \_\_\_\_\_  
Authorized Representative

**EXHIBIT A**

**FORM OF BOND**

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation (“DTC”), to the Authority or its agent for registration of transfer, exchange, or payment, and any Bond issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

This Bond shall not be deemed to constitute a debt or liability of the State of California or of any political subdivision thereof other than the California Health Facilities Financing Authority (the “Authority”) or a pledge of the faith and credit of the State of California or of any political subdivision thereof, but shall be payable solely from the funds therefor provided. Neither the State of California nor the Authority shall be obligated to pay the principal of this Bond or the premium, if any, or the interest hereon except from Revenues and the other assets pledged under the Bond Indenture and neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or the premium, if any, or the interest on this Bond. The issuance of the Bonds shall not directly or indirectly or contingently obligate the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Authority has no taxing power.

NUMBER AMOUNT  
R-\_\_ \$ \_\_\_\_\_

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY  
REVENUE BONDS (EL CAMINO HOSPITAL)  
SERIES 2017

INTEREST RATE	MATURITY DATE	DATED DATE	CUSIP NUMBER
____%		March [__], 2017	_____

REGISTERED HOLDER: CEDE & CO.

PRINCIPAL AMOUNT: \_\_\_\_\_ DOLLARS

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY a public instrumentality of the State of California (the “Authority”), for value received, hereby promises to pay (but only out of the Revenues and other assets pledged therefor as hereinafter mentioned) to the registered holder stated above, or registered assigns, on the maturity date specified above (subject to any right of prior redemption hereinafter mentioned), the principal amount stated above in lawful money of the United States of America; and to pay interest thereon (but only

from said Revenues and other assets pledged therefor) in like lawful money from the date hereof until payment of such principal sum shall be discharged as provided in the Bond Indenture hereinafter mentioned, at the rate per annum stated above, payable on February 1 and August 1 of each year, commencing August 1, 2017. The principal (or redemption price) hereof is payable upon surrender at the Corporate Trust Office (as defined in the Bond Indenture) of Wells Fargo Bank, National Association (in such capacity, the "Bond Trustee"). Interest hereon is payable by check mailed by first class mail on each interest payment date (except with respect to defaulted interest) to the person whose name appears on the bond registration books of the Bond Trustee as the registered holder hereof as of the close of business on the fifteenth (15th) day of the calendar month preceding the calendar month in which such interest payment date falls, whether or not such day is a Business Day (as defined in the Bond Indenture hereinafter defined) (the "Record Date") at the address appearing on the bond registration books maintained by the Bond Trustee, or by wire transfer to an account within the United States to any registered holder of at least \$1,000,000 in principal amount of Bonds if such registered holder has submitted a written request for such wire transfer to the Bond Trustee at least one Business Day prior to the Record Date. Interest shall be calculated on a three hundred sixty (360) day year basis of twelve (12) thirty (30) day months.

This Bond is one of a duly authorized issue of bonds of the Authority designated as "California Health Facilities Financing Authority Revenue Bonds (El Camino Hospital), Series 2017" (the "Bonds"), limited in aggregate principal amount to \$[PAR AMOUNT]. The Bonds are issued pursuant to a bond indenture, dated as of March 1, 2017, between the Authority and the Bond Trustee (the "Bond Indenture"). The Bonds are issued for the purpose of making a loan to El Camino Hospital (the "Corporation"), pursuant to a loan agreement, dated as of March 1, 2017 (the "Loan Agreement"), between the Authority and the Corporation, for the purposes and on the terms and conditions set forth therein. The Bonds are further secured by an assignment of the right, title and interest of the Authority in the Loan Agreement (to the extent and as more particularly described in the Bond Indenture) and in Obligation No. 6, dated the date of issuance of the Bonds ("Obligation No. 6"), and issued by the Corporation, pursuant to the terms of a master trust indenture, dated as of March 1, 2007, as supplemented and amended (the "Master Indenture"), between the Corporation and Wells Fargo Bank, National Association, a national banking association, as master trustee (in such capacity, the "Master Trustee") and a supplemental master trust indenture for obligation No. 6, dated as of March 1, 2017, between the Corporation and the Master Trustee.

Reference is hereby made to the Bond Indenture (a copy of which is on file at said Corporate Trust Office of the Bond Trustee) and all indentures supplemental thereto and, to the Loan Agreement (a copy of which is on file at said Corporate Trust Office of the Bond Trustee) for a description of the rights thereunder of the registered holders of the Bonds, of the nature and extent of the security, of the rights, duties and immunities of the Bond Trustee and of the rights and obligations of the Authority thereunder, to all the provisions of which Bond Indenture and Loan Agreement the registered holder of this Bond, by acceptance hereof, assents and agrees. All capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Bond Indenture.

The Bonds and the interest thereon are payable from Revenues and, from certain funds and accounts established and maintained under the Bond Indenture, and are secured by a pledge and assignment of said Revenues and of amounts held in the funds and accounts established pursuant to the Bond Indenture (including proceeds of the sale of the Bonds but excluding amounts held in the Rebate Fund), subject only to the provisions of the Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Bond Indenture. The Bonds are further secured by an assignment of the right, title and interest of the Authority in the Loan Agreement and in Obligation No. 6 (to the extent and as more particularly described in the Bond Indenture).

The Bonds maturing on February 1, 20[\_\_\_] are subject to redemption prior to their maturity in part, by lot, from Mandatory Sinking Account Payments, as provided in the Bond Indenture, on any February 1, on or after February 1, 20[\_\_\_], at the principal amount thereof, without premium.

The Bonds maturing on February 1, 20[\_\_\_] are subject to redemption prior to their maturity in part, by lot, from Mandatory Sinking Account Payments, as provided in the Bond Indenture, on any February 1, on or after February 1, 20[\_\_\_], at the principal amount thereof, without premium.

The Bonds maturing on or after February 1, 20[\_\_\_] are subject to redemption prior to their stated maturity, at the option of the Corporation, which option shall be exercised upon Request of the Corporation given to the Bond Trustee (unless waived by the Bond Trustee in its sole discretion) at least twenty-five (25) days prior to such redemption date), from any source of available funds, as a whole or in part on any date (in such amounts and maturities as may be specified by the Corporation) on or after February 1, 20[\_\_\_], by lot, at a Redemption Price equal to 100% of the principal amount of Bonds called for redemption, together with interest accrued thereon (if any) to the date fixed for redemption.

The Bonds are subject to redemption prior to their stated maturity, which option shall be exercised upon Request of the Corporation given to the Bond Trustee (unless waived by the Bond Trustee in its sole discretion) at least twenty-five (25) days prior to the date fixed for redemption) in whole or in part (in such amounts and maturities as may be specified by the Corporation), by lot, on any date, from hazard insurance or condemnation proceeds received with respect to the facilities of any of the Members and deposited in the Special Redemption Account, at a Redemption Price equal to the principal amount thereof, together with interest accrued thereon (if any) to the date fixed for redemption, without premium.

The Bonds are also subject to redemption prior to maturity, which option shall be exercised upon Request of the Corporation given to the Bond Trustee as a whole (but not in part) on any date at the principal amount thereof and interest accrued thereon (if any) to the date fixed for redemption, without premium, if as a result of any changes in the Constitution of the United States of America or any state, or legislative or administrative action or inaction by the United States of America or any state, or any agency or political subdivision thereof, or by reason of any judicial decisions there is a good faith determination by any Member that (a) the Master Indenture has become void or unenforceable or impossible to perform, or (b) unreasonable burdens or excessive liabilities have been imposed on such Member, including without

limitation, federal, state or other ad valorem property, income or other taxes being then imposed which were not being imposed on the date of issuance of the Bonds.

Each Holder or Beneficial Owner, by purchase and acceptance of this Bond, irrevocably grants to the Corporation the option to purchase such Bond at any time such Bond is subject to optional redemption as described in the Bond Indenture. Such Bond is to be purchased at a purchase price equal to the then applicable redemption price of such Bond. The Corporation shall deliver a Favorable Opinion of Bond Counsel to the Bond Trustee, and shall direct the Bond Trustee to provide notice of mandatory purchase, such notice to be provided, as and to the extent applicable, in accordance with the optional redemption provisions of the Bond Indenture and to select Bonds subject to mandatory purchase in the same manner as Bonds called for optional redemption pursuant to the Bond Indenture. On the date fixed for purchase of any Bond in lieu of redemption, the Corporation shall pay the purchase price of such Bond to the Bond Trustee in immediately available funds, and the Bond Trustee shall pay the same to the Holders of the Bonds being purchased against delivery thereof. No purchase of any Bond in lieu of redemption shall operate to extinguish the indebtedness of the Corporation evidenced by this Bond. No Holder or Beneficial Owner may elect to retain a Bond subject to mandatory purchase in lieu of redemption. The Corporation may exercise its option to purchase Bonds, in whole or in part, in accordance with the Bond Indenture.

Notice of redemption shall be mailed by the Bond Trustee, not less than twenty (20) days, and not more than sixty (60) days prior to the redemption date, to the respective holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Bond Trustee. If this Bond is called for redemption and payment is duly provided therefor as specified in the Bond Indenture, interest shall cease to accrue hereon from and after the date fixed for redemption. Any notice of optional redemption may be made conditional and/or rescinded as provided in the Bond Indenture.

If an Event of Default shall occur, the principal of all Bonds may be declared due and payable upon the conditions, in the manner and with the effect provided in the Bond Indenture. The Bond Indenture provides that in certain events such declaration and its consequences may be rescinded by the holders or by the Bond Trustee as further described in the Bond Indenture.

The Bonds are issuable only as fully registered Bonds in denominations of \$5,000 or any integral multiple thereof within a maturity. Subject to the limitations and upon payment of the charges, if any, provided in the Bond Indenture, Bonds may be exchanged, at the Corporate Trust Office of the Bond Trustee, for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity.

This Bond is transferable by the registered holder hereof, in person or by his attorney duly authorized in writing, at the Corporate Trust Office of the Bond Trustee, but only in the manner, subject to the limitations and upon payment of the charges, if any, provided in the Bond Indenture, and upon surrender and cancellation of this Bond. Upon such transfer a Bond or Bonds, of authorized denomination or denominations, of the same maturity and for the same aggregate principal amount, will be issued to the transferee in exchange herefor.

The Authority and the Bond Trustee may treat the registered holder hereof as the absolute owner hereof for all purposes, and the Authority and the Bond Trustee shall not be affected by any notice to the contrary.

The Bond Indenture and the rights and obligations of the Authority and of the registered holders of the Bonds and of the Bond Trustee may be modified or amended from time to time and at any time in the manner, to the extent, and upon the terms provided in the Bond Indenture; provided that no such modification or amendment shall (i) extend the fixed maturity of this Bond, or reduce the amount of principal hereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided in the Bond Indenture for the payment of the Bonds, or reduce the rate of interest hereon, or extend the time of payment of interest hereon, or reduce any premium payable upon the redemption hereof, without the consent of the registered holder hereof, or (ii) reduce the percentage of Bonds the consent of the registered holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Bond Indenture prior to or on a parity with the lien created by the Bond Indenture, or deprive the registered holders of the Bonds of the lien created by the Bond Indenture on such Revenues and other assets (except as expressly provided in the Bond Indenture), without the consent of the registered holders of all Bonds then outstanding, all as more fully set forth in the Bond Indenture.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by the Constitution and laws of the State of California, and that the amount of this Bond, together with all other indebtedness of the Authority, does not exceed any limit prescribed by the Constitution and laws of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Bond Indenture.

This Bond shall not be entitled to any benefit under the Bond Indenture, or become valid or obligatory for any purpose, until the certificate of authentication and registration hereon endorsed shall have been signed by the Bond Trustee.



IN WITNESS WHEREOF, CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY has caused this Bond to be executed in its name and on its behalf by the facsimile signature of its Chairman and its seal to be reproduced hereon by facsimile and attested by the facsimile signature of its Executive Director, all as of the date set forth above.

CALIFORNIA HEALTH FACILITIES  
FINANCING AUTHORITY

By: \_\_\_\_\_  
Chairman

[SEAL]

Attest:

By: \_\_\_\_\_  
Executive Director

**[FORM OF BOND TRUSTEE'S CERTIFICATE OF AUTHENTICATION  
AND REGISTRATION]**

This is one of the Bonds described in the within mentioned Bond Indenture,  
which has been authenticated on the date set forth below.

Dated: March [\_\_\_], 2017

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Bond Trustee

By: \_\_\_\_\_  
Authorized Signatory

[FORM OF ASSIGNMENT]

For value received, the undersigned do(es) hereby sell, assign and transfer unto \_\_\_\_\_ the within-mentioned Bond and hereby irrevocably constitute(s) and appoint(s) \_\_\_\_\_, attorney, to transfer the same on the books of the within-named Bond Trustee, with full power of substitution in the premises.

\_\_\_\_\_

Dated: \_\_\_\_\_

NOTICE: Signature must be guaranteed by a qualified guarantor institution.

**EXHIBIT B**

FORM OF REQUISITION (PROJECT FUND)

REQUISITION FOR MONEY FROM THE PROJECT FUND

To: Wells Fargo Bank, National Association  
333 Market Street, 18th Floor  
San Francisco, California  
Attn: Corporate Trust Services

Re: California Health Facilities Financing Authority Revenue Bonds  
(El Camino Hospital), Series 2017 (the "Bonds")

Requisition No. \_\_\_\_

The undersigned, on behalf of El Camino Hospital (the "Corporation"), hereby requests payment, from the Project Fund (as defined in the bond indenture, dated as of March 1, 2017, relating to the Bonds (the "Bond Indenture") between the California Health Facilities Financing Authority and Wells Fargo Bank, National Association, as bond trustee), the total amount shown below to the order of the payee or payees named below, as payment or reimbursement for costs incurred or expenditures made in connection with the Project (as defined in the Bond Indenture). The payee(s), the purpose and the amount of the disbursement requested are as follows:

SEE SCHEDULE I ATTACHED HERETO

The Corporation hereby certifies that obligations in the amounts stated above have been incurred by the Corporation and are presently due and payable, and that each item is a proper charge against the Project Fund and has not been previously paid from the Project Fund.

Dated: \_\_\_\_\_.

EL CAMINO HOSPITAL

By: \_\_\_\_\_  
Authorized Representative

**EXHIBIT C**

**FORM OF REQUISITION - COSTS OF ISSUANCE FUND**

**REQUISITION NO. \_\_ - COSTS OF ISSUANCE FUND**

Re: California Health Facilities Financing Authority Revenue Bonds  
(El Camino Hospital), Series 2017

El Camino Hospital (the "Corporation") hereby requests Wells Fargo Bank, National Association (the "Bond Trustee"), as Bond Trustee under that certain bond indenture between the California Health Facilities Financing Authority (the "Authority") and the Bond Trustee, dated as of March 1, 2017, relating to the California Health Facilities Financing Authority Revenue Bonds (El Camino Hospital), Series 2017 (the "Bonds"), to pay to the following Persons the following amounts for the following purposes from the Costs of Issuance Fund:

SEE SCHEDULE I ATTACHED HERETO

The Corporation hereby certifies that obligations in the amounts stated above have been incurred by the Corporation and are presently due and payable, and that each item is a proper charge against the Costs of Issuance Fund and has not been previously paid from the Costs of Issuance Fund.

Dated: \_\_\_\_\_.

EL CAMINO HOSPITAL

By: \_\_\_\_\_  
Authorized Representative

# **Att. 06 07 Supplemental Master Trust Indenture**

SUPPLEMENTAL MASTER INDENTURE FOR OBLIGATION NO. 6

EL CAMINO HOSPITAL,  
as Credit Group Representative

and

WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Master Trustee

Dated as of March 1, 2017

Supplementing the  
Master Trust Indenture  
Dated as of March 1, 2007

Securing the California Health Facilities Financing Authority  
Revenue Bonds (El Camino Hospital), Series 2017

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## SUPPLEMENTAL MASTER INDENTURE FOR OBLIGATION NO. 6

This SUPPLEMENTAL MASTER INDENTURE FOR OBLIGATION NO. 6, dated as of March 1, 2017 (this “Supplement No. 6”), between EL CAMINO HOSPITAL, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the “Corporation”), acting in its capacity as Credit Group Representative, and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States, as master trustee (in such capacity, the “Master Trustee”) under the Master Trust Indenture, dated as of March 1, 2007, as amended and supplemented (the “Master Indenture”).

### WITNESSETH:

WHEREAS, the Credit Group Representative and the Master Trustee have entered into the Master Indenture, which provides for the issuance by the Credit Group Representative of Obligations thereunder upon the Credit Group Representative and the Master Trustee entering into an indenture supplemental to the Master Indenture;

WHEREAS, the Corporation has been appointed the Credit Group Representative under the Master Indenture and has all requisite corporate power and is authorized under the terms of the Master Indenture to issue Master Indenture Obligations, which constitute the joint and several Master Indenture Obligations of the Credit Group Representative and any future Members of the Obligated Group;

WHEREAS, the Credit Group Representative desires to issue a Master Indenture Obligation hereunder to evidence the obligation of the Obligated Group Members arising from the loan to the Credit Group Representative by the California Health Facilities Financing Authority (the “Authority”) of the proceeds of the Authority’s Revenue Bonds (El Camino Hospital), Series 2017 (the “Bonds”); and

WHEREAS, all acts and things necessary to constitute this Supplement No. 6 a valid indenture and agreement according to its terms have been done and performed, and the Credit Group Representative has duly authorized the execution and delivery hereof and of the Master Indenture Obligation issued hereby;

NOW, THEREFORE, in consideration of the premises, of the acceptance by the Master Trustee of the trusts hereby created, and of the giving of consideration for and acceptance of the Master Indenture Obligation issued hereunder by the Holder thereof, the Credit Group Representative covenants and agrees with the Master Trustee for the benefit of the Holder from time to time of the Master Indenture Obligation issued hereby as follows:

Section 1. Definitions. Unless otherwise required by the context, all terms used herein that are defined in the Master Indenture shall have the meanings assigned to them therein, except as set forth below:



### Authority

“Authority” means the California Health Facilities Financing Authority, a public instrumentality of the State of California.

### Bond Indenture

“Bond Indenture” means that certain bond indenture relating to the Bonds, dated as of March 1, 2017, between the Authority and the Bond Trustee, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

### Bond Trustee

“Bond Trustee” means Wells Fargo Bank, National Association, a national banking association organized and existing under and by virtue of the laws of the United States of America, and any successor to its duties or co-trustee under the Bond Indenture.

### Bonds

“Bonds” means the California Health Facilities Financing Authority Revenue Bonds (El Camino Hospital), Series 2017.

### Loan Agreement

“Loan Agreement” means that certain loan agreement relating to the Bonds, dated as of March 1, 2017, between the Authority and the Corporation, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Bond Indenture.

### Loan Repayments

“Loan Repayments” means all of the payments so designated and required to be made by the Corporation pursuant to Section 4.1 of the Loan Agreement.

### Master Trustee

“Master Trustee” means Wells Fargo Bank, National Association, a national banking association organized and existing under and by virtue of the laws of the United States and any other corporation or association that may be co-trustee with Wells Fargo Bank, National Association, and any successor or successors to said trustee or co-trustee in the trusts created under the Master Indenture.

### Obligation No. 6

“Obligation No. 6” means the Master Indenture Obligation issued pursuant hereto.

### Supplement No. 6

“Supplement No. 6” means this Supplemental Master Indenture for Obligation No. 6.

Section 2. Issuance of Obligation No. 6. There is hereby created and authorized to be issued a Master Indenture Obligation in an aggregate principal amount of \$[PAR AMOUNT]. This Master Indenture Obligation shall be dated as of March [\_\_\_], 2017, shall be designated “El Camino Hospital Obligation No. 6” and shall be payable in such amounts, at such times and in such manner and shall have such other terms and provisions as are set forth in the form of Obligation No. 6 as provided in Section 11 hereof.

The aggregate principal amount of Obligation No. 6 is limited to \$[PAR AMOUNT], except for any Obligation No. 6 authenticated and delivered in lieu of another Obligation No. 6 as provided in Section 6 hereof, with respect to any Obligation No. 6 mutilated, destroyed, lost or stolen or, subject to the provisions of Section 5 of this Supplement No. 6, upon transfer of registration of Obligation No. 6.

Section 3. Payments on Obligation No. 6; Credits.

(a) Principal of and interest and any applicable redemption premium on Obligation No. 6 are payable in any coin or currency of the United States of America that on the payment date is legal tender for the payment of public and private debts. Except as provided in subsections (b) and (c) of this Section with respect to credits, and Section 4 hereof regarding prepayment, payments on the principal of and premium, if any, and interest on Obligation No. 6 shall be made at the times and in the amounts specified in Obligation No. 6 by the Credit Group Representative (i) depositing or causing to be deposited the same with or to the account of the Bond Trustee at or prior to the opening of business on the day such payments shall become due or payable and (ii) giving a notice to the Master Trustee and the Bond Trustee of each payment of principal, interest or premium on Obligation No. 6, that specifies the amount paid, identifies such payment as a payment on Obligation No. 6, and identifies the Obligated Group Members on whose behalf such payment is made.

(b) The Credit Group Representative shall receive credit for payment on Obligation No. 6, in addition to any credits resulting from payment or prepayment from other sources, as follows:

(i) On installments of interest on Obligation No. 6 in an amount equal to moneys deposited in the Interest Account created under the Bond Indenture, to the extent such amounts have not previously been credited against payments on Obligation No. 6;

(ii) On installments of principal of Obligation No. 6 in an amount equal to moneys deposited in the Principal Account created under the Bond Indenture, to the extent such amounts have not previously been credited on Obligation No. 6; and

(iii) On installments of principal and interest, respectively, on Obligation No. 6 in an amount equal to moneys deposited in the Redemption Fund pursuant to Section 4.4 of the Loan Agreement in connection with a prepayment of Loan Repayments, to the extent such amounts have not previously been credited against payments on Obligation No. 6.

Section 4. Prepayment of Obligation No. 6.

(a) So long as all amounts that have become due under Obligation No. 6 have been paid, the Credit Group Representative shall have the right, at any time and from time to time, to pay in advance all or part of the amounts to become due under Obligation No. 6. Prepayments may be made by payments of cash or surrender of Bonds. All such prepayments (and the additional payment of any amount necessary to pay the applicable premium, if any, payable upon the redemption of Bonds) shall be deposited upon receipt in the Redemption Fund and, at the request of and as determined by the Credit Group Representative, credited against payments due under Obligation No. 6 or used for the redemption or purchase of Outstanding Bonds in the manner and subject to the terms and conditions set forth in the Bond Indenture and Section 4.4 of the Loan Agreement. Notwithstanding any such redemption or surrender of Bonds, as long as any Bonds remain outstanding or any additional payments required to be made hereunder remain unpaid, the Credit Group Representative shall not be relieved of its obligations hereunder.

(b) Prepayments made under subsection (a) of this Section shall be credited against amounts to become due on Obligation No. 6 as provided in Section 3 hereof and Section 4.4 of the Loan Agreement.

Section 5. Registration, Number, Negotiability and Transfer of Obligation No. 6.

(a) Except as provided in subsection (b) of this Section, Obligation No. 6 shall consist of a single Obligation without coupons registered as to principal and interest in the name of the Bond Trustee and no transfer of Obligation No. 6 shall be registered under the Master Indenture except for transfers to a successor Bond Trustee.

(b) Upon the principal of all Obligations then Outstanding being declared immediately due and payable upon and during the continuance of an Event of Default, Obligation No. 6 may be transferred, if and to the extent the Bond Trustee requests that the restrictions of subsection (a) of this Section on transfers be terminated.

Section 6. Mutilation, Destruction, Loss and Theft of Obligation No. 6. If (i) Obligation No. 6 is surrendered to the Master Trustee in a mutilated condition, or the Credit Group Representative and the Master Trustee receive evidence to their satisfaction of the destruction, loss or theft of Obligation No. 6, and (ii) there is delivered to the Credit Group Representative and the Master Trustee such security or indemnity as may be required by them to hold them harmless, then, in the absence of proof satisfactory to the Credit Group Representative and the Master Trustee that Obligation No. 6 has been acquired by a *bona fide* purchaser and upon the Holder's paying the reasonable expenses of the Credit Group Representative and the Master Trustee, the Credit Group Representative shall cause to be executed and the Master Trustee shall authenticate and deliver, in exchange for such mutilated Obligation No. 6 or in lieu of such destroyed, lost or stolen Obligation No. 6, a new Obligation No. 6 of like principal amount, date and tenor. If any such mutilated, destroyed, lost or stolen Obligation No. 6 has become or is about to become due and payable, Obligation No. 6 may be paid when due instead of delivering a new Obligation No. 6.

Section 7. Execution and Authentication of Obligation No. 6. Obligation No. 6 shall be executed for and on behalf of the Obligated Group by an Authorized Representative of the Credit Group Representative. The signature of such officer may be mechanically or photographically reproduced on Obligation No. 6. If any officer whose signature appears on Obligation No. 6 ceases to be such officer before delivery thereof, such signature shall remain valid and sufficient for all purposes as if such officer had remained in office until such delivery. Obligation No. 6 shall be manually authenticated by an authorized officer of the Master Trustee, without which authentication Obligation No. 6 shall not be entitled to the benefits hereof.

Section 8. Right to Redeem. Obligation No. 6 shall be subject to redemption, in whole or in part, prior to maturity at the times and in the amounts applicable to redemption of the Bonds as specified in the Bond Indenture and in the manner provided herein; provided that in no event shall Obligation No. 6 be redeemed unless a corresponding amount of Bonds is prepaid.

Section 9. Partial Redemption of Obligation No. 6. Upon the selection and call for redemption, and the surrender, of Obligation No. 6 for redemption in part only, the Credit Group Representative shall cause to be executed and the Master Trustee shall authenticate and deliver to, upon the written order of, the Holder thereof, at the expense of the Credit Group Representative, a new Obligation No. 6 in principal amount equal to the unredeemed portion of Obligation No. 6, which new Obligation No. 6 shall be a fully registered Obligation without coupons.

The Credit Group Representative may agree with the Holder of Obligation No. 6 that such Holder may, in lieu of surrendering the Master Indenture Obligation for a new fully registered Master Indenture Obligation without coupons, endorse on the Master Indenture Obligation a notice of such partial redemption, which notice shall set forth, over the signature of such Holder, the payment date, the principal amount redeemed and the principal amount remaining unpaid. Such partial redemption shall be valid upon payment of the amount thereof to the registered owner of Obligation No. 6 and the Obligated Group and the Master Trustee shall be fully released and discharged from all liability to the extent of such payment irrespective of whether such endorsement shall or shall not have been made upon the reverse of Obligation No. 6 by the Holder thereof and irrespective of any error or omission in such endorsement.

Section 10. Effect of Call for Redemption. On the date designated for redemption by notice given as herein provided, Obligation No. 6, or the part thereof called for redemption, shall become and be due and payable at the redemption price provided for redemption of Obligation No. 6 or the part thereof called for redemption on such date. If, on the date fixed for redemption, moneys for payment of the redemption price and accrued interest are held by the Master Trustee, interest on Obligation No. 6, or the part thereof called for redemption, shall cease to be entitled to any benefit or security under the Master Indenture except the right to receive payment from the moneys held by the Master Trustee or the paying agents and the amount of Obligation No. 6 so called for redemption shall be deemed paid and no longer outstanding.

Section 11. Form of Obligation No. 6. Obligation No. 6 shall be in substantially the following form with such necessary and appropriate omissions, insertions and variations as are permitted or required hereby or by the Master Indenture and are approved by those officers

executing such Obligation on behalf of the Credit Group Representative and execution thereof by such officers shall constitute conclusive evidence of such approval.

Form of Obligation No. 6

EL CAMINO HOSPITAL

**OBLIGATION NO. 6**

\$(PAR AMOUNT)

DATED AS OF March [\_\_\_], 2017

KNOW ALL BY THESE PRESENTS that EL CAMINO HOSPITAL (the “Corporation”), a nonprofit public benefit corporation organized and existing under the laws of the State of California, as Credit Group Representative (as defined in the Master Indenture defined herein), for value received hereby acknowledges itself and each Obligated Group Member (as such terms are defined in the Master Indenture hereinafter defined) obligated to, and promises to pay to WELLS FARGO BANK, NATIONAL ASSOCIATION, as trustee (in such capacity, the “Bond Trustee”), under the bond indenture, dated as of March 1, 2017 (the “Bond Indenture”), between the Bond Trustee and the California Health Facilities Financing Authority (the “Authority”), and any successor trustee under the Bond Indenture, or registered assigns, the principal sum of \$(PAR AMOUNT), and to pay interest on the unpaid balance of said sum from the date hereof on the dates and in the manner hereinafter described.

This Obligation No. 6 is a single Obligation limited to \$(PAR AMOUNT) in principal amount (except as provided in the Master Indenture hereinafter identified), designated as “El Camino Hospital Obligation No. 6” (“Obligation No. 6” and, together with all other obligations issued under the Master Indenture hereinafter identified, “Obligations”), issued under and pursuant to the Supplemental Master Indenture for Obligation No. 6, dated as of March 1, 2017 (the “Supplemental Indenture”), supplementing the Master Trust Indenture, dated as of March 1, 2007, between the Credit Group Representative and Wells Fargo Bank, National Association (the “Master Trustee”). The Master Trust Indenture, as heretofore and hereafter supplemented and amended in accordance with its terms, is hereinafter called the “Master Indenture.” Capitalized terms used herein shall have the meanings assigned to such terms in the Master Indenture.

Principal hereof, interest hereon, and any applicable redemption premium are payable, in any coin or currency of the United States of America that on the payment date is legal tender for the payment of public and private debts, on the dates and in the amounts required to be paid by the Credit Group Representative pursuant to Section 4.1 of the loan agreement, dated as of March 1, 2017 (the “Loan Agreement”), between the Credit Group Representative and the Authority. Payments of the principal of and premium, if any, and interest on Obligation No. 6 shall be made by the Credit Group Representative (i) depositing or causing to be deposited the same with or to the account of the Bond Trustee at or prior to the opening of business on the day such payments shall become due or payable, and (ii) giving a notice to the Master Trustee and the Bond Trustee of each payment of principal, interest or premium on Obligation No. 6, that specifies the amount paid, identifies such payment as a payment on Obligation No. 6, and identifies the Obligated Group Members on whose behalf such payment is made.

The Credit Group Representative shall receive credit for payment on Obligation No. 6, in addition to any credits resulting from payment or prepayment from other sources, as follows: (i) on installments of interest of Obligation No. 6 in an amount equal to moneys deposited in the Interest Account created under the Bond Indenture, to the extent such amounts have not previously been credited against payments on Obligation No. 6; (ii) on installments of principal of Obligation No. 6 in an amount equal to moneys deposited in the Principal Account created under the Bond Indenture, to the extent such amounts have not previously been credited against payments on Obligation No. 6; and (iii) on installments of principal and interest, respectively, on Obligation No. 6 in an amount equal to moneys deposited in the Redemption Fund created pursuant to the Bond Indenture in connection with a prepayment of Loan Repayments, to the extent such amounts have not previously been credited against payments on Obligation No. 6.

Upon payment by the Credit Group Representative of a sum, in cash or United States Government Obligations (as defined in the Bond Indenture), or both, sufficient, together with any other cash and United States Government Obligations (as defined in the Bond Indenture) held by the Bond Trustee and available for such purpose, to cause all outstanding Bonds to be deemed to have been paid within the meaning of Article X of the Bond Indenture and to pay all other amounts referred to in Article X of the Bond Indenture, accrued and to be accrued to the date of discharge of the Bond Indenture, Obligation No. 6 shall be deemed to have been paid and to be no longer Outstanding under the Master Indenture.

Copies of the Master Indenture and the Supplemental Indenture are on file at the Corporate Trust Office of the Master Trustee and reference is hereby made to the Master Indenture for the provisions, among others, with respect to the nature and extent of the rights of the holders of Obligations issued under the Master Indenture, the terms and conditions upon which, and the purposes for which Obligations are to be issued and the rights, duties and obligations of the Members of the Obligated Group and the Master Trustee under the Master Indenture, to all of which the Holder hereof, by acceptance of this Obligation No. 6, assents.

The Master Indenture permits the issuance of additional Obligations under the Master Indenture to be secured by the provisions of the Master Indenture, all of which, regardless of the times of issue or maturity, are to be of equal rank without preference, priority or distinction of any Obligations issued under the Master Indenture over any other such Obligations except as expressly provided or permitted in the Master Indenture.

To the extent permitted by and as provided in the Master Indenture, modifications of or changes to the Master Indenture, of any indenture supplemental thereto, and of the rights and obligations of the Members of the Obligated Group and of the Holders of Obligations in any particular may be made by the execution and delivery of an indenture or indentures supplemental to the Master Indenture or any supplemental indenture. Certain modifications or changes that would affect the rights of the Holders of this Obligation No. 6 may be made only with the consent of the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding under the Master Indenture. No modification or change shall be made that will (i) extend the stated maturity of or time for paying interest on any Obligation or reduce the principal amount of or the redemption premium or rate of interest or the method of calculating interest payable on or reduce any other Required Payment on any Obligation without the consent of the Holder of such Obligation; (ii) modify, alter, amend, add to or rescind any of the terms or

provisions contained in Section 3.01 or Article VI of the Master Indenture so as to affect the right of Holders of Obligations in default to compel the Master Trustee to declare the principal of all Obligations to be due and payable, without the consent of the Holders of all Outstanding Obligations; or (iii) reduce the aggregate principal amount of Outstanding Obligations the consent of the Holders of which is required to authorize such modifications or changes without the consent of the Holders of all Obligations then Outstanding. Any such consent by the holder of this Obligation No. 6 shall be conclusive and binding upon such Holder and all future Holders and owners hereof irrespective of whether or not any notation of such consent is made upon this Obligation No. 6, unless such consent is revoked as provided in the Master Indenture.

In the manner and with the effect provided in the Supplemental Indenture, Obligation No. 6 will be subject to redemption prior to maturity at the times and in the amounts specified in the Bonds issued under the Bond Indenture.

Any redemption, either in whole or in part, shall be made upon notice thereof in the manner and upon the terms and conditions provided in the Supplemental Indenture. If this Obligation No. 6 shall have been duly called for redemption and payment of the redemption price, together with interest accrued thereon to the date fixed for redemption, shall have been made or provided for, as more fully set forth in the Supplemental Indenture, interest on this Obligation No. 6 or the portion thereof called for redemption shall cease to accrue from the date fixed for redemption, and from and after such date, this Obligation No. 6 shall be deemed not to be Outstanding and shall no longer be entitled to the benefits of the Master Indenture, and the holder hereof shall have no rights in respect of this Obligation No. 6 other than payment of the redemption price, together with accrued interest to the date fixed for redemption.

Upon the occurrence of certain Events of Default, the principal of all Obligations then outstanding may be declared, and thereupon shall become, due and payable as provided in the Master Indenture.

The Holder of this Obligation No. 6 shall have no right to enforce the provisions of the Master Indenture, or to institute any action to enforce the covenants therein, or to take any action with respect to any default under the Master Indenture, or to institute, appear in or defend any suit or other proceeding with respect to any default under the Master Indenture, or to institute, appear in or defend any suit or other proceeding with respect thereto, except as provided in the Master Indenture.

Obligation No. 6 is issuable only as a registered Obligation without coupons.

Unless the principal of all Obligations has been declared immediately due and payable, no transfer of this Obligation No. 6 shall be permitted except for transfers to a successor trustee under the Bond Indenture. This Obligation No. 6 shall be registered on the register to be maintained by the Master Trustee as registrar for the Credit Group Representative for that purpose at the Corporate Trust Office of the Master Trustee and this Obligation No. 6 shall be transferable only upon presentation of this Obligation No. 6 at said office by the Holder or by his duly authorized attorney and subject to the limitations, if any, set forth in the Supplemental Indenture. Such transfer shall be without charge to the Holder hereof, but any taxes or other governmental charges required to be paid with respect to the same shall be paid by the Holder

requesting such transfer as a condition precedent to the exercise of such privilege. Upon any such transfer, the Credit Group Representative shall execute and the Master Trustee shall authenticate and deliver in exchange for this Obligation No. 6 a new registered Obligation without coupons, registered in the name of the transferee.

Prior to due presentment hereof for registration of transfer, the Credit Group Representative, the Master Trustee, any paying agent and any registrar with respect to this Obligation No. 6 may deem and treat the person in whose name this Obligation No. 6 is registered as the absolute owner hereof for all purposes; and neither the Credit Group Representative, any paying agent, the Master Trustee nor any Obligation registrar shall be affected by any notice to the contrary. All payments made to the registered owner hereof shall be valid, and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for moneys payable on this Obligation No. 6.

No covenant or agreement contained in this Obligation No. 6 or the Master Indenture shall be deemed to be a covenant or agreement of any officer, agent or employee of the Credit Group Representative or of the Master Trustee in its individual capacity, and no agent, employee, officer or member of the governing board of the Credit Group Representative shall be liable personally on this Obligation No. 6 or be subject to any personal liability or accountability by reason of the issuance of this Obligation No. 6.

This Obligation No. 6 shall not be entitled to any benefit under the Master Indenture, or be valid or become obligatory for any purpose, until this Obligation No. 6 shall have been manually authenticated by the execution by an authorized officer of the Master Trustee, or its successor as Master Trustee, of the Certificate of Authentication inscribed hereon.



IN WITNESS WHEREOF, the Corporation, as Credit Group Representative, has caused this Obligation No. 6 to be executed in its name and on its behalf by the mechanically or photographically reproduced signature of its authorized representative all as of the date set forth above.

EL CAMINO HOSPITAL

By: \_\_\_\_\_  
Authorized Representative

MASTER TRUSTEE'S CERTIFICATE OF AUTHENTICATION

The undersigned Master Trustee hereby certifies that this Obligation No. 6 is one of the Master Indenture Obligations described in the within-mentioned Master Indenture.

Dated: March [\_\_\_], 2017

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Master Trustee

By: \_\_\_\_\_  
Authorized Signatory

Section 12. Specification of Purpose of Issue. The proceeds from the issuance of the Bonds under the Bond Indenture shall be used for the purposes described in the Bond Indenture.

Section 13. Tax-Exempt Status. The Credit Group Representative agrees, on behalf of itself and each Obligated Group Member, that it is an organization exempt from federal income taxation under Section 501(c)(3) of the Code at the time it becomes an Obligated Group Member and that, so long as all amounts due or to become due on any Bond have not been fully paid to the holder thereof, it will not take any action or suffer any action to be taken by others, including any action that would result in the alteration or loss of its status as a tax-exempt organization, that would cause the interest on the Bonds to become includable in gross income under the Code.

Section 14. Delivery of Obligation No. 6. Upon the execution and delivery of this Supplement No. 6, the execution and delivery of Obligation No. 6 and the Loan Agreement by the Corporation, whether in its own capacity or as Credit Group Representative, and the execution and delivery of the Bond Indenture by the parties thereto, the Credit Group Representative hereby requests and authorizes the Master Trustee to authenticate and deliver Obligation No. 6 to the Bond Trustee.

Section 15. Notification to Master Trustee of Certain Events. The Credit Group Representative covenants to furnish or cause to be furnished to the Master Trustee each of the following (A) notice of any redemption of all or a portion of the Bonds; (B) notice of any event of default under the Bond Indenture; (C) notice of any payment or deposit made with respect to the Bonds pursuant to Article X of the Bond Indenture; and (D) notice of any amendments to the Loan Agreement or the Bond Indenture.

Section 16. Ratification of Master Indenture. As supplemented hereby, the Master Indenture is in all respects ratified and confirmed and the Master Indenture as so supplemented hereby shall be read, taken and construed as one and the same instrument.

Section 17. Severability. If any provision of this Supplement No. 6 shall be held or deemed to be or shall, in fact, be inoperative or unenforceable as applied in any particular case and in any jurisdiction or jurisdictions or in all jurisdictions, or in all cases, because it conflicts with any other provision or provisions hereof or any constitution, statute, rule or public policy, or for any other reason, such circumstances shall not have the effect of rendering the provision in question inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions herein contained invalid, inoperative or unenforceable to any extent whatever.

Section 18. Counterparts. This Supplement No. 6 may be executed in several counterparts, each of which shall be an original and all of which shall constitute one instrument.

Section 19. Governing Law. This Supplement No. 6 shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the Credit Group Representative has caused these presents to be signed in its name and on its behalf and attested by its duly authorized representative and to evidence its acceptance of the trusts hereby created the Master Trustee has caused these presents to be signed in its name and on its behalf by its duly authorized officer, all as of the day and year first above written.

EL CAMINO HOSPITAL

By: \_\_\_\_\_  
Authorized Representative

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Master Trustee

By: \_\_\_\_\_  
Authorized Signatory

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# Att. 06 08 Appendix A

**APPENDIX A**

**INFORMATION CONCERNING**  
**EL CAMINO HOSPITAL AND AFFILIATES**

Unless otherwise noted herein, the information contained in this Appendix has been obtained from El Camino Hospital.

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## GENERAL

Capitalized terms used and not defined in this Appendix shall have the meanings ascribed thereto in the Official Statement to which this Appendix is attached. References in this Appendix to a particular fiscal year are to the fiscal year ending June 30 of such year.

### **Organization and History**

El Camino Hospital is a California nonprofit public benefit corporation (the “Corporation”) of which the El Camino Healthcare District (the “District”) is the sole member. The Corporation currently operates a single hospital (the “Hospital”) comprised of two campuses located in Mountain View and Los Gatos, California. The two campuses are in Santa Clara County, California and part of the San Jose, California metropolitan area.

The Corporation is a locally controlled leader in optimizing the health and wellness of its communities in Silicon Valley, differentiated by an innovative continuum of care developed in partnership with physicians, businesses, and payers. Santa Clara County continues rapid growth, fueled by technology development in and around the Silicon Valley. The Milken Institute’s report of the best performing cities in the United States from December 2015 ranks the Metropolitan Statistical Area of San Jose, Sunnyvale and Santa Clara number one in the nation for large cities. According to the 2010-2014 American Community Survey conducted by the United States Census Bureau, the average household income in Santa Clara County in 2014 (in 2014 inflation adjusted dollars) was estimated at \$124,513 compared to \$86,704 in the rest of California. According to the State of California, Employment Development Department, unemployment in the Metropolitan Statistical Area of San Jose, Sunnyvale and Santa Clara was 4.3% in July 2016 compared to an unadjusted 5.9% in the rest of California and 5.1% for the nation.

The Corporation is the sole Member of the Obligated Group under the Master Indenture and the sole borrower under the Loan Agreement. Neither the District, nor any other organization or entity affiliated with the Corporation is a Member of the Obligated Group, a borrower under the Loan Agreement, or otherwise has any obligation to make payments on Obligations issued under the Master Indenture (including Obligation No. 6), the Loan Agreement, or the Bonds.

The District is a political subdivision of the State of California, formed by a vote of the District’s electorate on October 20, 1956, and organized pursuant to Division 23 of the Health and Safety Code of the State of California. The District’s boundaries encompass an area of approximately 48 square miles in northern Santa Clara County, California (the “County”). Construction of the District’s original hospital located on the Mountain View campus began in 1958, it opened in 1961, and a major expansion was completed in 1965.

In 1992 the District’s Board approved a plan to create an “integrated delivery system” combining District operations with those of Camino Medical Group, a private medical group (“Camino Medical Group”), by transferring District assets, including its hospital facilities, to Camino Healthcare, a California nonprofit public benefit corporation (“Camino Healthcare”). Pursuant to various agreements by and between the District and Camino Healthcare, dated as of December 17, 1992, (i) the District transferred all of its right, title, and interest in the buildings housing its hospital and related facilities and the majority of its personal property (including equipment and furniture, supplies, records, intellectual property, contracts, and accounts) to Camino Healthcare, (ii) the District leased the land upon which the hospital and related facilities were located to Camino Healthcare for a term of 30 years, and (iii) Camino Healthcare agreed to provide certain management services related to the operation of the former District hospital and related facilities. The ground lease pursuant to which the District leases to the Corporation

the land on which the Mountain View campus is located has been amended to extend its term to December 31, 2049.

On December 5, 1996, the District, Camino Medical Group (now part of Palo Alto Medical Group and Palo Alto Medical Foundation), and Camino Healthcare entered into a Restructuring Agreement pursuant to which the integrated delivery system was dissolved and the District became the sole member of Camino Healthcare (subsequently renamed “El Camino Hospital”).

As an outcome of the Hospital Seismic Safety Act of 1994 (Senate Bill 1953), which requires California hospitals to upgrade their facilities to meet certain requirements for seismic safety standards for all hospitals within the State (See “Hospital Facilities and Services – Status of Seismic Compliance” herein), the Corporation developed a Facilities Master Plan for its Mountain View campus which determined the location of a replacement hospital building to be constructed compliant with such standards. In April 2006, the Corporation’s Board of Directors approved a “Hospital Replacement Project” for the Hospital’s Mountain View campus. In June 2006 construction began and the replacement hospital building was completed in the fall of 2009. Patient care was transferred into the new hospital facility leaving most of the replaced hospital out of service. Parts of the ground and first floors of the main tower of the old hospital will remain operational for certain outpatient services until the new Integrated Medical Office Building (“IMOB”) is completed and then these services will migrate into this new structure. The old main tower is also currently housing a few administrative departments such as Health Information Medical Records, IT Administration, Performance Improvement, as their areas were vacated to make way for the IMOB that started construction in July 2016. Upon completion of the IMOB, these departments too will relocate out of the old main tower and into the IMOB. Subsequently the old main tower is scheduled to be demolished and replaced with certain land improvements, but to remain as open space.

The Corporation acquired the real estate and certain other assets of the 143 bed Community Hospital of Los Gatos from one or more affiliates of HCP, Inc. in early April 2009. The operator of the Community Hospital of Los Gatos ceased operations on April 11, 2009 and the Corporation reopened the hospital facility under the Corporation’s hospital license in July 2009, which is now known as El Camino Hospital Los Gatos. Most of the buildings on the Los Gatos campus were constructed in the 1960’s, accordingly, the campus has been undergoing seismic compliance reviews and planning. See “Hospital Facilities and Services – Status of Seismic Compliance” herein.

The Corporation has purchased land in South San Jose which will allow for the future growth of our nonprofit community based healthcare services in the southern portion of Silicon Valley. The Corporation is in the early stages of developing a plan for the use of this site. No capital expenditures have occurred at this location.

## **Affiliates**

In addition to the District, the following are affiliated entities of the Corporation (each an “Affiliate”): (i) El Camino Hospital Foundation (the “Foundation”), a California nonprofit public benefit corporation serving as the primary fundraising entity for the Hospital; (ii) CONCERN: Employee Assistance Program (“CONCERN”), a California nonprofit mutual benefit corporation operating as a specialized health care service plan (psychological); (iii) El Camino Surgery Center, LLC (the “Surgery Center”), and (iv) Silicon Valley Medical Development, LLC (“SVMD”). The Corporation is the sole member of each of the Foundation, CONCERN and SVMD. The Corporation owns all of the membership units of the Surgery Center, which in turn owns approximately 33% of El Camino Ambulatory Surgery Center, LLC. No revenues or assets of any of the above Affiliates are pledged to or available to secure repayment of the Bonds.

**The Foundation.** The Foundation was established in 1982 as a separate California nonprofit corporation and 501(c)(3) tax-exempt organization. As of June 30, 2016, the Foundation's net assets were approximately \$28,980,000. The Foundation has received or accrued contributions from outside third parties for the benefit of the Corporation of \$6,842,205, \$5,647,489 and \$3,513,065 in fiscal years 2016, 2015, and 2014, respectively.

**CONCERN.** Established in 1981, CONCERN provides and operates a specialized health care service plan for various business organizations nationwide. Enrollees of the plan receive benefits that include individual and family counseling, childcare referrals, older adult services, and referrals to community services. CONCERN began providing specialized healthcare services as a department of the Corporation in September 1981. In July 1999, CONCERN was organized as a separate nonprofit corporation. The Corporation transferred assets to CONCERN to fund its operations. On March 5, 2001, CONCERN was granted a specialized Knox-Keene license from the Department of Managed Health Care of the State of California, which enables it to engage in business as a Specialized Health Care Service plan within California, subject to the provisions of the Knox-Keene Health Care Services Plan Act of 1975.

In order to provide outpatient care to low income families in the San Francisco Bay Area, CONCERN has assumed the management and operation of four programs formerly administered by the Corporation. These programs are: (i) Family Caregiver Assistance Program (Eldercare Services); (ii) Health Library and Resource Center; (iii) Roadrunners Transportation Service; and (iv) Lifeline. In addition, CONCERN opened the Chinese Health Initiative program in 2010. This program provides stroke and Hepatitis B screenings and community education to address the health needs of the Chinese community.

**Surgery Center.** The Surgery Center is organized as a California limited liability company. The Surgery Center once operated its own outpatient surgery center on the Mountain View campus, but in May 2013 it sold certain medical equipment, furnishings, fixtures, and inventories in exchange for 30 units of ownership interest in El Camino Ambulatory Surgery Center ("ECASC") that operates on the Mountain View campus. These 30 units represent approximately 33% of the outstanding ownership interests in ECASC. The Corporation leases building space to ECASC and provides certain services to ECASC, such as utilities and building and equipment maintenance.

**Silicon Valley Medical Development, LLC.** SVMD is organized as a California limited liability company and was formed in 2008. SVMD was established by the Corporation to create initiatives between independent physicians and the Corporation, to develop and maintain ambulatory ventures not located on the current Hospital campuses, and to provide management services to medical groups in association with the Corporation. In the last quarter of 2016, SVMD opened its first Primary Care Clinic in the San Jose area and anticipates opening approximately two to three other clinics in fiscal year 2017. SVMD is also planning to open three Urgent Care Clinics and a Women's Heart and Vascular Clinic by the end of fiscal year 2018 in the service areas of the Hospital.

## **Joint Ventures**

**Pathways.** The Corporation and Dignity Health (formerly known as Catholic Healthcare West) are equal corporate members of Pathways, a California nonprofit corporation. Pathways is comprised of two separate entities: (i) Pathways Home Health and Hospice (which includes its Hospice Foundation), and (ii) Pathways Private Duty. Pathways Home Health and Hospice provides home care and hospice services to patients throughout the San Francisco Bay Area. Support for Pathways Home Health and Hospice comes primarily from patient service revenue, contributions, grant revenue, and support from donors to its Hospice Foundation. Pathways Private Duty provides a comprehensive range of skilled

home health care and support services to patients on a short or long-term basis; support comes primarily from patients and private insurance payers.

In the spring of 2016, the Corporation partnered with Pathways and Epic to implement Epic's electronic health record ("EHR") at Pathways to bring even better integrated clinical care, so the Corporation and Pathways will share the same EHR platform. Pathway's new Epic EHR went live in November 2016.

Pathways (formerly known as Mid-Peninsula Home Care and Hospice) has been in operation since 1984. Pathways' combined net assets are approximately \$53.5 million as of June 2016. No revenues or assets of any Pathways entity are pledged to or available to secure repayment of the Bonds.

**Satellite Dialysis.** Effective February 1, 2015, the Corporation transferred certain dialysis-related assets to Satellite Healthcare, a nonprofit corporation and 501(c)(3) tax-exempt organization, and five limited liability companies in exchange for a cash payment and a 30% interest in each of the limited liability companies. Satellite Healthcare is the owner of the remaining interests in each limited liability company. Four of the limited liability companies operate outpatient dialysis treatment facilities. The remaining limited liability company operates a self-care training program for dialysis patients.

## **STRATEGIC PLAN**

The Corporation's strategy is to be a locally controlled leader in optimizing the health and wellness of the communities it serves in Silicon Valley, differentiated by innovative continuum of care developed in partnership with physicians, businesses and payers. Its tagline is "The hospital that keeps you well." The Corporation is focused on achieving the triple aim of quality, service and affordability, and its current strategic plan is based on four themes: a patient-centered care program that delivers high quality care; transitioning the care model from volume to value; smart growth during the transition from volume to value; and top operating performance to deliver high quality care while improving affordability. The Corporation is building infrastructure to achieve its quality aim and has adopted tools to engage employees to improve patient experience. The volume to value transition is starting by entering into senior population capitation and bundled payment arrangements to deliver care under a population based model. The smart growth efforts consist of investments in women's care, cardiology, oncology and behavioral health as well as program development in the growing Los Gatos market. Efforts to improve operating performance include electronic record system upgrades to the Epic platform (see "Information Technology Strategy").

## **GOVERNANCE AND MANAGEMENT**

### **The District**

The District is governed by a five-member board of directors (the "District Board"), each of whom is elected to staggered, four-year terms. Elections for positions to the District Board are held every two years, alternating between two and three available positions. The Chief Executive Officer of the Corporation is also the Chief Executive Officer of the District, the Interim CEO of the Corporation (see "The Corporation – Management" below) will also act in this role. Current members of the District Board, together with their office and the date their term expires, are listed below:

<b>District Board Member</b>	<b>Office</b>	<b>Occupation</b>	<b>Experience</b>	<b>Current Term Expires</b>
Peter Fung, MD	Chair	Physician	Initial term	November 2018
Dennis Chiu	Vice Chair	Government Relations Specialist, The Doctor's Company	One prior term	November 2020
Julia Miller	Secretary/ Treasurer	Retired Lockheed employee and former mayor of Sunnyvale	One prior term	November 2020
David Reeder		Retired; former Business Analyst, Oracle Corporation	Four prior terms (one partial)	November 2018
John L. Zoglin		eCommerce; IBM Corporation	Three prior terms (one partial)	November 2020

### **The Corporation – Governance**

The District is the sole member of the Corporation. In addition to powers reserved by statute to members of a nonprofit corporation, the District has the authority to approve (a) the selection of the Corporation's Chief Executive Officer; (b) the annual budget of the Corporation; (c) capital expenditures by the Corporation of more than \$25 million dollars in a single transaction; (d) expenditures or transfers by the Corporation in a single transaction or a series of related transaction (in excess of 5% of the assets of the Corporation as determined based on last annual audit of the Corporation preceding the approval date of the proposed transaction); and (e) the overall strategy adopted by the Corporation.

The Corporation is governed by a nine-member board of directors (the "Corporation Board"), eight of whom are appointed by the District Board. The Corporation's Chief Executive Officer serves as a Corporation director, ex officio with voting rights, however, the Interim CEO of the Corporation (see "The Corporation – Management" below) is not an ex-officio member of the Corporation's Board. The five members of the District Board serve four-year terms on the Corporation Board. The other three Board Members are individuals with relevant expertise that serve three-year staggered terms on the Corporation Board. Current members of the Corporation Board, together with their office and the date their term expires, are listed below:

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<b>Corporation Board Member</b>	<b>Board Office</b>	<b>Occupation</b>	<b>Experience</b>	<b>Current Term Expires</b>
Neal Cohen, MD	Chair	Physician and Vice Dean, UCSF Medical School	One prior term	June 2017
Dennis Chiu	Vice Chair	Government Relations Specialist, the Doctors Company	One prior term	November 2020
Peter Fung, MD	Secretary/ Treasurer	Physician	Initial term	November 2018
Jeffrey Davis, MD		Former Senior Medical Director, XG Health Solutions	One prior term	June 2019
Julia Miller		Retired Lockheed employee and former mayor of Sunnyvale	One prior term	November 2020
David Reeder		Retired; former Business Analyst, Oracle Corporation	Four prior terms (one partial)	November 2018
Lanhee Chen		Professor; Stanford University, Political Consultant	Initial term	June 2018
John L. Zoglin		eCommerce; IBM Corporation	Three prior terms (one partial)	November 2020
[Vacant]		Chief Executive Officer of the Corporation		[Ex officio]

The Corporation Board has formed six standing Advisory Committees; the Finance Committee, the Executive Compensation Committee, the Corporate Compliance, Privacy and Internal Audit Committee, the Investment Committee, the Governance Committee and the Quality, Patient Care and Patient Experience Committee. The standing Advisory Committees are composed of a combination of Corporation Board members and individuals with expertise in the subject matter of the committee. All committee members are appointed by the Corporation Board Chair subject to approval by the Corporation Board. These appointments are reviewed at least annually by the Corporation Board.

The Corporation has established policies to identify and address conflicts of interest of the Corporation Board members, employees and others. Such individuals are required to complete and update annual reports of conflicting interests. Each Corporation Board agenda includes an agenda item where conflicts with matters on the agendas are disclosed.

Dr. Peter Fung presently provides service as an on-call physician in the Hospital's emergency room. This contract was in existence prior to Dr. Fung's election to the District Board and appointment by the District Board to the Corporation Board and was renewed following a finding by the Board in February 2016 that the contract is fair and in the interests of El Camino Hospital and El Camino Hospital could not have obtained a more advantageous arrangement.

### **The Corporation – Management**

The management and policies of the Corporation are administered by officers appointed by the Chief Executive Officer. The Chief Executive Officer is selected by the Corporation Board and approved by the District Board.

Following are brief biographies of the key officers of the Corporation:

President and Chief Executive Officer. The President and Chief Executive Officer of the Corporation is responsible for administering the affairs of the Corporation in accordance with the policies adopted by the Corporation Board and is also the Chief Executive Officer of the District.

Donald Sibery – Interim CEO. The Corporation has entered into a Client Service agreement pursuant to which Mr. Sibery acts as Interim CEO, he began providing such services on October 24, 2016. Mr. Sibery has over 40 years of senior management, consulting and executive coaching experience specializing in healthcare. He currently is, among other things, the President and Managing Partner of Decisive Consulting Solutions, LLC and was the President and Managing Partner of The Sibery Group, LLC, in each case concentrating on improving operations of hospitals, health systems and physician groups, including providing interim senior level management. He was the Interim Chief Executive Officer of Renown Health in Reno, Nevada from April 2013 to July 2014. Prior to starting The Sibery Group, LLC in 2004 he was the President and Chief Executive Officer of Central Dupage Health in Winfield Illinois for over six years and the President and Chief Executive Officer of Community Health Care, Inc. in Wausau, Wisconsin for over 10 years. The Corporation has begun a nationwide search for a President and Chief Executive Officer and will fill the position in due course.

Iftikhar Hussain – Chief Financial Officer. The Chief Financial Officer of the Corporation oversees the financial affairs of the Corporation. Mr. Hussain joined the Corporation as its Chief Financial Officer in the spring of 2014. He has more than 30 years of healthcare financial experience. Most recently, Mr. Hussain was chief financial officer of Mills-Peninsula Health Services in Burlingame, California. Other previous roles include director of finance at Alta Bates Summit Medical Center in Oakland, California and director of accounting services at Mercy Healthcare/Catholic Healthcare West in Sacramento, California. He earned a bachelor's degree in finance and accounting from the University of California, Berkeley. Mr. Hussain is a member of the Healthcare Financial Management Association.

Mick Zdeblick – Chief Operating Officer. Mick Zdeblick joined the Corporation in the fall of 2012 as its Chief Operating Officer. He has more than 25 years of management and operational experience. Mr. Zdeblick spent the majority of his career at APM Inc. (acquired by CSC in 2001). He previously served as vice president of operations at Rush University Medical Center in Chicago. Mr. Zdeblick earned his bachelor's degree in business administration from Marquette University and his master's degree from Northwestern University Kellogg School of Management in Chicago.

William Faber M.D. – Chief Medical Officer. Dr. William Faber joined the Corporation as the Chief Medical Officer in the summer of 2016. He has more than 30 years of medical experience. Prior to coming to the Corporation Dr. Faber held many senior leadership roles, including several with Advocate Health Care in Oakbrook, Illinois and most recently with General Electric (GE) Healthcare Camden Group in Chicago, Illinois. Dr. Faber earned both his medical degree and his master's degree in medical ethics from Loma Linda University, and received a master of science in health care management from Harvard School of Public Health. Dr. Faber, board certified in family medicine, completed his residency at Family Medicine at Hinsdale Family Medicine Practice in Hinsdale, Illinois. He is a Fellow of the American Academy of Family Practice and a member of the American Academy of Family Physicians.

Ken King – Chief Administrative Services Officer. The Chief Administrative Services Officer for the Corporation is responsible for all support services operations. Ken King joined the Corporation in 1988. Before joining the Corporation, Mr. King worked in various engineering management positions in hospitals in Southern California. He is a member of the American Society of Hospital Engineers, National Fire Protection Agency, and the Association for the Advancement of Medical Instrumentation.

Debbie Muro – Interim Chief Information Officer. Deborah Muro, a leader in health information technology with more than 30 years of combined healthcare and industry experience, joined the Corporation in 2014. Previously, she was an Executive Leader in Information Services at UnityPoint Health, the 5th largest non-denominational integrated health system in the nation. Prior to that, she served as an Executive Leader in Information Services at Allina Health System, the largest health system in Minnesota. As Interim CIO, her current responsibilities include management and oversight of technology strategy and the Information Services Division. Ms. Muro holds a Bachelor in Science in Nursing Degree from Baylor University and a Master of Science Degree in Human Relations and Business from Amber University.

Cheryl Reinking, RN – Chief Nursing Officer. Cheryl Reinking has served the Corporation in progressive nursing leadership roles for the past 26 years becoming the Chief Nursing Officer in 2014. Ms. Reinking received a bachelor's degree in nursing from Illinois Wesleyan University and her master's degree from San Jose State University. She is a member of the El Camino Hospital Community Benefit Advisory Board, Integrated Nurse Leadership Program Board and Private Duty for Pathways Home Health and Hospice Board. Ms. Reinking is also certified by American Nurses Credentialing Center in advanced nursing administration.

Mary Rotunno, General Counsel. Mary Rotunno is the General Counsel for the Corporation. Before joining the Corporation in early 2014, she served for over 11 years as Senior Counsel for the Bay Area Region at Dignity Health in San Francisco, California. She has more than 25 years of experience as an attorney specializing in litigation and healthcare law. Ms. Rotunno graduated from University of Illinois at the Medical Center with a Bachelor of Science in Nursing and worked as a registered nurse before earning her Juris Doctor degree from University of California, Hastings College of Law.

Kathryn Fisk – Chief Human Resources. Kathryn Fisk joined the Corporation in early 2014. Most recently Ms. Fisk was regional director of human resources for the Florida Region of Tenet Healthcare. She also served in several senior-level human resources positions at the University of Miami Health System, Baptist Health South Florida and the University of Massachusetts Medical Center and School. Along with her master's degree in biology and her master's degree in business administration, she holds a lifetime Senior Professional in Human Resources certification from the Society of Human Resources Management.

Joan Kezic – Vice President, Payor Relations. Joan Kezic is the Vice President of Payor Relations responsible for negotiating agreements with health plans, managing interactions with managed care companies, maintaining a contract reimbursement computer system, tracking legislative changes regarding managed care issues, and assisting physicians with managed care issues. Ms. Kezic joined the Corporation in 1996 after ten years as director of contracting at Sequoia Hospital in Redwood City, California. She received a bachelor's degree in health planning and business administration from Penn State University. Ms. Kezic is a member of the Managed Care Committee of the California Healthcare Association and The Healthcare Financial Management Association.

Cecile Currier – Vice President, Corporate and Community Health Services. Cecile Currier is the Vice President of Corporate and Community Health Services for the Corporation, as well as the Chief Executive Officer of CONCERN: Employee Assistance Program. An employee of the Corporation since 1985, she has many years of experience in health care with a focus on behavioral health, community health services, occupational health and employee assistance programs. Ms. Currier earned a bachelor's degree in sociology and a master's degree in social work from the University of California, Santa Barbara. She is also a licensed clinical social worker.



Jodi Barnard, President of the Foundation. Jodi Barnard is the President of the El Camino Hospital Foundation overseeing fundraising activities that benefit programs, services and equipment across the Corporation. Ms. Barnard joined the El Camino Hospital Foundation in the fall of 2013. She has more than 25 years of development leadership experience across acute and pediatric healthcare, higher education and nonprofit institutions. Most recently Ms. Barnard served as the regional executive director for statewide foundations of Providence Health & Services in Oregon and executive director of the Providence Community Health Foundation, Southern Oregon Service Area. Before moving to Oregon, she led development programs at The Children’s Medical Center of Dayton, the University of Dayton and Qbase. Ms. Barnard is a graduate of Interlochen Arts Academy and DePauw University.

## **HOSPITAL FACILITIES AND SERVICES**

The Corporation currently operates a full-service acute-care community hospital (the “Hospital”) comprised of two campuses located in Mountain View and Los Gatos, California. The Corporation operates a facility known as El Camino Hospital on the Mountain View campus and a facility known as El Camino Hospital – Los Gatos on the Los Gatos campus. The two campuses of the Hospital operate under a single license issued by the State of California Department of Health Services. The Hospital provides a range of clinical and surgical services, including: behavioral health, cancer, community health, corporate health, diagnostic imaging, dialysis, emergency, heart and vascular, lab, eating disorder, pediatric, maternity, neonatal intensive care, orthopedic, rehabilitation, and senior services. Since opening the original hospital on the Mountain View campus in 1961, the Hospital has grown from 21 medical staff members to almost 1,400 medical staff members. In fiscal year 2016, the Hospital’s medical staff treated approximately 199,000 outpatients, had 18,618 discharges, including 10,607 surgeries.

### **Honors and Distinctions**

The quality of the Hospital’s services has been recognized by several health care industry organizations and at local, regional, and national levels. The Hospital was named one of the 2016 100 Top Hospitals® by Truven Health Analytics™ and one of 17 Everest Award winners.

The Joint Commission has awarded the Hospital its Gold Seal of Approval as a Primary Stroke Center, Gold Seal of Approval in Hip and Knee Replacement and Spinal Fusion Surgery for the Los Gatos campus and Gold Seal of Approval in Hip and Knee Replacement and Hip Fracture for the Mountain View Campus.

The Hospital has attained the prestigious Magnet® recognition by the American Nurses Credentialing Center® (ANCC) for the third consecutive time. The ANCC Magnet Recognition Program® recognizes hospitals that demonstrate superior patient care, nursing excellence and innovations in professional nursing practice and is considered the highest honor for quality nursing..

The Commission on Cancer of the American College of Surgeons granted a three-year Accreditation with Commendation to the cancer program at El Camino Hospital. To earn accreditation, a cancer program must meet or exceed 34 quality care standards, be evaluated every three years and maintain levels of excellence in the delivery of comprehensive patient-centered care. This accreditation is the highest that can be achieved by a community hospital.

In 2015, El Camino Hospital’s After School Program Interventions and Resiliency Education (ASPIRE) Program for teens received the Western Association of Schools and Colleges (“WASC”) Accreditation. The ASPIRE program received a six-year accreditation, the highest level of accreditation,

and teens who complete the program are eligible to receive up to five WASC-approved semester credit hours to be applied toward their high school graduation.

That same year the National Alliance on Mental Illness (NAMI) California Chapter recognized El Camino Hospital as the 2015 Outstanding Treatment Provider for its high quality, compassionate and specialized mental health services. Of particular note were El Camino Hospital's improved access to services and expanded outpatient programs for people with mental health conditions. Collaborating with local community organizations, leaders and families to provide appropriate and necessary care and services was also a factor in the decision to present the Hospital with the Outstanding Treatment Provider Award

Also in 2015, El Camino Hospital achieved "Exemplar" status for its NICHE (Nurses Improving Care for Healthsystem Elders) Program. NICHE is the premier designation indicating a hospital's commitment to excellence in the care of patients 65 years and older. The "Exemplar" status recognizes El Camino Hospital's ongoing dedication to geriatric care and pre-eminence in the implementation and quality of system-wide interventions and initiatives that demonstrate organizational commitment to the care of older adults. Additional awards and recognitions received by the Hospital include:

- Recognition as one of America's Best Hospitals for Obstetrics by the 2016 Women's Choice Award®;
- Accredited as a Chest Pain Center with Percutaneous Coronary Intervention (PCI) by the Society of Cardiovascular Patient Care since 2008;
- Accreditation from the Commission on Accreditation of Rehabilitation Facilities ("CARF") for the stroke and inpatient rehabilitation center at El Camino Hospital Los Gatos;
- Recognition as a Patient-Centered Medical Home Level 3 by the National Committee for Quality Assurance for the Senior Health Program at Silicon Valley Primary Care;
- Recognition by the American Association of Cardiovascular and Pulmonary Rehabilitation since 2005 for the Cardiovascular Pulmonary Wellness Center;
- Designated member of Centers of Excellence network in the area of Bariatric Resource Services by Optum™;
- Blue Distinction Center for bariatric surgery, knee and hip replacement, and spine surgery by Blue Shield of California; and
- Attained Get With The Guidelines®-Stroke Gold-Plus Quality Achievement Award since 2009 and Target: Stroke Honor Roll since introduced in 2010 by the American Heart Association and American Stroke Association.

## Bed Distribution

The Hospital is currently licensed for 443 beds, 270 of which are currently staffed and operating. The following table shows the existing distribution of licensed and staffed beds by bed category at the Mountain View and Los Gatos campuses as of June 30, 2016.

Types of Service	Licensed Beds			Beds in Operation		
	Mtn. View	Los Gatos	Total	Mtn. View	Los Gatos	Total
Medical/Surgical/Peds	201	127	328	125	41	166
Maternity	54	14	68	50	7	57
NICU	20	2	22	20	2	22
Psych	25	0	25	25	0	25
<b>Total</b>	<b>300</b>	<b>143</b>	<b>443</b>	<b>220</b>	<b>50</b>	<b>270</b>

The Corporation leases certain facilities at its Mountain View campus to Lucile Salter Packard Children’s Hospital at Stanford (“Stanford Children’s Hospital”). The current lease is scheduled to end in November 2019. The lease allows for two 5 year extensions at the option of the lessee. The area being leased includes 30 beds on the fourth floor of the hospital building and such beds are not reflected in the table above.

## Information Technology Strategy

Starting in fiscal year 2011 the Hospital began participating in the Medicare and Medicaid EHR (Electronic Health Record) Programs that provide financial incentives for the meaningful use of certified EHR technology to improve patient care. To receive an EHR incentive payment for meaningful use, providers must meet certain established thresholds for EHR use. The EHR Incentive Programs meaningful use threshold increase over time in three (3) stages. Eligible hospitals participate in these programs based on the federal fiscal year, which ends September 30. A hospital provider must attest to demonstrating meaningful use and supply documentation every year to receive a meaningful use incentive and to avoid a Medicare payment adjustment. For the federal fiscal years ending in 2011, 2012, and 2013 the Hospital received over \$6.1 million in meaningful use incentive payments.

Beginning with the fourth quarter of fiscal year 2013, in an effort to reduce costs and prepare for an anticipated migration to a new state-of-the-art Electronic Medical Record system, the Hospital hired as employees the individuals who were previously employed by the Hospital’s provider of out-sourced IT and Health Information Managements Services.

At the end of fiscal year 2013 the Hospital Board approved a \$19 million project at its Mountain View campus to build out a 16,000 square foot area of its new hospital to create a new high tech data center with sophisticated and current IT hardware and applications to replace its then-current data center. This new data center was completed in June 2016 and the migration from the old data center was completed in the fall of 2016.

In fiscal year 2014, the Corporation began the process of replacing the Hospital’s current electronic health record system. In January 2014, the Hospital entered into a multi-year strategic partnership with the Epic Corporation to install a state of the art electronic system referenced internally as “iCare.” The new electronic record system provides the Hospital’s health care providers access to lifetime health records for patients across its regional community while delivering real-time bedside clinical decision support on an integrated platform. This platform will provide for exchange of patient

medical data with many of the Hospital's strategic service area partners. The projected total capital investment for the implementation of iCare is approximately \$73 million. The iCare electronic health record system went "live", as projected, on November 7, 2015, with a current capital investment at June 2016 of \$57 million and \$8 million in training of employee staff and physicians. Beginning in fiscal year 2017 the Corporation will initiate upgrades and refinements to its iCare system.

### **Capital Facilities Expenditures**

The Project discussed in "PLAN OF FINANCE" in the forepart of this Official Statement, expected to be financed in whole or in part with proceeds of the Bonds, consists primarily of the following Project components, all located at the Mountain View Campus.

- Replacement of the Behavioral Health building began in early 2016, this project is projected to be completed in 2018 at a total cost of approximately \$91.5 million with approximately \$10.8 million in costs incurred through December 2016.
- Expansion of the North Drive Parking Garage began in late 2015, this project is projected to be completed by the Spring of 2017 at a total cost of approximately \$24.5 million with approximately \$6.9 million in costs incurred through December 2016.
- Construction of an integrated medical office building and associated parking structure began in July 2016, this project is projected to be completed in 2018 at a total cost of approximately \$275 million with approximately \$30 million in costs incurred through December 2016.
- Expansion of the Women's Hospital is currently in the early planning phase, the current estimated cost of this project is approximately \$91 million.

In addition to the Project (See "PLAN OF FINANCE" in the forepart of this Official Statement), the Corporation's capital expenditure forecasts include the following potential capital expenditures that may be financed in whole or in part by additional indebtedness. To the extent not financed with indebtedness the Corporation expects to use cash reserves and funds from operations.

- A project to demolish the main tower of the replaced hospital building as discussed above is projected to enter the design stage in 2017 and to be completed in 2019 at an estimated cost of \$15 million.

At the Los Gatos campus:

- The Corporation is not currently planning any significant capital expenditures on this campus except for projects financed with proceeds of the Series 2015 Bonds. See "INTRODUCTION – Additional Indebtedness" in the forepart of this Official Statement.

The Corporation is financing, or intends to finance, these projects through a combination of cash, operating reserves or additional indebtedness depending on existing results of operation, market conditions and other factors. The Corporation currently anticipates having funds available to finance and/or pay for these projects without incurring additional indebtedness and, accordingly, only intends to incur such indebtedness if it is determined at that time to be a more beneficial source of capital than the use of existing cash or reserves or other sources of available funds.

## **Status of Seismic Compliance**

The hospital building on the Mountain View campus meets the seismic standards for hospital facilities under the Hospital Seismic Safety Act of 1994 and the Corporation has no further obligations under the Act with respect to the new hospital building. Seismic upgrades which were required to allow all hospital buildings on the Los Gatos campus to remain in operation through 2029 have been completed. The Corporation is aware of the need for a long-term strategic plan for the continued operation of the Los Gatos campus taking into account the seismic standards in the Hospital Seismic Safety Act of 1994 to be met by the year 2030. However, at this early stage the Corporation has yet to develop a plan for the Los Gatos campus after 2030 and is beginning to explore available options.

## **Licensure and Accreditation**

The Hospital is licensed by the State of California Department of Health Services for up to 443 beds and accredited by The Joint Commission, an independent not-for-profit organization that accredits and certifies more than 15,000 health care organizations and programs in the United States. The Mountain View campus and the Los Gatos campus operate under the same tax identification number, state healthcare license number, and various provider numbers. The Hospital is certified for Medicare and Medicaid reimbursement. The Hospital's laboratory services are accredited by The Joint Commission and certified by the College of American Pathologists, as applicable.

## **PHYSICIANS AND EMPLOYEES**

### **Medical Staff**

Appointment to the Hospital Medical Staff is open to physicians, dentists, and podiatrists who are licensed to practice in the State of California and can document, to the satisfaction of the Corporation Board, their background, experience, training and current competence, adherence to the ethics of their profession, their ability to work with others, and that their health status is good enough to permit them to practice the privileges requested. The Corporation Board, upon recommendation of the Medical Staff Executive Committee, makes appointments to the Medical Staff and approves clinical privileges. Initial appointments are for a period of no more than two years. Reappointments are approved for a period not to exceed two years. There is one Hospital Medical Staff and it provides services at both the Mountain View and Los Gatos campuses. The Medical Staff is divided into the following categories: active, provisional, courtesy, consulting, associate, emeritus, honorary, and dialysis-affiliated staff.

As of June 30, 2016, the Hospital's Medical Staff at both campuses comprised 1,373 physicians. Active category staff members include physicians, dentists and podiatrists who utilize the Hospital's services and facilities and participate in the medical activities of the Hospital on a regular basis. Active category members of the Medical Staff have voting rights. All physicians, dentists and podiatrists joining the Medical Staff must first complete a minimum of six months or maximum of two years in the provisional category, during which time their care is subject to review by designated proctors. At the end of the provisional category, a member may proceed to active category status, courtesy category status (limited in the allowable number of patient contacts per year), or may be terminated due to failure to meet requirements for advancement. The consulting staff consists of specialists who come to the Hospital when requested to render opinions within their clinical expertise. Associate staff are practitioners who do not have a hospital-based practice but nonetheless regularly deliver services to persons within the Hospital's local community. Emeritus staff are older physicians who have been members of the active category for at least ten years and who wish to take a less active role on the Medical Staff.

**Leading Admitters.** The table below shows the top ten admitting physicians by specialty, age, and number of discharges for the year ending June 30, 2016. These top ten admitters accounted for approximately 9% (2,117) of the total discharges at the Hospital for fiscal year 2016.

<b>Specialty</b>	<b>Age</b>	<b>Discharges in Fiscal Year Ended June 30, 2016</b>
Physical Medicine & Rehabilitation	42	312
Internal Medicine	59	243
Orthopedic Surgery	41	240
Obstetrics / Gynecology	52	210
Internal Medicine	59	194
Obstetrics / Gynecology	52	194
Obstetrics / Gynecology	75	183
Obstetrics / Gynecology	49	181
Obstetrics / Gynecology	39	180
Obstetrics / Gynecology	54	180

**Specialties.** The following tables include all physicians on the Hospital’s Medical Staff as of June 30, 2016.

<b>Medical – Specialties</b>	<b>Number of Physicians</b>
Allergy and Immunology	14
Cardiology	29
Cardiology – Interventional	28
Critical Care Medicine	2
Dermatology	26
Electrophysiology	4
Endocrinology, Diabetes & Metabolism	10
Female Pelvic Medicine & Reconstructive Surgery	2
Gastroenterology	30
Hematological & Medical Oncology	22
Hospice and Palliative Medicine	3
Infectious Disease	11
Internal Medicine	120
Internal Medicine Hospitalist-CHIPS	2
Internal Medicine Hospitalist-PAMF	14
Internal Medicine Hospitalist-PARAGON	16
Internal Medicine Hospitalist-TeamHealth	15
Medical Genetics	1
Nephrology	19
Neurology	20
Neurophysiologic Monitoring	1
Neurophysiology – Clinical	7
Pain Management	8
Pathology - Clinical	1
Physical Medicine & Rehabilitation	20
Pulmonary Disease	16
Rheumatology	10
Sleep Medicine	4
Telemedicine – Intensive Care	20
<b>Medical Total:</b>	<b>475</b>

<b>Surgical – Specialties</b>	<b>Number of Physicians</b>
Dentistry	2
Pediatric Dentistry	3
Podiatry	32
Surgery-Cardiothoracic	11
Surgery-General	40
Surgery-Hand	6
Surgery-Neurological	14
Surgery-Oncological	1
Surgery-Ophthalmology	44
Surgery-Ophthalmology Pediatric	1
Surgery-Oral & Maxillofacial	12
Surgery-Orthopaedic	46
Surgery-Otolaryngology	23
Surgery-Plastic & Reconstructive	31
Surgery-Thoracic	1
Surgery-Urology	32
Surgery-Vascular	7
Surgical Assist	15
<b>Surgical Total</b>	<b>321</b>
<b>Other Specialties</b>	<b>Number of Physicians</b>
Anesthesiology	42
Emergency Medicine	34
Family Medicine	78
Geriatric Psychiatry	2
Gynecologic Oncology	7
Gynecology	6
Hospitalist-OB	10
Maternal and Fetal Medicine	20
Neonatal-Perinatal Medicine	22
Obstetrics & Gynecology	75
Pathology-Anatomic & Clinical	6
Pediatric Allergy	5
Pediatric Cardiology	5
Pediatric Genetics	2
Pediatric Infectious Disease	3
Pediatric Neurology	4
Pediatric Pulmonology	1
Pediatrics	129
Psychiatry	23
Psychiatry – Child	4
Radiation Oncology	14
Radiology-Diagnostic	18
Radiology-Vascular & Intervention	9
Reproductive Endocrinology	5
Telemedicine-Psychiatry	20
Telemedicine-Radiology	33
<b>Other Total</b>	<b>577</b>
<b>Medical Staff Grand Total</b>	<b>1,373</b>

## **Physician Relations**

In addition to working with physicians through the organized Medical Staff, the Corporation periodically reviews the needs of the community it serves with regard to physician recruitment and retention. The Corporation also maintains communication with several major integrated medical groups practicing in the Hospital's service areas, including Palo Alto Medical Foundation for Health Care, Research and Education, a part of Sutter Health. The Palo Alto Medical Foundation ("PAMF") has a major presence in Palo Alto and Mountain View. The Corporation and PAMF are collaborating on clinical program development, care coordination and population health models including data sharing, community benefit programs and co-location of facilities.

## **SERVICE AREA AND COMPETITION**

### **Primary Service Areas**

The Corporation defines the Hospital's service areas by patient origin, geographic accessibility to the Hospital and location of the majority of physician offices of its medical staff. The Hospital's Primary Service Area for the Mountain View campus includes Mountain View, Los Altos, Los Altos Hills, Sunnyvale and Cupertino. The Hospital's Primary Service Area for the Los Gatos campus includes Campbell, Los Gatos, a portion of San Jose and Saratoga. The Hospital's East Primary Service Area is served by both campuses and includes Alviso, a portion of San Jose, Santa Clara and Sunnyvale. The Hospital's patient discharges from its Primary Service Areas were approximately 75% of its total inpatient discharges for fiscal year 2016. The following map identifies the Primary Service Areas of the Hospital, Secondary Service Areas to the North and the East and the location of certain competitors, see "Market Share" and "Competition" below. The Hospital's patient discharges from its Primary Service Areas and its Secondary Service Areas were approximately 87% of its total inpatient discharges for fiscal year 2016.

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## El Camino Hospital Service Area



Service Area/ City	2016 Population
Mountain View Primary	298,533
Los Gatos Primary	536,565
East Primary	430,113
East Secondary	453,783
North Secondary	113,024
<b>Service Area Total</b>	<b>1,832,018</b>

## Market Share

In addition to El Camino Hospital, the Hospital's service area is also served by several other acute-care hospitals. Stanford Children's Hospital, a specialty children's hospital, is also in the Hospital's North Secondary Service Area. The following illustrates the market share data for the top nine general acute care providers of service for the Hospital's Primary Service Areas for the calendar years 2013, 2014, and 2015. This data is based solely upon discharges from the Hospital's Service Areas which are determined by zip code.

<b>Hospital</b>	<b>Calendar Year 2013</b>	<b>Calendar Year 2014</b>	<b>Calendar Year 2015</b>
El Camino Hospital	17.3%	17.8%	17.1%
Kaiser Hospitals (Santa Clara and San Jose) <sup>(1)</sup>	23.3	20.5	19.9
Good Samaritan Hospital <sup>(2)</sup>	13.6	13.9	14.2
Stanford & Stanford Children's Hospital <sup>(3)</sup>	9.1	9.2	9.5
Santa Clara Valley Medical Center <sup>(4)</sup>	17.1	17.5	17.8
O'Connor Hospital <sup>(5)</sup>	8.6	7.9	7.4
Regional Medical Center of San Jose <sup>(2)</sup>	5.0	5.3	6.4
All Other	6.0	7.9	7.5

Inpatient Market Share across the Primary Service Area consisting of 75% of the Hospital's discharges.

Source: OSHPD, excludes normal newborns.

- (1) Part of the Kaiser Permanente integrated healthcare delivery system.
- (2) Part of Hospital Corporation of America.
- (3) Affiliated with Stanford University.
- (4) Owned and operated by the County of Santa Clara.
- (5) Part of Daughters of Charity Health System.

## Competition

The following table details geographical information regarding certain key competitors of the Hospital.

<b>Hospital</b>	<b>Location (City)</b>	<b>Distance from the Mountain View Campus</b>	<b>Licensed Beds</b>
Kaiser Foundation Hospital - Santa Clara	Santa Clara	9.4 mi.	286
Stanford Hospital	Palo Alto	11.3	613
Santa Clara Valley Medical Center	San Jose	11.0	574
Good Samaritan Hospital	San Jose	12.0	392
O'Connor Hospital	San Jose	12.0	358
Kaiser Foundation Hospital - Redwood City	Redwood City	14.3	213
Sequoia Hospital	Redwood City	16.4	421
Kaiser San Jose	San Jose	20.5	242

Source: OSHPD.

## Demographics

The Hospital is located in the City of Mountain View and the City of Los Gatos, each within Santa Clara County, which lies immediately south of the San Francisco Bay and is the fourth most populous county in California. The following table lists population figures for the County of Santa Clara and the State at various intervals during the fifty-six year period beginning in 1960.

### Population Estimates Certain Calendar Years 1960 through 2016

Calendar Year <sup>(1)</sup>	County of Santa Clara	State of California
1960	642,315	15,717,204
1970	1,065,313	19,971,022
1980	1,295,071	22,911,000
1990 <sup>(2)</sup>	1,497,577	29,758,213
2000 <sup>(2)</sup>	1,682,585	33,873,086
2010 <sup>(2)</sup>	1,781,642	37,253,956
2011	1,794,337	37,427,946
2012	1,813,702	37,668,804
2013	1,840,895	37,984,138
2014	1,868,558	38,340,074
2015	1,903,074	38,907,642
2016	1,927,888	39,255,883

<sup>(1)</sup> As of January 1

<sup>(2)</sup> As of April 1

Source: California Department of Finance.

### SELECTED UTILIZATION AND FINANCIAL INFORMATION

*Certain of the information in this section concerning the finances of the Corporation or the District is provided as supplementary information only. Although the financial statements of the Corporation are consolidated with those of the District and its other Affiliates, in accordance with Governmental Accounting Standards Board (“GASB”) accounting principles, and some of the financial information in this Appendix A is presented on a consolidated basis, the Corporation is the sole Member of the Obligated Group under the Master Indenture and the sole borrower under the Loan Agreement.*

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## Historical Utilization

The Hospital's utilization statistics for the last three fiscal years and for the six-month periods ended December 31, 2015 and December 31, 2016, are presented below.<sup>(1)</sup>

	<b>Fiscal Year Ended June 30,</b>			<b>Six-Months Ended December 31,</b>	
	<b>2014<sup>(2)</sup></b>	<b>2015<sup>(2)</sup></b>	<b>2016<sup>(2)</sup></b>	<b>2015<sup>(2)</sup></b>	<b>2016<sup>(2)</sup></b>
Licensed beds	443	443	443	443	443
Discharges	18,567	19,081	18,618	9,244	9,301
Births (deliveries)	5,155	5,060	4,710	2,377	2,368
Patient days	86,883	89,787	88,700	43,098	42,448
Occupancy %	54%	55%	55%	53%	52%
Average daily census	238	246	242	234	231
Average length of stay (days)	4.7	4.7	4.8	4.7	4.6
Inpatient surgical procedures	4,571	4,488	4,508	2,304	2,190
Outpatient surgical procedures	6,385	6,474	6,099	3,155	3,264
Emergency room visits	57,839	61,286	60,433	29,034	28,889
Total outpatient visits	234,183	201,580	198,733	98,837	101,281

<sup>(1)</sup> Does not include utilization statistics for facilities leased to Stanford Children's Hospital.

<sup>(2)</sup> Unaudited.

## Summary Financial Information for the Corporation

The financial statements of the Corporation are consolidated with those of the District and its other Affiliates in accordance with GASB. Appendix B to this Official Statement contains the District's consolidated financial statements for the years ended June 30, 2016 and 2015. On an unconsolidated basis in fiscal year 2016, the Corporation had total revenues of approximately \$785,138,000 (including operating revenues of approximately \$795,656,000 and changes in net realized and unrealized gains and losses of \$(1,697,000)) and a change in net position of approximately \$45,688,000 over fiscal year 2015. The Corporation's net revenues were approximately 99% of the total net revenues of the District and Affiliates. Net position of the Corporation was approximately 97% of the total net position of the District and Affiliates.

The following tables reflect the Corporation's revenues, expenditures and changes in net position for fiscal years 2014 through 2016 and for the six-month periods ended December 31, 2015 and December 31, 2016, and balance sheets as of June 30, 2014, 2015 and 2016 and December 31, 2016. Information for fiscal years 2014 through 2016 is derived from the District's audited consolidated financial statements for those fiscal years. All eliminations and reporting adjustments have been made to present the information in accordance with GASB. Certain prior year amounts have been reclassified to conform with the current period presentations, the effect of which is not material. This data should be read in conjunction with the audited consolidated financial statements for the fiscal years ended June 30, 2016 and 2015 and related notes included in Appendix B.

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**El Camino Hospital Revenues, Expenditures and Changes in Net Position**  
(in thousands)

	Audited Fiscal Year Ended June 30,			Unaudited Six Months Ended December 31,	
	2014	2015	2016	2015	2016
<b>Operating revenues:</b>					
Net patient service revenues	\$ 719,487	\$ 746,645	\$ 772,020	\$ 380,271	\$ 404,035
Other revenues	20,498	21,105	23,636	11,927	14,734
Total operating revenues	739,985	767,750	795,656	392,198	418,769
<b>Operating expenses:</b>					
Salaries	395,286	409,897	435,184	213,330	222,254
Supplies	104,353	109,961	117,988	58,356	55,706
Professional fees and purchased services	86,303	92,373	98,019	48,676	46,896
Rent and utilities	15,324	14,897	15,389	7,935	8,004
Depreciation and amortization	47,546	44,627	48,748	23,230	24,302
Other	20,867	17,702	25,487	15,291	8,529
Total operating expenses	669,679	689,457	740,815	366,818	365,691
Operating income	70,306	78,293	54,841	25,380	53,078
<b>Non-operating revenues and expenses:</b>					
Investment income, net	51,177	17,970	(1,697)	(13,055)	13,289
Unrealized gain (loss) on interest rate swap	(142)	(1,009)	(3,214)	(753)	3,434
Community benefit expense	(1,477)	(2,397)	(2,716)	(1,510)	(2,054)
Other, net <sup>(1)</sup>	(957)	2,103	(2,891)	(2,657)	(2,218)
Total nonoperating revenues and (expenses)	48,601	16,667	(10,518)	(17,975)	12,451
Capital Transfers	(1,542)	2,535	1,365	552	4,582
Increase in net position	117,365	97,495	45,688	7,957	70,111
Total net position, beginning of period	1,046,518	1,154,758	1,252,253	1,252,253	1,297,941
Cumulative effect of restatement			(9,125)		
Total net position, end of period	\$1,163,883	\$1,252,253	\$1,297,941	\$1,260,210	\$1,368,052

<sup>(1)</sup> Includes income attributable to the Corporation's investment in the Surgery Center.

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**El Camino Hospital Balance Sheets**  
(in thousands)

**Audited Fiscal Year Ended June 30,**

<b>Assets</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Unaudited December 31, 2016</b>
Current assets:				
Cash and cash equivalents	\$ 49,226	\$ 55,224	\$ 59,169	\$ 100,961
Short-term investments	209,028	209,155	168,833	177,145
Current portion of board designated , restricted funds and trustee assets	--	--	--	--
Patient accounts receivable, net of allowances for doubtful accounts	102,564	95,737	120,960	101,259
Prepaid expenses and other current assets	22,632	23,701	23,596	25,179
Total current assets	<u>383,450</u>	<u>383,817</u>	<u>372,558</u>	<u>404,544</u>
Board-designated funds	393,455	443,486	456,406	475,320
Funds held by Trustee	9,384	37,676	30,841	28,238
Restricted funds	3	5	--	-
Capital assets, net	651,573	686,537	731,525	744,913
Prepaid pension	36,099	24,327	22,651	22,700
Investment in health care affiliates	26,584	31,808	31,627	31,828
Total assets	<u>\$1,500,548</u>	<u>\$1,607,656</u>	<u>\$1,645,608</u>	<u>1,707,543</u>
Deferred Outflows:				
Loss on defeasance of bond payable	--	15,364	14,764	14,463
Deferred outflow of resources	--	7,200	5,100	5,100
Deferred outflows - actuarial	--	2,654	9,950	9,950
Total deferred outflows	<u>--</u>	<u>25,218</u>	<u>29,814</u>	<u>29,513</u>
Total assets and deferred outflows	<u>\$1,500,548</u>	<u>\$1,632,874</u>	<u>\$1,675,422</u>	<u>\$1,737,056</u>
<b>Liabilities and Net Position</b>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 29,856	\$ 30,345	\$ 28,149	\$ 17,554
Salaries, wages, and related liabilities	43,227	45,728	48,575	52,940
Other current liabilities	9,614	6,125	13,310	13,323
Estimated third-party payor settlements	21,944	20,253	11,314	11,153
Current portion of bonds payable	3,157	5,475	5,482	4,558
Total current liabilities	<u>107,798</u>	<u>107,926</u>	<u>106,830</u>	<u>99,528</u>
Bonds payable, net of current portion	178,294	222,446	215,539	215,539
Other long-term obligations	10,247	10,633	13,955	11,298
Workers Compensation, net of current portion	24,037	22,419	20,009	20,679
Postretirement medical benefits, net of current portion	16,289	17,197	18,256	19,068
Total liabilities	<u>336,665</u>	<u>380,621</u>	<u>374,589</u>	<u>366,112</u>
Deferred inflows of resources				
Deferred inflows of resources – actuarial	--	--	2,892	2,892
Total deferred inflows of resources	<u>--</u>	<u>--</u>	<u>2,892</u>	<u>2,892</u>
Net position:				
Unrestricted	693,758	793,632	756,596	814,998
Invested in capital assets, net of related debt	470,122	458,616	541,345	553,054
Restricted	3	5	--	-
Total net position	<u>1,163,883</u>	<u>1,252,253</u>	<u>1,297,941</u>	<u>1,368,052</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$1,500,548</u>	<u>\$1,632,874</u>	<u>\$1,675,422</u>	<u>\$1,737,056</u>

## Sources of Patient Services Revenue

The Corporation derives a significant portion of its revenues from Medicare, Medi-Cal, managed care providers, commercial insurance carriers, and others. The following table sets forth the payor mix, based on gross patient revenues, for the last three fiscal years at June 30, and for the six month periods ended December 31, 2015 and 2016.

	Fiscal Year Ended June 30,			Six Months Ended December 31,	
	2014	2015	2016	2015	2016
Medicare	45%	46%	47%	45%	45%
Medi-Cal	6	7	7	7	8
HMO & PPO	44	43	42	43	43
Others	5	4	4	5	3

The Corporation is subject to governmental regulations applicable to health care providers and the receipt of future revenues from the operation of the Hospital is subject to, among other factors, federal and State policies affecting the health care industry and other conditions that are impossible to predict. Such conditions may include decreasing revenues while maintaining an appropriate amount and quality of health services, changes in reimbursement or prospective payment policies and unanticipated competition from other health care providers. The effect on the Corporation of recently enacted laws and regulations and of future changes in federal and State laws and policies cannot be fully or accurately determined at this time.

In addition, future economic and other conditions, including inflation, demand for hospital services, the capability of management of the Hospital, the ability of the Hospital to provide the services required or requested by patients, physicians' confidence in the Hospital and management, economic developments in the service area served by the Hospital, employee relations and unionization, competition, rates, increased costs, availability of professional liability insurance, hazard losses, third-party reimbursement and changes in governmental regulation may adversely affect operating revenues. See "BONDHOLDERS' RISKS" in the forepart of this Official Statement.

## Capitalization

The capitalization of the Corporation as of June 30, 2016, and the *pro forma* capitalization of the Corporation as of June 30, 2016, as adjusted to give effect to the issuance of the Bonds, is set forth in the following table.

	Capitalization (in thousands)	
	Year Ended June 30, 2016	Pro Forma Year Ended June 30, 2016
Long-term Parity Debt:		
Series 2015 Bonds	\$ 154,980	\$ 154,980
Series 2009A Bonds	50,000	50,000
Series 2017 Bonds	--	287,040
Total long-term parity debt	\$ 204,980	\$ 492,020
Total Net Position	\$1,297,941	\$1,297,941
Total capitalization	\$1,502,921	\$1,789,961
Parity Debt as a Percentage of Total Capitalization <sup>(1)</sup>	13.64%	27.49%

<sup>(1)</sup> Calculated in accordance with the Master Indenture.

## **Interest Rate Swap**

In connection with the original issuance of the Series 2007 Bonds, the Corporation entered into an interest rate swap agreement for each of the three series of the Series 2007 Bonds, two of which have been terminated. The existing interest rate swap agreement was amended and restated in connection with the remarketing of the Series 2007 Bonds (the “Swap Agreement”) and Citibank N.A., New York is the counterparty (the “Swap Counterparty”). The Swap Agreement has a term equal to the final maturity of the Series 2007 Bonds. Pursuant to the Swap Agreement, the Corporation pays a fixed rate on an initial aggregate notional amount equal to the principal amount of the applicable series of the Series 2007 Bonds. In return, the Swap Counterparty pays a floating rate equal to a percentage of LIBOR plus a spread on a like notional amount. The amounts payable by a party under the Swap Agreement are netted against the payments to be received by such party thereunder. The Corporation’s payment obligations pursuant to the Swap Agreement are secured by Obligation No. 2 issued under the Master Indenture. The Corporation’s payment obligations pursuant to the Swap Agreement are secured on parity with Obligation No. 6 securing the Bonds.

Under certain circumstances, the Swap Agreement is subject to termination prior to its scheduled termination date and prior to the maturity of the Bonds. In the event of an early termination of the Swap Agreement, there can be no assurance that (i) the Corporation will receive any termination payment payable to it by the Swap Counterparty, (ii) the Corporation will have sufficient amounts to pay a termination payment payable by it to the Swap Counterparty, or (iii) the Corporation will be able to obtain a replacement swap agreement with comparable terms. Such termination payments could be substantial. The mark-to-market of the value of the Swap Agreement to the Corporation has ranged from approximately \$1.9 million in June 2007 to negative \$12.2 million in July 2012. The Corporation has not been required to post collateral under the terms of the Swap Agreement since December 2009, when the other two interest rate swap agreements were terminated. As of December 31, 2016, the Swap Agreement had a negative valuation with respect to the Corporation of approximately \$7.6 million.

The Corporation may elect to terminate the Swap Agreement in whole or in part or may continue to pay the fixed rate on the notional amount, while the Swap Counterparty pays the floating rate.

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## Debt Service Coverage

The table set forth below shows the Corporation's historical coverage of maximum annual debt service for fiscal year 2016 and the *pro forma* historical coverage of maximum annual debt service, as if the Bonds had been issued on June 30, 2016, calculated in accordance with the Master Indenture.

	<b>Debt Service Coverage Ratio</b> (in thousands)	
	<b>Year Ended June 30, 2016</b>	<b>Pro Forma Year Ended June 30, 2016</b>
Excess of revenue over expenses <sup>(1)</sup>	\$47,537	\$47,537
Depreciation, amortization and interest expense	48,748	48,748
Income available for debt service	\$96,285	\$96,285
Maximum Annual Debt Service <sup>(2) (3)</sup>	\$16,337	\$30,782
Maximum Annual Debt Service Coverage Ratio <sup>(3)</sup>	5.89x	3.13x

(1) Does not include unrealized losses on interest rate swaps.

(2) Includes the Bonds and capital lease indebtedness under the Master Indenture. Maximum Annual Debt Service was computed using the actual interest for fiscal year 2016 and assuming a floating-to-fixed interest rate swap rate of 3.204% thereafter for the 2009 Bonds.

(3) Calculated in accordance with the Master Indenture.

## Liquidity and Capital Resources

### *Days Cash on Hand*

The following table shows the Corporation's calculation for Days Cash on Hand (in thousands) as of the ending of each of the last three fiscal years, and for the six month periods ended December 31, 2015 and 2016. .

	<b>As of June 30,</b>			<b>As of December 31,</b>	
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>
Cash, cash equivalents and short-term investments	\$258,254	\$264,379	\$228,003	\$241,087	\$278,106
Long-term investments	174,469	207,290	207,597	201,939	214,297
Board-designated funds	218,986	236,196	248,809	250,329	261,023
Total Cash and Unrestricted Investments	651,709	707,865	684,409	693,355	753,426
Operating expenses, less depreciation	\$622,133	\$644,830	\$692,067	\$343,588	\$341,389
Expenses per day	\$1,704	\$1,767	\$1,896	1,883	1,871
Days Cash on Hand <sup>(1)</sup>	382	401	361	368	403

(1) Calculated in accordance with the Master Indenture

## MANAGEMENT'S DISCUSSION OF FINANCIAL OPERATIONS

### **Fiscal Year Ended June 30, 2016 Compared to Fiscal Year Ended June 30, 2015**

See the District's audited consolidated financial statements for the years ended June 30, 2016 and 2015, included in Appendix B to this Official Statement for Management's Discussion and Analysis for the Years Ended June 30, 2015 and 2016. This management discussion and analysis relates to the consolidated financial statements of the District and Affiliates. The Corporation's net revenues were approximately 99% of the total net revenues of the District and Affiliates. Net position of the Corporation was approximately 97% of the total net position of the District and Affiliates.

### **Six-Month Period Ending December 31, 2016 Compared to Six-Month Period Ending December 31, 2015**

#### **Net Patient Services Revenues**

For the six months ending December 31, 2016 and December 31, 2015, the Corporation reported Net Patient Service Revenue totaling approximately \$404 million and \$380 million, respectively. This \$24 million or 6.3% was driven by a number of contributing factors over the prior six months: (1) improvement in the commercial payer mix; (2) improvement in charge capture, management of denials and improved clinical documentation after Epic went live in November 2015; (3) year to date inpatient discharges were 1.8% higher than prior year; and (4) in August 2016 a \$6.5M Intergovernmental Transfer was received.

#### **Other Revenues**

The increase of \$2.8 million for this timeframe of December 31 ending 2016 over 2015 is driven by a \$3.5 million PRIME (Public Hospital Redesign and Incentives in Medi-Cal Program) payment that began this fall, offset by decreased clinic research receipts and Lab-Hematology payments (a revenue classification problem as Epic went live in the prior year).

#### **Salaries and Benefits**

Salaries and benefits during the six month period ending December 31, 2016 was 60.8% of total operating expenses compared to 58.2% for the same period in fiscal year 2015. Total salaries and benefits increased by \$8.9 million.

Productive salaries expense had an immaterial variance between these two timeframes, primarily due to a decrease of 68 FTE's over the prior comparative six months. This reduction was principally due to in the prior year the Corporation was in the major push to activate Epic and had a number of positions backfilled for the go-live implementation and/or training of the software.

The \$8.9 million increase had two major components: (1) paying a Ratification Bonus to PRN (Professional Resource of Nurses) in an amount of \$2.5 million in recognition of the union settling a negotiated labor contract that was open for more than seven (7) months; and (2) for the first six months of fiscal year 2017, management accrued \$2.4 million in performance bonuses to senior and director management and rank and file staff based on the fiscal year 2016 payout earlier than in fiscal year 2016. Other areas of significant increases were for Healthcare (medical, dental, and vision) expense of \$1.8 million and accrued PTO (Paid Time Off) of \$1.6 million.

## **Supplies**

Total supplies expense decreased by \$2.7 million for the six-month ending December 31, 2016 compared to same period of 2015. Though the cost of pharmaceuticals, especially for cancer infusion drugs due to cost and volume, increased by \$1.1 million over 2015, there were significant decreases in general medical supplies by \$1.8 million, primarily in cardiac supplies and medical surgery supplies. Non-medical supplies decreased in the areas of non-capital computer hardware and general repair and maintenance supplies.

## **Professional Fees and Purchased Services**

Professional fees and purchased services decreased by \$1.8 million in current six months over the prior year six months. The major decreases were in marketing and communication expenses and in the Patient Financial Services areas as in the prior year a significant use of outside labor was utilized to provide additional staffing while converting to the Epic patient registration and accounting systems in the fall of 2015.

## **Rent and Utilities**

The variances are immaterial.

## **Depreciation and Amortization**

The increase of \$1.1 million over the prior six months is primarily attributable to the capitalization and go live of the install of Epic that occurred in November 2015, thus only one month of depreciation in fiscal year 2016, but the entire six months of fiscal year 2017.

## **Other**

Other expense decreased in the first six months of fiscal year 2017 over the same timeframe of fiscal year 2016 by \$6.8 million. This decrease was due to the absence in the current fiscal year of the expense incurred in fiscal year 2016 due to the training of staff and medical staff in the use of Epic in the fall of 2015.

## **Total Non-Operating Revenues and Expenses**

The total increase in non-operating revenues and expenses of \$30.4 million in the six months of fiscal year 2017 compared to the six months of fiscal year 2016 is all due to the turn-around in both realized and unrealized investment gains, as of the six months ended December 31, 2015 the portfolio returned a negative 2.1%, primarily due to poor equity market results, whereas for the six-months ended December 31, 2016 the portfolio returned a positive 2.9% due to strong equity market results (+6.1%) and alternatives results (+3.7%). Also for the six months ended December 31, 2016 a pickup in the loss on the one remaining \$50 million swap of \$4.2 million over the comparative six months ended December 31, 2015.

## Investment

The Hospital utilizes an Investment Consultant to assist the Hospital and its subsidiaries in managing its investments. The investment policy for surplus cash has been approved by the Hospital Board of Directors. The policy includes a diversified asset allocation program to balance the need for liquidity with a long-term investment focus in order to improve investment returns and the organization's financial strength. In fiscal year 2013, an Investment Committee was formed to perform the following responsibilities, among others: monitor performance of investment managers, monitor allocations across investment styles and investment managers, review compliance with the policies, and make recommendations for revisions to the policies. Throughout fiscal years 2014 and 2013, the number of money managers expanded from two money managers for surplus cash to approximately twenty-nine managers. As of fiscal year-end 2016 the number of money managers was twenty-nine for the surplus cash account.

The investment policy for surplus cash allows for the use of equity securities, fixed income securities, and alternative investments, such as real estate and hedge fund investments. The target asset allocation policy approved by the Board on February 11, 2015, consists of a 25% allocation to publicly traded U.S. equity securities, a 15% allocation to publicly traded international equity securities, a 30% allocation to fixed income securities, primarily U.S. based and intended to be of similar risk exposure to the Barclays U.S. Aggregate Bond Index, a 10% allocation to short-duration fixed income securities, primarily U.S. based and intended to be of similar risk exposure to the Barclays 1-3 Year Government Credit Index, and a 20% allocation to alternative investments inclusive of hedge fund and real estate investment strategies. The alternative investment portfolio is diversified across 19 investment managers to mitigate the impact of any one individual manager, whereas the equity portfolio consists of eight investment managers, and the fixed income portfolio consists of four investment managers.

The actual asset allocation as of June 30, 2016 varies marginally from the target allocation. The asset allocation as of June 30, 2016 consisted of the following: 26% allocation to publicly traded U.S. equity securities, a 15% allocation to publicly traded international equity securities, a 31% allocation to fixed income securities, primarily U.S. based and intended to be of similar risk exposure to the Barclays U.S. Aggregate Bond Index, a 10% allocation to short-duration fixed income securities, primarily U.S. based and intended to be of similar risk exposure to the Barclays 1-3 Year Government Credit Index, and an 18% allocation to alternative investments inclusive of hedge fund and real estate investment strategies.

The investment of surplus cash may incorporate the use of both active and passive strategies and separate account, mutual fund, and commingled fund vehicles within equity and fixed income strategies. Although most strategies within the equity and fixed income strategies are subject to daily liquidity, the least liquid of the investment vehicles allow for monthly liquidity.

The market value of the Corporation's investments may continue to experience volatility in the future due to continued changing market conditions.

## OTHER INFORMATION

### Employees

As of December 31, 2016, the Corporation had 3,242 employees, certain of which are represented by bargaining units as noted below:

#### Labor Relations

<u>Labor Organization</u>	<u>Number of Employees In Organization</u>	<u>Contract Expiration Date</u>
Professional Resources for Nurses	1,231	June 30, 2019
Service Employees International Union- United Healthcare Workers West (SEIU-UHW)	1,275	June 30, 2019
International Union of Operating Engineers, Stationary Engineers	38	October 31, 2021

### Employee Benefit Plans

The Hospital sponsors a cash-balance pension plan (the “Plan”), which has been in effect since January 1, 1995. The Plan covers employees who are 21 years of age and have completed one year of credited service. Participants are entitled to a lump-sum distribution or monthly benefits at age 65 based on a predetermined formula that considers years of service and compensation. Effective July 1, 1999, employer contributions to the Plan are calculated as 5% of a participant’s annual plan compensation, and the annual interest is an indexed rate based on the return on ten-year U.S. treasury securities. Participants are fully vested in their account balances after three pension years.

Certain retired and terminated employees and certain participants covered by a collective bargaining agreement continue to participate under provisions of a defined-benefit formula in effect prior to January 1, 1995.

Components of pension activity (in thousands) for fiscal years 2014 through 2016 consist of the following:

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Pension expense	\$8,767	\$7,193	9,272
Employer contributions	12,000	14,400	10,800
Benefits paid	9,316	9,982	11,252

Eligible employees of the Hospital may also elect to participate in a separate deferred compensation plan (the “403(b) plan”) pursuant to Section 403(b) of the Code. The Hospital acts as the administrator and sponsor, and the 403(b) plan’s assets are held by trustees designated by the Hospital’s management. Employees are eligible to participate upon employment, and participants are immediately vested in their elective contributions plus actual earnings thereon. The Hospital will match employee contributions to the 403(b) plan, subject to a maximum of 4% to 6% based on longevity of each participant’s annual plan compensation. Participants are eligible for employer match in the second plan year in which they work at least 1,000 hours, and they must be on the payroll at the end of the plan year

(December 31) and be at least 21 years of age. Employer matching contributions under the 403(b) plan are made directly into the employee's established account at the investments provider. Employer matching contributions to the 403(b) plan of \$9,853,277, \$9,182,941, and \$8,167,000 in fiscal years 2016, 2015, and 2014, respectively, are included in benefits expense.

### **Post-Retirement Medical Benefits**

The Hospital provides health care benefits and life insurance for certain retired employees who meet eligibility requirements. Employees hired on or before July 1, 1994 are eligible for health coverage upon retirement after attaining age 55 with 20 or more years of service and enrolled in one of the health plans for 20 or more years. Eligibility for retiree life insurance is age 55 with 20 or more years of service.

If a participant terminates from the Hospital after 20 years of service but prior to reaching age 62, they can choose to contribute to this plan between ages 55 and 61 to retain the plan's health benefits.

Employees who retired January 1, 1993 or before are covered under the El Camino Hospital District Plan (not part of this valuation).

Benefits are funded by the Hospital on a pay-as-you-go basis. As of June 30, 2015, approximately 621 employees and former employees and dependents were or could become eligible to participate in the plan.

The net period postretirement benefit activity (in thousands) for fiscal years 2014 through 2016 included the following components:

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Benefit expense (Annual OPEB Cost)	\$1,420	\$1,432	\$1,652
Employer contributions	526	525	592
Plan participants' contributions	335	286	223
Benefits paid	861	811	815

As of June 30, 2016, the postretirement benefit obligation (Net OPEB Obligation) in connection with such benefits was approximately \$18,256,000. As of July 1, 2015, the most recent actuarial valuation date, the unfunded actuarial accrued liability of these benefits was \$25,665,000.

### **Insurance Plans**

Professional, general, automobile, and directors and officers liability insurance for the District and its Affiliates is purchased from BETA Health Care Group ("BHG"). BHG was formed in 1979 for the purpose of operating a self-insurance program for the above insurance coverage for certain hospital districts of the Association of California Hospital Districts ("ACHD"). Effective October 1, 1989, BHG became a separate joint powers authority, establishing itself as a public agency distinct from ACHD. BHG is managed by a board of 16 representatives, 14 of whom are elected by the members.

Other insurance needs of the District and its Affiliates are brokered by Driver-Alliant Insurance Services (“Driver-Alliant”). This relationship was developed by BHG. Through Driver-Alliant, the District purchases its all-risk property insurance (including limited flood), cyber-security, fiduciary, crime and excess workers’ compensation coverage. Given the high costs and high deductible of acquiring earthquake insurance, the District has developed a board-designated self-funded earthquake “catastrophic fund.” The fair market value of this fund was \$13,614,000, \$14,149,000 and \$14,125,000 at June 30, 2014, 2015 and 2016, respectively.

The Corporation is self-funded for its workers compensation and has been issued by the State of California, Department of Industrial Relations, a Certificate of Consent to Self-Insure. The Corporation purchases excess workers’ compensation insurance coverage.

## **Litigation**

No litigation is pending or threatened concerning the validity of the Bonds. The Corporation is not aware of any litigation pending or threatened questioning the existence of the Corporation or contesting the Corporation’s ability to receive or to collect revenues or contesting the Corporation’s ability to borrow the proceeds of the Bonds and make loan payments to retire the Bonds.

From time to time there are lawsuits and claims pending against the Corporation, the District or the other Affiliates. In the opinion of the Corporation, the aggregate amount of the uninsured liabilities of the Corporation under these lawsuits and claims will not materially adversely affect the operations of the Corporation.

## **Regulatory Environment**

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers.

The Corporation is subject to routine surveys, inquiries and reviews by federal, state and local regulatory authorities. Management continually works in a timely manner to implement operational changes and procedures to address all corrective action requests from regulatory authorities. Breaches of these laws and regulations and non-compliance with survey corrective action requests could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

On November 7, 2016, the Corporation received a subpoena for documents issued by the U.S. Department of Justice under 18 USC section 3486 in furtherance of a criminal investigation. The subpoena requests documents with respect to the financial relationship between the Corporation and certain medical groups. The Corporation has not been informed of whether it is a target of the investigation and the government has not asserted any claims against the Corporation. The Corporation cannot predict what the effect, if any, of such an investigation may be on the Corporation. The Corporation is cooperating with respect to the Department’s subpoena request. See “BONDHOLDERS’ RISKS – Regulatory Environment” in the Official Statement for a discussion of certain of these risks.

# **Att. 06 09 Continuing Disclosure Agreement**



## APPENDIX E

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by the El Camino Hospital (the “Corporation”) on its own behalf and on behalf of any other Members of the Obligated Group (as such terms are defined in the Master Indenture described below) and Wells Fargo Bank, National Association, in its capacity as dissemination agent hereunder (the “Dissemination Agent”), in connection with the issuance of \$\_\_\_\_\_ aggregate principal amount of the California Health Facilities Financing Authority Revenue Bonds (El Camino Hospital) Series 2016 (the “Bonds”). The Bonds are being issued pursuant to a bond indenture, dated as of March 1, 2017 (the “Indenture”), between the California Health Facilities Financing Authority (the “Authority”) and Wells Fargo Bank, National Association, in its capacity as trustee (the “Trustee”). The proceeds of the Bonds are being loaned by the Authority to the Corporation pursuant to a loan agreement, dated as of March 1, 2017 (the “Loan Agreement”), between the Authority and the Corporation. The obligations of the Corporation under the Loan Agreement are secured by payments made by Members of the Obligated Group (the “Members”) on Obligation No. 6, issued by the Obligated Group under the Master Trust Indenture, dated as of March 1, 2007, as supplemented and amended (the “Master Indenture”), among the Corporation, any future Members named therein and Wells Fargo Bank, National Association, as master trustee. Pursuant to the Loan Agreement, the Corporation, on its own behalf and on behalf of the other Members, and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Corporation and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule (as defined below). The Corporation acknowledges that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any person, including any Holder or Beneficial Owner of the Bonds, with respect to the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Corporation pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person that (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Disclosure Representative” shall mean the Chief Financial Officer of the Corporation or her or his designee, or such other person as the Corporation shall designate in writing to the Trustee from time to time.

“Dissemination Agent” shall mean Wells Fargo Bank, National Association, in its capacity as dissemination agent hereunder, or any successor Dissemination Agent designated in writing by the Corporation and which has filed with the Trustee a written acceptance of such designation.

“Holders” shall mean registered owners of the Bonds.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“Official Statement” shall mean the Official Statement relating to the Bonds, dated March \_\_, 2017.

“Participating Underwriter” shall mean Citigroup Global Markets Inc., as original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Quarterly Report” shall mean any Quarterly Report provided by the Corporation pursuant to, and as described in, Section 3 of this Disclosure Agreement.

“Repository” shall mean the Municipal Securities Rulemaking Board, which can be found at <http://emma.msrb.org/>, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

### SECTION 3. Provision of Quarterly and Annual Reports.

(a) The Corporation shall, or, upon delivery of the Annual Report to the Dissemination Agent, shall cause the Dissemination Agent to, not later than six months after the end of the Corporation’s fiscal year (presently ending June 30), commencing with the report for the fiscal year ending June 30, 2017, provide to the Dissemination Agent for submission to the Repository, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents constituting a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if such audited financial statements are not available by that date. If the Corporation’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(d).

(b) In addition to the Annual Report required to be filed pursuant to Section 3(a), the Corporation shall, or shall cause the Dissemination Agent to, provide to the Repository, not later than 60 days after the end of each of the first three quarters of the Corporation’s fiscal year, beginning with the fiscal quarter ended March 31, 2017, (i) unaudited financial information for the Corporation and its affiliates for such fiscal quarter prepared by the Corporation, including a balance sheet and a combined statement of operations and changes in net assets, and an update (as of the last day of the most recently ended fiscal quarter) of the information contained in the table set forth under the caption “SELECTED UTILIZATION AND FINANCIAL INFORMATION – Historical Utilization” in Appendix A to the Official Statement, (ii) the total principal amount of outstanding fixed interest rate long-term debt and variable interest rate long-term debt of the Obligated Group outstanding as of the end of the subject fiscal quarter, and (iii) whether and to what extent any Member of the Obligated Group has granted a Lien on its Property as permitted under the Master Indenture during the subject quarter, such information being referred to herein collectively as a “Quarterly Report.”

(c) Not later than thirty (30) days (nor more than sixty (60) days) prior to the date specified in Section 3(a) for providing the Annual Report, and not later than fourteen (14) days (nor more than thirty (30) days) prior to the dates specified in Section 3(b) for providing the quarterly reports, to the Repository, the Dissemination Agent shall give notice to the Corporation that the Annual Report or the quarterly report, respectively, shall be required to be filed in accordance with the terms of this Disclosure Agreement. Not later than fifteen (15) Business Days prior to the date specified in Section 3(a) for providing the Annual Report, the Corporation shall provide the Annual Report in a format suitable for reporting to the Repository to the Dissemination Agent. Not later than three (3) Business Days prior to the dates specified in Section 3(b) for providing the quarterly reports, the Corporation shall provide the quarterly reports in a format suitable for reporting to the Repository to the Dissemination Agent. If the Corporation is unable to provide to the Dissemination Agent, and the Dissemination Agent is thereby unable to provide to the Repository an Annual Report or a quarterly report by the respective date required in Section 3(a) or Section 3(b), the Dissemination Agent together with the Corporation shall send a notice to the Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall certify to the Corporation and the Authority, in writing that the Annual Report has been provided pursuant to this Disclosure Agreement, and stating the date it was provided to the Repository.

SECTION 4. Content of Annual Reports. The Corporation's Annual Report shall contain or include by reference the following:

(a) The audited consolidated financial statements of each Obligated Group Member for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Governmental Accounting Standards Board (which may be consolidated with non-obligated entities if required by generally accepted accounting principles, provided that in such case, consolidating schedules shall be included with the financial statements). If the Obligated Group's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement (defined below), and the audited combined financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Updates (as of the last day of the most recently ended fiscal year of the Obligated Group) of the following information contained in Appendix A to the Official Statement:

- (i) a list of current Obligated Group Members (as defined in the Master Indenture) as of the end of the most recently completed fiscal year.
- (ii) the information under the caption "HOSPITAL FACILITIES AND SERVICES—Bed Distribution" for the facilities of the current Obligated Group Members for the most recently completed fiscal year.
- (iii) the total number of the medical staff at the Corporation and any other Obligated Group Member's facilities for the most recently completed fiscal year.
- (iv) the information contained in the table under the caption "PHYSICIANS AND EMPLOYEES—Medical Staff—Leading Admitters" for the most recently completed fiscal year.

- (v) the information contained in the table under the caption “SELECTED UTILIZATION AND FINANCIAL INFORMATION—Historical Utilization” for the most recently completed fiscal year.
- (vi) the information contained in the table under the caption “SELECTED UTILIZATION AND FINANCIAL INFORMATION—Sources of Patient Services Revenue” for the most recently completed fiscal year.
- (vii) the information contained in the table entitled “Capitalization” under the caption “SELECTED UTILIZATION AND FINANCIAL INFORMATION—Capitalization” for the most recently completed fiscal year.
- (viii) the information contained in the table entitled “Debt Service Coverage Ratio” under the caption “SELECTED UTILIZATION AND FINANCIAL INFORMATION—Debt Service Coverage” for the most recently completed fiscal year.
- (ix) the information contained in the table under the caption “SELECTED UTILIZATION AND FINANCIAL INFORMATION—Liquidity and Capital Resources—Days Cash on Hand” for the most recently completed fiscal year.
- (x) the number of full-time equivalent employees of the Obligated Group for the most recently completed fiscal year.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Corporation is an “obligated person” (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Corporation shall clearly identify each such other document so included by reference.

#### SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Corporation shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not in excess of 10 business days after the occurrence of the event:

1. principal and interest payment delinquencies.
2. tender offers.
3. defeasances.
4. rating changes.
5. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, or Notices of Proposed Issue (IRS Form 5701-TEB).
6. unscheduled draws on the debt service reserves reflecting financial difficulties.
7. unscheduled draws on credit enhancement reflecting financial difficulties.

8. substitution of the credit or liquidity providers or their failure to perform.

9. bankruptcy, insolvency, receivership or similar event (within the meaning of the Rule) of the Corporation. For the purposes of the event identified in this Section 5(a)(9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Corporation in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Corporation, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Corporation.

(b) Pursuant to the provisions of this Section 5, the Corporation shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. non-payment related defaults.

2. modifications to rights of Bondholders.

3. optional, contingent or unscheduled bond calls.

4. unless described under Section 5(a)(5) above, adverse tax opinions, material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.

5. release, substitution or sale of property securing repayment of the Bonds.

6. the consummation of a merger, consolidation, or acquisition involving the Corporation or the sale of all or substantially all of the assets of the Corporation, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.

7. Appointment of a successor or additional Trustee with respect to the Bonds or the change of name of such a Trustee.

(c) The Dissemination Agent shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of a Listed Event under Section 5(b) hereof, contact the Disclosure Representative, inform such person of the event, and request that the Corporation promptly notify the Dissemination Agent in writing whether or not to report the event pursuant hereto.

(d) Whenever the Corporation obtains knowledge of the occurrence of a Listed Event under Section 5(b) hereof, the Corporation shall (i) as soon as possible determine if such event would be material under applicable federal securities laws, (ii) file a notice of such occurrence with the Repository in a timely manner not in excess of 10 business days after the occurrence of the event, or (iii) provide notice of such reportable event to the Dissemination Agent and the Trustee in format suitable for filing with the Repository in a timely manner not in excess of 10 business days after the occurrence of the event.

(e) If in response to a request under Section 5(c), the Corporation determines that the Listed Event would not be material under applicable federal securities laws, the Corporation shall so notify the Dissemination Agent and the Trustee in writing and instruct the Dissemination Agent not to report the occurrence pursuant to Section 5(d).

(g) The Dissemination Agent shall have no duty to independently prepare or file any report of Listed Events. The Dissemination Agent may conclusively rely on the Corporation's determination of materiality pursuant to Sections 5(d) and 5(e).

**SECTION 6. Termination of Reporting Obligation.** The Corporation's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If the Corporation's obligations under the Loan Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the Corporation and the Corporation shall have no further responsibility hereunder. If such termination or substitution occurs prior to the final maturity of the Bonds, the Corporation shall give notice of such termination or substitution in the same manner as for a Listed Event under Section 5(d).

**SECTION 7. Dissemination Agent.** The Corporation may, from time to time, appoint or engage a Dissemination Agent (or substitute Dissemination Agent) to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty days written notice to the Corporation and the Trustee. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the Corporation and shall have no duty to review any information provided to it by the Corporation. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Corporation in a timely manner and in a form suitable for filing. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent.

**SECTION 8. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Agreement, the Corporation and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the Corporation) and any provision of this Disclosure Agreement may be waived, provided the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in each Indenture for amendments to such Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Corporation shall describe such amendment in the next Annual Report, and shall include, as applicable, a

narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Corporation. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(d), and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Corporation from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Corporation chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Corporation shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Corporation or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of any Participating Underwriter or the Holders of at least 25% in aggregate principal amount of Outstanding Bonds, shall), or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture or the Loan Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Corporation or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

No Holder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the Corporation, the Trustee and the Dissemination Agent satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Corporation or the Dissemination Agent, as the case may be, shall have refused to comply therewith within a reasonable time.

SECTION 11. Duties, Immunities and Liabilities of the Dissemination Agent. Article VIII of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Corporation agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Corporation for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by such Dissemination Agent in the performance of its duties hereunder. In performing its duties hereunder, the Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the Corporation, the Holders, or any other party. The obligations of the Corporation under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

The Dissemination Agent may conclusively rely upon the Annual Report provided to it by the Corporation as constituting the Annual Report required of the Corporation in accordance with this Disclosure Agreement and shall have no duty or obligation to review such Annual Report. The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the Corporation in a timely manner in a form suitable for filing with the Repository. No provision of this Disclosure Agreement shall require the Dissemination Agent to risk or advance or expend its own funds or incur any financial liability. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Corporation, the Authority, the Dissemination Agent, the Trustee (solely with relation to Section 10 herein), the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Notices. Any notices or communications required or permitted to be given pursuant to this Disclosure Agreement shall be in writing mailed, sent by telecopy/facsimile or other direct written electronic means, including, without limitation, email, receipt of which shall be confirmed, or delivered as set forth below:

To the Corporation:

El Camino Hospital  
2500 Grant Road  
Mountain View, California 94039  
Attention: Chief Financial Officer  
Fax: (650) 940-7261

To the Trustee:

Wells Fargo Bank, National Association  
333 Market St., 18<sup>th</sup> Floor  
San Francisco, California 94105  
Attention: Corporate Trust Department

To the Authority:

California Health Facilities Financing Authority  
915 Capitol Mall, Room 590  
Sacramento, California 95814  
Attention: Executive Director  
Fax: (916) 654-5362

SECTION 14. Format for Filings. Any notice, report or filing with the Repository pursuant to this Disclosure Agreement must be submitted in electronic format, in word-searchable pdf format, accompanied by such identifying information as is prescribed by the Repository. Until otherwise designated by the Repository or the Securities Exchange Commission, filings with the Respository are to be made through the Electronic Municipal Market Access website of the Municipal Securities Rulemaking Board, currently located at <http://emma.msrb.org>.



SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Dated: March \_\_, 2017

EL CAMINO HOSPITAL

By: \_\_\_\_\_  
Chief Financial Officer

WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Dissemination Agent

By: \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**

**NOTICE TO REPOSITORY OF FAILURE TO FILE [ANNUAL / QUARTERLY] REPORT**

Name of Corporation: El Camino Hospital  
Name of Bond Issue: \$\_\_\_\_\_ California Health Facilities Financing Authority  
Revenue Bonds (El Camino Hospital) Series 2016  
Date of Delivery: March \_\_, 2017

NOTICE IS HEREBY GIVEN that the Corporation has not provided [an Annual] [a Quarterly] Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement executed by the Corporation on the date of delivery of the Bonds. The Corporation anticipates that the [Annual] [Quarterly] Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

EL CAMINO HOSPITAL

By: [form only; no signature required]

# **Att. 06 10 Bond Purchase Contract**

\$ \_\_\_\_\_

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY  
REVENUE BONDS  
(EL CAMINO HOSPITAL)  
SERIES 2017**

**PURCHASE CONTRACT**

**March \_\_, 2017**

California Health Facilities Financing Authority  
915 Capitol Mall, Suite 435  
Sacramento, California 95814

Treasurer of the State of California  
915 Capitol Mall, Suite 261  
Sacramento, California 95814

Ladies and Gentlemen:

The undersigned, Citigroup Global Markets Inc. (the "Underwriter"), offers to enter into this purchase contract (this purchase contract, together with the letter of representations attached hereto as Exhibit B (the "Letter of Representations"), referred to herein as the "Purchase Contract") with the California Health Facilities Financing Authority (the "Authority") and the Treasurer of the State of California, as agent for sale (the "Treasurer"), and approved by El Camino Hospital (the "Corporation"). Upon acceptance hereof and approval by the Corporation, this offer will become binding upon the Authority, the Treasurer, the Corporation, and the Underwriter. This offer is made subject to the Authority's and the Treasurer's acceptance by delivery of an executed counterpart hereof at or prior to 11:59 p.m., Pacific Daylight Time, on this date or on such later date as shall have been consented to by the parties hereto with the approval of the Corporation. Capitalized terms not otherwise defined herein have the meanings ascribed to such terms in the Bond Indenture dated as of March 1, 2017 (the "Indenture"), between the Authority and Wells Fargo Bank, National Association, as trustee (in such capacity, the "Trustee"), or if not defined therein, in the Loan Agreement between the Authority and the Corporation, dated as of March 1, 2017 (the "Loan Agreement").

**1. Purchase, Sale and Delivery of the Bonds.**

(a) Upon the basis of the representations, warranties and agreements herein set forth and subject to the terms and conditions contained herein and in the Letter of Representations, dated the date hereof, executed and delivered by the Corporation and attached hereto as Exhibit B, the Underwriter hereby agrees to purchase from the Treasurer on behalf of the Authority, and the Treasurer on behalf of the Authority hereby agrees to sell to the Underwriter, all (but not less than all) of the \$ \_\_\_\_\_ aggregate principal amount of the California Health Facilities Financing Authority Revenue Bonds (El Camino Hospital) Series 2017 (the "Bonds"). The Bonds will be dated as of their date of issuance and will mature on the dates and in the principal amounts, bear interest at the rates, and be subject to redemption as set forth in Exhibit A hereto. The Underwriter will purchase the Bonds at the Closing (as defined below) at an aggregate price of \$ \_\_\_\_\_.

being the principal amount of the Bonds of \$\_\_\_\_\_, plus aggregate original issue premium of \$\_\_\_\_\_, less an underwriter's discount of \$\_\_\_\_\_.

The Authority approved the issuance of the Bonds pursuant to a resolution adopted on October 19, 2016 (the "Authority Resolution"). The Bonds shall be substantially in the form described in, shall be issued and secured under the provisions of, and shall be payable as provided, in the Indenture, substantially in the form previously submitted to the Underwriter, with only such changes therein as shall be mutually agreed upon by the Underwriter, the Authority and the Corporation. The Authority will loan the proceeds of the Bonds to the Corporation pursuant to the terms of the Loan Agreement. The Bonds shall be limited obligations of the Authority payable from payments made by the Corporation under the Loan Agreement from amounts held in certain funds established pursuant to the Indenture and from payments on Obligation No. 6 by the Obligated Group Members (as defined below), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Bonds shall be further secured by an assignment of the right, title and interest of the Authority in the Loan Agreement and in Obligation No. 6, to the extent and as more particularly described in the Indenture.

The proceeds of the Bonds will be used (i) to finance certain capital expenditures at facilities owned or operated by the Corporation (the "Project"); (ii) to fund capitalized interest on the Bonds; and (iii) to pay costs of issuance (including the Underwriter's fee) with respect to the Bonds.

The Corporation shall execute and deliver to the Trustee on the Closing Date (as defined below) Obligation No. 6 ("Obligation No. 6") issued under the Master Trust Indenture, dated as of March 1, 2007, as amended and supplemented to date (the "Master Indenture"), between the Corporation and any future Members of the Obligated Group (collectively, the "Obligated Group Members," the "Members," or the "Obligated Group") and Wells Fargo Bank, National Association, as master trustee (in such capacity, the "Master Trustee"), and the Supplemental Master Indenture for Obligation No. 6, dated as of March 1, 2017, by and between the Corporation and the Master Trustee ("Supplement No. 6"). The Corporation will initially be the sole Member of the Obligated Group. Obligation No. 6 will evidence the obligation of the Members of the Obligated Group with respect to the Corporation's payment obligation under the Loan Agreement. The obligation to make payments on Obligation No. 6 will constitute the joint and several obligations of the Obligated Group pursuant to the terms of the Master Indenture.

The Corporation will undertake, pursuant to the Loan Agreement and a Continuing Disclosure Agreement, to be dated the Closing Date (the "Continuing Disclosure Agreement"), between the Corporation and the Trustee, to provide annual and quarterly reports (for first three fiscal quarters only) and notices of certain events relating to the Bonds. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement (each defined below).

(b) The Authority has cooperated in the preparation and delivery to the Underwriter of the Preliminary Official Statement, dated March \_\_, 2017, relating to the Bonds (the "Preliminary Official Statement"), and the Authority represents and warrants that the information contained in the Official Statement (defined below) under the captions "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION—The Authority" was deemed to be final as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"), except for any information permitted to be omitted therefrom by Rule 15c2-12. The Authority will cooperate in the preparation and delivery to the Underwriter of a final Official Statement relating to the Bonds, dated the date hereof, substantially in the form of the Preliminary Official Statement, and any amendments or supplements thereto that shall be approved by the Underwriter (as so amended and supplemented, the "Official Statement"). The Authority hereby ratifies, confirms and approves of the

distribution by the Underwriter of the Preliminary Official Statement, the Official Statement, the Indenture and Loan Agreement in connection with the offer and sale of the Bonds.

(c) At 9:00 a.m., Pacific Daylight Time, on March \_\_, 2017, or at such other time or on such earlier or later date as mutually agreed upon by the Underwriter, the Treasurer, and the Authority and approved by the Corporation (the “Closing Date”), the Authority will deliver or cause to be delivered to or in care of The Depository Trust Company (“DTC”) for the account of the Underwriter in New York, New York, or at such other place as we may mutually agree upon, the Bonds in book-entry form, bearing proper CUSIP numbers, duly executed and authenticated, and at the offices of Orrick, Herrington & Sutcliffe LLP (“Bond Counsel”) in San Francisco, California the other documents hereinafter mentioned; and, subject to the conditions of this Purchase Contract, the Underwriter will accept such delivery and pay the purchase price thereof as set forth in paragraph (a) of this Section by wiring funds (which payment in any event shall be in immediately available funds) payable to the order of the Trustee (such delivery and payment being herein referred to as the “Closing”). Upon initial issuance, the ownership of the Bonds will be registered in the name of Cede & Co., as nominee of DTC, and will be in the form of a separate single fully-registered Bond for each maturity bearing interest at a particular rate. The Bonds will be made available for inspection at the office of Bond Counsel at least one (1) business day prior to the Closing.

(d) The Underwriter has entered into this Purchase Contract in reliance upon the representations and warranties of the Authority contained herein, the representations and warranties of the Corporation contained in the Letter of Representations and to be contained in the Loan Agreement, the certificates of the Authority, the Corporation, the Trustee and others to be delivered pursuant hereto and to the Loan Agreement, and the opinions of Bond Counsel, counsel to the Trustee and counsel to the Corporation required to be delivered hereby and by the Loan Agreement.

(e) Not later than 10 calendar days after the Closing Date, the Underwriter shall submit to the Authority the report referenced by Section 1899.532 of Subchapter 4 of Chapter 4, Division 2 of Title 2 of the California Code of Regulations.

## **2. Representations and Agreements of the Authority.**

The Authority represents and agrees with the Underwriter and the Corporation that:

(a) The Authority is and will be at the Closing Date duly organized and existing under the laws of the State of California, has full power and authority to issue the Bonds, to adopt the Authority Resolution, to enter into the Indenture, the Loan Agreement, the Tax Certificate and Agreement dated the Closing Date relating to the Bonds (the “Tax Agreement”), and this Purchase Contract and to perform its obligations under the Indenture, the Loan Agreement, the Tax Agreement, and this Purchase Contract, and when executed and delivered by the respective parties thereto, the Indenture, the Loan Agreement, the Tax Agreement, and this Purchase Contract will constitute the legal, valid and binding obligations of the Authority enforceable in accordance with their respective terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other similar laws related to or affecting creditors’ rights generally and by the application of equitable principles as the court having jurisdiction may impose, regardless of whether such proceeding is considered in a proceeding in equity or law, and to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in California;

(b) When delivered to and paid for by the Underwriter at the Closing in accordance with the provisions of this Purchase Contract and assuming proper authentication by the Trustee by the

manual signature of an authorized officer thereof, the Bonds will have been duly authorized, executed, issued and delivered and will constitute valid and binding limited obligations of the Authority, enforceable in accordance with their terms, in conformity with, and entitled to the benefit and security of the Indenture;

(c) By official action of the Authority prior to or concurrently with the acceptance hereof, the Authority has duly authorized and approved the distribution of the Preliminary Official Statement, the execution and distribution of the Official Statement, and duly authorized and approved the execution and delivery of, and the performance by the Authority of the obligations on its part, if any, contained in the Bonds and the Indenture, the Loan Agreement, the Tax Agreement and this Purchase Contract and the consummation by the Authority of all other transactions contemplated by the Official Statement, and this Purchase Contract;

(d) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending (with service of process against the Authority having been accomplished) or known to the Authority to be threatened against the Authority seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting any proceedings of the Authority taken concerning the issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, in any way contesting the validity or enforceability of the Bonds or the Indenture, the Loan Agreement, the Tax Agreement, or this Purchase Contract or contesting in any way the completeness or accuracy of the information in the Preliminary Official Statement or the Official Statement under the captions “THE AUTHORITY” or “ABSENCE OF MATERIAL LITIGATION—The Authority,” as amended or supplemented, or the existence or powers of the Authority relating to the issuance of the Bonds;

(e) As of the date thereof and as of the date hereof, the statements and information contained in the Preliminary Official Statement under the caption “THE AUTHORITY” and “ABSENCE OF MATERIAL LITIGATION—The Authority” were and will be true and correct in all material respects, and did not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements and information therein, in light of the circumstances under which they were made, not misleading;

(f) Both at the time of acceptance hereof by the Authority and at the Closing Date, the statements and information contained in the Official Statement under the captions “THE AUTHORITY” and “ABSENCE OF MATERIAL LITIGATION—The Authority” are and will be true and correct in all material respects, and do not and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such statements and information therein, in the light of the circumstances under which they were made, not misleading; it being further understood that no such representation, warranty or agreement shall apply to statements or information in or omissions from the Official Statement with respect to which the Corporation agrees to indemnify the Authority, the Treasurer, and the Underwriter pursuant to the Letter of Representations of the Corporation dated the date hereof and attached hereto as Exhibit B;

(g) The Authority will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter, at the expense of the Corporation, as the Underwriter may reasonably request in endeavoring (i) to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate and (ii) to determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions, and subject to the provisions of Section 5, will use its best efforts to continue such qualification in effect so long as required for distribution of the Bonds;

provided, however, that in no event shall the Authority be required to take any action which would subject it to general or unlimited service of process in any jurisdiction in which it is not now so subject;

(h) The execution and delivery by the Authority of the Bonds, the Indenture, the Loan Agreement, the Tax Agreement, and this Purchase Contract, and compliance with the provisions on the Authority's part contained herein and therein will not in any material respect conflict with or constitute on the part of the Authority a breach of or default under any material law, administrative regulation, court order, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Authority is a party or by which it is bound, which breach or default would have a material adverse effect on the Authority's ability to perform its obligations under the Indenture, the Loan Agreement, the Tax Agreement, and this Purchase Contract;

(i) The Authority is not in breach of or in default under any applicable material law or administrative regulation of the State of California or the United States or any applicable material judgment or decree or any material loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Authority is a party or is otherwise subject, which breach or default would have a material adverse effect on the Authority's ability to perform its obligations under the Indenture, the Loan Agreement, the Tax Agreement, and this Purchase Contract, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a breach of or a default or an event of default under any such instrument which breach or default would have a material adverse effect on the Authority's ability to perform its obligations under the Indenture, the Loan Agreement, the Tax Agreement, or this Purchase Contract;

(j) If, between the date of this Purchase Contract and 25 days after the end of the underwriting period (as such term is defined in Rule 15c2-12), (i) an event occurs of which the Authority has knowledge, which might or would cause the information contained in the Official Statement under the captions "THE AUTHORITY" or "ABSENCE OF MATERIAL LITIGATION—The Authority," as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading or, (ii) if the Authority is notified by the Corporation pursuant to the provisions of the Letter of Representations or otherwise requested to amend, supplement or otherwise change the Official Statement, the Authority will notify the Underwriter and the Corporation, and if in the opinion of the Underwriter, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the Authority will participate in the amendment or supplement in a form and in a manner approved by the Underwriter and counsel to the Authority, provided that all expenses thereby incurred will be paid by the Corporation and provided further that, for purposes of this provision, the end of the underwriting period shall be the Closing Date unless the Underwriter provides written notice to the contrary to the Authority and the Corporation on the date of Closing;

(k) For 25 days from the end of the underwriting period (as defined in Rule 15c2-12), (a) the Authority will not participate in the issuance of any amendment or supplement to the Official Statement to which, after being furnished with a copy, the Underwriter or the Corporation shall reasonably object in writing or which shall be disapproved by their respective counsel and (b) if any event relating to or affecting the Authority shall occur as a result of which it is necessary, in the opinion of counsel for the Underwriter, to amend or supplement the Official Statement in order to make the Official Statement not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, the Authority will forthwith prepare and furnish to the Underwriter and the Corporation (at the expense of the Corporation) in the electronic format



designated by the MSRB an amendment of or supplement to the Official Statement (in form and substance satisfactory to counsel for the Underwriter and counsel for the Authority) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances existing at the time the Official Statement is delivered to a purchaser, not misleading. For purposes of this subsection, the Authority will furnish such information with respect to itself as the Underwriter may from time to time reasonably request; and

(l) The execution and delivery of this Purchase Contract by the Authority shall constitute a representation by the Authority to the Underwriter that the representations and agreements contained in this Section 2 are true as of the date hereof; provided that as to information furnished by the Corporation pursuant to this Purchase Contract and the Letter of Representations or otherwise and in the Preliminary Official Statement and the Official Statement, the Authority is relying on such information in making the Authority's representations, warranties and agreements; and as to all matters of law, other than federal tax and securities laws, the Authority is relying on the advice of counsel to the Authority; and as to matters of federal tax law and securities laws, the Authority is relying on the advice of Bond Counsel; and provided further that no officer, agent or employee or member of the governing body of the Authority shall be individually liable for the breach of any representation or agreement contained herein.

### **3. Conditions to the Obligations of the Underwriter.**

The obligation of the Underwriter to accept delivery of and pay for the Bonds on the Closing Date shall be subject, at the option of the Underwriter, to the accuracy in all material respects of the representations and agreements on the part of the Authority contained herein as of the date hereof and as of the Closing Date, to the accuracy in all material respects of the statements of the officers and other officials of the Authority made in any certificates or other documents furnished pursuant to the provisions hereof, and to the performance by the Authority of its obligations to be performed hereunder at or prior to the Closing Date and to the following additional conditions:

(a) The representations and warranties of the Corporation contained in the Letter of Representations shall be true and correct in all material respects at the date hereof and at and as of the Closing Date, as if made at and as of the Closing Date and will be confirmed by a certificate or certificates of the appropriate Corporation officer or officers dated the Closing Date and the Corporation shall be in compliance with each of the warranties, agreements, and covenants made by it in and documents furnished pursuant to the provisions hereof.

(b) At the time of Closing, the Indenture, the Loan Agreement, the Master Indenture, Supplement No. 6, Obligation No. 6, the Continuing Disclosure Agreement, the Tax Agreement, the Letter of Representations, and this Purchase Contract (collectively, the "Documents") shall be in full force and effect as valid, binding and enforceable agreements between or among the various parties thereto, and the Master Trust Indenture, the Purchase Contract, and the Letter of Representations shall not have been amended, modified or supplemented, except as described herein or as may otherwise have been agreed to in writing by the Underwriter, and there shall have been taken in connection with the issuance of the Bonds and with the transactions contemplated thereby and by this Purchase Contract, all such actions as, in the opinion of Bond Counsel or the Underwriter's counsel, shall be necessary or appropriate;

(c) At the Closing Date, the Official Statement shall not have been amended, modified or supplemented, except as may have been agreed to by the Underwriter.

(d) Between the date hereof and the Closing Date, none of the following shall have occurred:

(i) legislation shall be introduced in, enacted by, reported out of committee, or recommended for passage by either House of the Congress or the legislature of the State of California or recommended for passage or otherwise endorsed for passage (by press release, other form of notice or otherwise) by the President of the United States by or on behalf of any agency, commission or instrumentality of the State of California or the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or legislation is proposed for consideration by either such committee by any member thereof or presented as an option for consideration by either such committee by the staff or such committee or by the staff of the Joint Committee on Taxation of the Congress of the United States, or a bill to amend the Internal Revenue Code of 1986, as amended (the "Code") (which, if enacted, would be effective as of a date prior to the Closing) shall be filed in either House, or a decision by a court of competent jurisdiction shall be rendered, or a regulation or filing shall be issued or proposed by or on behalf of the Department of the Treasury or the Internal Revenue Service of the United States, or other agency of the federal government, or a release or official statement shall be issued by the President, the Department of the Treasury or the Internal Revenue Service of the United States, in any such case with respect to or affecting (directly or indirectly) the federal or state taxation of interest received on obligations of the general character of the Bonds which, in the reasonable judgment of the Underwriter, materially adversely affects the market price or marketability of the Bonds or the ability of the Underwriter to enforce contracts for the sale, at the contemplated offering prices (or yields), of the Bonds;

(ii) a stop order, release, regulation, or no-action letter by or on behalf of the Securities and Exchange Commission (the "SEC"), or any other governmental agency having jurisdiction of the subject matter, shall have been issued or made to the effect that the issuance, offering, or sale of the Bonds, or any document relating to the issuance, offering or sale of the Bonds is or would be in violation of any provision of the federal securities laws at the Closing Date, including the Securities Act of 1933, as amended (the "Securities Act"), the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act");

(iii) legislation shall be enacted or be proposed or actively considered for enactment, or a decision by a court of the United States shall be rendered, or a ruling, regulation, proposed regulation, or statement by or on behalf of the SEC or other governmental agency having jurisdiction of the subject matter shall be made, to the effect that the Bonds or any comparable securities of the Authority, any obligations of the general character of the Bonds are not exempt from the registration, qualification or other requirements of the Securities Act, as amended and as then in effect, or the Indenture is not exempt from the qualification requirements of the Trust Indenture Act, as amended and as then in effect;

(iv) there shall have occurred (1) an outbreak or escalation of hostilities involving the United States or the declaration by the United States of a national emergency or war; or (2) the occurrence of any other physical, economic or political calamity or crisis in the United States or elsewhere, including a downgrade of the sovereign debt rating of the United States by any major credit rating agency or payment default on United States Treasury obligations; or a default with respect to the debt obligations of, or the institution of proceedings under any federal bankruptcy laws by or against any state of the United States or any city, county or other political subdivision located in the United States having a population of over 1,000,000, if the effect of any such event specified in clause (1) or (2), in the

Underwriter's reasonable judgment, materially adversely affects the market price or marketability of the Bonds, or the market price generally of obligations of the general character of the Bonds, or the ability of the Underwriter to enforce contracts for the sale of the Bonds;

(v) trading in the Authority's outstanding securities or any securities on which the Corporation is an obligor shall have been suspended by the SEC or by the New York Stock Exchange or any other national securities exchange, or trading in securities generally on the New York Stock Exchange or any other national securities exchange shall have been suspended or limited or minimum prices shall have been established on any such exchange;

(vi) a general banking moratorium shall have been declared by federal, State of New York or State of California authorities or a major financial crisis or a material disruption in commercial banking or securities settlement or clearances services shall have occurred such as to make it, in the judgment of the Underwriter, impractical or inadvisable to proceed with the offering of the Bonds as contemplated in the Official Statement;

(vii) there shall have occurred a general suspension of trading, minimum or maximum prices for trading shall have been fixed and be in force or maximum ranges or prices for securities shall have been required on the New York Stock Exchange or other national stock exchange whether by virtue of a determination by that Exchange or by order of the Securities and Exchange Commission or any other governmental agency having jurisdiction or any national securities exchange shall have: (A) imposed additional material restrictions not in force as of the date hereof with respect to trading in securities generally, or to the Bonds or similar obligations; or (B) materially increased restrictions now in force with respect to the extension of credit by or the charge to the net capital requirements of underwriters or broker-dealers such as to, in the judgment of the Underwriter, materially adversely affect the market price or marketability of the Bonds or the ability of the Underwriter to enforce contracts for the sale, at the contemplated offering prices (or yields), of the Bonds;

(viii) an order, decree or injunction of any court of competent jurisdiction, or order, ruling, regulation or official or staff statement by the SEC, or any other governmental agency having jurisdiction of the subject matter, issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Bonds, or the issuance, offering or sale of the Bonds, including any or all underlying obligations, as contemplated hereby or by the Official Statement, is or would be in violation of the federal securities laws as amended and then in effect;

(ix) after the date hereof, (i) Moody's Investors Service, Inc. ("Moody's"), S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P"), or Fitch Ratings ("Fitch") shall downgrade or suspend any rating (without regard to credit enhancement) of any debt securities issued on behalf of the Corporation, or (ii) there shall be any official statement as to a possible downgrading (such as being placed on "credit watch" or "negative outlook" or any similar qualification) of any rating by Moody's, S&P or Fitch of any debt securities issued on behalf of the Corporation, including the Bonds;

(x) subsequent to the date hereof there shall have occurred any material adverse change, or any development involving a prospective material adverse change, in or affecting particularly the business or properties of the Corporation;

(xi) any event occurring, or information becoming known which, in the reasonable judgment of the Underwriter, makes untrue in any material respect any statement or

information contained in the Official Statement, or has the effect that the Official Statement contains any untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading and, in either such event, (a) the Authority and/or the Corporation refuses to permit the Official Statement to be supplemented to supply such statement or information or (b) the effect of the Official Statement as so supplemented is, in the judgment of the Underwriter, to materially adversely affect the market price or marketability of the Bonds or the ability of the Underwriter to enforce contracts for the sale, at the contemplated offering prices (or yields), of the Bonds; or

(xii) any adverse event occurs with respect to the affairs of the Authority, the Corporation, the Trustee, which, in the reasonable judgment of the Underwriter, would have a material and adverse effect on the market price or marketability of the Bonds at the initial offering prices set forth in the Official Statement;

(e) At or prior to the Closing Date, the Underwriter shall have received the following materials, agreements and documents, in each case satisfactory in form and substance to the Underwriter:

(1) Each of the Documents and the Bonds and the Official Statement, duly executed and delivered by the respective parties thereto, with only such amendments, modifications or supplements as may have been agreed to in writing by the Underwriter;

(2) An unqualified approving opinion of Bond Counsel (the “Bond Opinion”), dated the Closing Date and addressed to the Authority, substantially in the form attached to the Official Statement as Appendix D, together with reliance letters addressed to the Underwriter and the Trustee, a supplemental opinion of Bond Counsel in a form acceptable to the Authority and the Underwriter, dated the Closing Date and addressed to the Authority and the Underwriter to the effect that:

(i) the statements contained in the Official Statement under the captions entitled “THE BONDS” (excluding any and all information related to DTC and the book-entry system), “SECURITY FOR THE BONDS,” “PLAN OF FINANCE,” “TAX MATTERS,” Appendix C—“SUMMARY OF PRINCIPAL DOCUMENTS,” and Appendix D—“PROPOSED FORM OF OPINION OF BOND COUNSEL” thereof, excluding any material that may be treated as included under such captions by reference to other documents, insofar as such statements expressly summarize certain provisions of the Bonds, the Master Indenture, the Indenture, and the Loan Agreement, or the form or content of the Bond Opinion, are accurate in all material respects;

(ii) the Bonds are not subject to the registration requirements of the Securities Act, and the Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended; and

(iii) this Purchase Contract has been duly executed and delivered by the Authority and is a valid and binding agreement of the Authority;

(3) An Opinion of Buchalter Nemer, a Professional Corporation, counsel to the Corporation, dated the Closing Date and addressed to the Authority, the Underwriter, the Trustee and Bond Counsel, substantially in the form attached hereto as Exhibit C;

(4) An opinion of Orrick, Herrington & Sutcliffe LLP, as disclosure counsel to the Authority (“Disclosure Counsel”), dated as of the Closing Date and addressed to the Authority and

the Underwriter, substantially to the effect that based on such counsel's participation in conferences with representatives of the Authority, the Corporation, the Underwriter and their respective counsels, accountants and others, during which conferences the contents of the Preliminary Official Statement or Official Statement and related matters were discussed, based on such counsel's participation in the above-mentioned conferences (which did not extend beyond the date of the Official Statement), and in reliance thereon, on oral and written statements and representations of the Authority and the Corporation and others and on the records, documents, certificates, opinions and matters mentioned in such opinion, subject to the limitations on such counsel's role as Disclosure Counsel, such counsel advises as a matter of fact and not opinion that (A) as of the date of this Purchase Contract, no facts had come to the attention of the attorneys in such counsel's firm rendering legal service with respect to the Preliminary Official Statement which caused such counsel to believe as of that date that the Preliminary Official Statement contained any untrue statement of a material fact or omitted to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and (B) as of the date of the Official Statement and as of the date of Closing, no facts had come to the attention of the attorneys in such counsel's firm rendering legal service with respect to the Official Statement which caused such counsel to believe as of the date of the Official Statement and as of the date of Closing that the Official Statement contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, such counsel expressly excludes from the scope of this paragraph and expresses no view or opinion about, with respect to both the Preliminary Official Statement and the Official Statement, any CUSIP numbers, financial, accounting, statistical or economic, engineering or demographic data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, any management discussion and analysis, Appendices B and E, or any information about book-entry, DTC, ratings, rating agencies, underwriters, underwriting, included or referred to therein or omitted therefrom and also no responsibility is undertaken or view expressed with respect to any other disclosure document, materials or activity, or as to any information from another document or source referred to by or incorporated by reference in the Preliminary Official Statement or the Official Statement;

(5) An opinion of the State Attorney General, as counsel to the Authority, dated the Closing Date and addressed to the Authority, substantially in the form attached hereto as Exhibit D-1 and a reliance letter, dated as of the Closing Date and addressed to the Underwriter, substantially in the form attached hereto as Exhibit D-2;

(6) An opinion of counsel to the Trustee, dated the Closing Date and addressed to the Authority, the Underwriter, and the Corporation substantially in the form attached hereto as Exhibit E;

(7) An opinion of and letter from Stradling Yocca Carlson & Rauth, a Professional Corporation, counsel to the Underwriter, dated the Closing Date and addressed to the Underwriter, in form and substance satisfactory to the Underwriter, which includes among other matters an opinion substantially to the effect that the Bonds are not subject to the registration requirements of the Securities Act, and the Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended;

(8) A certificate of such authorized official of the Authority as is acceptable to the Underwriter, dated the Closing Date, to the effect that:

(i) the Authority has fulfilled or performed each of its obligations contained in the Documents to which it is a party required to be fulfilled or performed by it as of the Closing Date; and

(ii) to the best of such official's knowledge, the representations and agreements made by the Authority in the Documents to which it is a party are true and correct in all material respects on the Closing Date, with the same effect as if made on and with respect to the facts as of the Closing Date;

(9) A certificate of the President and Director of the Corporation, or such other officer of the Corporation as is acceptable to the Underwriter, dated the Closing Date, to the effect that:

(i) the representations and warranties made by the Corporation in the Documents to which it is a party are true and correct as of the Closing Date, with the same effect as if made on and with respect to the facts as of the Closing Date;

(ii) since June 30, 2016, no material and adverse change has occurred in the financial condition, assets, properties or results of operation of the Corporation which is not described in the Official Statement;

(iii) the Corporation has not since June 30, 2016 offered or issued any bonds, notes or other obligations for borrowed money or incurred any material liabilities, direct or contingent, which are not described in or contemplated by the Official Statement;

(iv) the Corporation's audited Combined Financial Statements as of and for the Years Ended June 30, 2016 and 2015 and Independent Auditors' Report (copies of which, certified by Moss Adams LLP, have been furnished to the Authority and the Underwriter), present fairly, in all material respects, the financial position, activities and cash flows of the Corporation at June 30, 2016 and 2015, respectively, in conformity with generally accepted accounting principles, and since June 30, 2016, there has been no material adverse change in the assets, operations or financial condition of the Corporation other than any such change which the Corporation has disclosed in writing to the Authority and the Underwriter and that is described in the Official Statement;

(v) as of the Closing Date, the Official Statement does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (*provided that* no representation is made with respect to the information regarding the Authority, DTC and the book-entry system, or the Underwriter);

(vi) other than as described in the Official Statement, there are no actions, suits or proceedings which have been served on the Corporation or, to the knowledge of the Corporation after due inquiry, are otherwise pending or threatened against the Corporation (i) to restrain or enjoin the issuance or delivery of any of the Bonds or the collection of Revenues pledged under the Indenture or any payments to be made by the Corporation pursuant to the Loan Agreement; (ii) in any way contesting or affecting the authority for the issuance or delivery of the Bonds or the Documents or the validity when executed and delivered of the Bonds, the Documents, or the collection of Revenues pledged under the Indenture; (iii) in any way contesting the corporate existence or powers of the Corporation; (iv) which, if determined adversely to it, might materially adversely affect the consummation of the transactions contemplated by the Documents, or the ability of the Corporation to perform its obligations under the Documents, or the financial condition, assets or properties of the Corporation; or (v) contesting or affecting the Corporation's status as an organization described in Section 501(c)(3) of the Code or which would subject any income of the Corporation to federal income taxation to such extent as would result in loss of the exclusion from gross income for federal income tax purposes of interest on any of the Bonds under Section 103 of the Code;

(10) The Articles of Incorporation of the Corporation certified by the Secretary of State of the State of California, a Certificate of Good Standing issued by the Secretary of State of the State of California and a Certificate of Good Standing issued by the Franchise Tax Board of the State of California, each of recent date to the Closing;

(11) Certified copies of the Authority Resolution authorizing the execution and delivery of the Bonds, the Indenture, the Loan Agreement, the Tax Agreement, the Official Statement, and this Purchase Contract;

(12) Certified copies of the Corporation's bylaws and resolutions of its Board of Directors authorizing the execution and delivery of the Documents to which it is a party, approving the Preliminary Official Statement and the Official Statement (including the execution thereof) and authorizing the distribution of the Preliminary Official Statement and the Official Statement;

(13) Evidence that the Corporation is an organization described in Section 501(c)(3) of the Code or corresponding provisions of prior law and is exempt from taxation under California law;

(14) Evidence that the Corporation is exempt from state income and franchise taxes;

(15) The Tax Agreement duly executed by the parties thereto and an Internal Revenue Service Form 8038 executed by the Authority;

(16) A certificate of the Trustee, dated the Closing Date, substantially in the form attached hereto as Exhibit F;

(17) Evidence satisfactory to the Underwriter that (i) the Bonds shall have been rated “\_\_\_” by Moody's and “\_\_\_” by S&P (or such other equivalent ratings as such rating agencies may give) and (ii) that any such ratings have not been revoked or downgraded;

(18) A letter from Moss Adams LLP, dated March \_\_, 2017, consenting to the use of its report, dated October 19, 2016, in the Preliminary Official Statement and the Official Statement;

(19) A letter from Moss Adams LLP, dated March \_\_, 2017 substantially in the form of Exhibit G hereto (the “Moss Adams Procedure Letter”);

(20) A letter from Moss Adams LLP, dated as of the Closing Date, dating down the Moss Adams Procedure Letter, in form and substance satisfactory to the Underwriter's counsel;

(21) Evidence of appropriate CEQA and project-related approvals;

(22) All filings required under State law with the California Debt and Investment Advisory Commission;

(23) Such additional legal opinions, certificates, proceedings, instruments and other documents as the Underwriter or Bond Counsel may request to evidence compliance by the Authority and the Corporation with legal requirements, the truth and accuracy, as of the Closing Date, of the representations of the Authority contained herein and of the Corporation contained in the Documents to which it is party, and the due performance or satisfaction by the Authority and the Corporation at or

prior to such time of all agreements then to be performed and all conditions then to be satisfied by the Authority and the Corporation.

If the Authority shall be unable to satisfy the conditions to the Underwriter's obligations contained in this Purchase Contract or if the Underwriter's obligations shall be terminated for any reason permitted herein, this Purchase Contract shall terminate, and none of the Underwriter, the Treasurer, or the Authority shall have any further obligation hereunder, except the Corporation shall be obligated with respect to all reasonable fees, expenses and costs payable to the Authority and the Treasurer pursuant to Section 5 hereof.

#### **4. Conditions to the Obligations of the Authority.**

The obligations of the Authority to issue and deliver the Bonds on the Closing Date shall be subject, at the option of the Authority, to the performance by the Underwriter of its obligations to be performed hereunder on or prior to the Closing Date and to the following additional conditions:

(a) The Documents to which the Authority is a party shall have been executed by the other parties thereto;

(b) No order, decree, injunction, ruling or regulation of any court, regulatory agency, public board or body shall have been issued nor shall any legislation have been enacted with the purpose or effect, directly or indirectly, of prohibiting the offering, sale or issuance of the Bonds as contemplated hereby or by the Official Statement;

(c) The Authority's closing fee shall have been paid by wire transfer or in other immediately available funds or arrangements reasonably satisfactory to the Authority shall have been made to pay such fees from the proceeds of the Bonds or otherwise; and

(d) The documents contemplated by Section 3(e), the forms of which are set forth herein, shall have been delivered substantially in the forms set forth herein, and the other documents contemplated by Section 3(e) (other than Section 3(e)(7)) shall have been delivered to the Authority in form and substance satisfactory to Bond Counsel, the Authority and the Underwriter.

If the conditions to the Authority's obligations or to the Underwriter's obligations contained in this Purchase Contract shall not be satisfied, or if the Underwriter's obligations shall be terminated for any reason permitted herein, this Purchase Contract shall terminate, and neither the Authority nor the Treasurer shall have any further obligation hereunder, except the Corporation shall be obligated with respect to all reasonable fees, expenses and costs payable to the Authority and the Treasurer pursuant to Section 5 hereof.

#### **5. Expenses.**

(a) All reasonable expenses and costs of the Authority and its counsel incident to the performance of its obligations in connection with the authorization, issuance and sale of the Bonds to the Underwriter, including printing costs of outside printing companies incurred in connection with printing the Bonds and preparing the Official Statement, fees and expenses of consultants, fees and expenses of rating agencies, any out-of-pocket disbursements of the Authority, the fees of Digital Assurance Certification, L.L.C. for a continuing disclosure undertaking compliance review, and fees and expenses of Bond Counsel, counsel to the Authority and counsel to the Underwriter shall be paid by the Corporation. All fees and expenses to be paid by the Corporation pursuant to this Purchase Contract may be paid from Bond proceeds to the extent permitted by the Act, the Indenture and the Tax Agreement.



(b) All out-of-pocket expenses of the Underwriter, including travel and other expenses, fees of DTC, CUSIP Service Bureau charges, California Debt and Investment Advisory Commission fees, and blue sky fees shall be paid by the Underwriter from the expense component of the Underwriter's discount. The Underwriter may elect to pay the fees of its counsel. The Underwriter is required to pay fees to the California Debt and Investment Advisor Commission in connection with the Bonds. The Corporation acknowledges that it has had an opportunity, in consultation with such advisors as it may deem appropriate, if any, to evaluate and consider such fees. Notwithstanding that such fees are solely the legal obligation of the Underwriter, the Corporation agrees to reimburse the Underwriter for such fees.

## **6. Termination.**

This Purchase Contract may be terminated by the Underwriter upon written notice of such termination to the Authority and the Treasurer if any of the conditions specified herein shall not have been fulfilled by the Closing. The Underwriter may also terminate this Purchase Contract prior to the delivery of and payment for the Bonds if, subsequent to the date hereof, there shall have occurred any change, or any development involving a prospective change, in or affecting particularly the business or properties of the Corporation which, in the reasonable judgment of the Underwriter, materially impairs the investment quality of the Bonds.

The Authority may terminate this Purchase Contract upon written notice of such termination to the Underwriter if the Underwriter shall fail, by the Closing, to perform its obligations contained herein.

Any notice of termination pursuant to this Section 6 shall be given in the manner provided in Section 7 hereof. If this Purchase Contract shall be terminated as provided in the first paragraph of this Section 6, such termination shall be without liability or further obligation of the Treasurer, the Authority, the Underwriter or the Corporation except as provided in Section 5 hereof.

## **7. Notices.**

Any notice or other communication to be given under this Purchase Contract may be given by delivering the same in writing at the following notice addresses or facsimile numbers or such other addresses or facsimile numbers as any of the following may designate in writing to the others:

If to the Authority: California Health Facilities Financing Authority  
915 Capitol Mall, Room 435  
Sacramento, California 95814  
Attention: Executive Director  
Fax: (916) 654-5362

If to the Treasurer: Treasurer of the State of California  
915 Capitol Mall, Suite 261  
Sacramento, California 95814  
Fax: (916) 653-4042

If to the Underwriter: Citigroup Global Markets Inc.  
Public Finance  
444 South Flower Street, 27<sup>th</sup> Floor  
Los Angeles, California 90071  
Attention:  
Fax: (212) 723.8939

If to the Corporation: El Camino Hospital  
2500 Grant Road  
Mountain View, California 94040-4378  
Attention: Chief Financial Officer  
Fax: (650) 940-7261

**8. Limitation of Liability of the Authority and the Treasurer.**

Neither the Authority nor the Treasurer shall be directly, indirectly, contingently or otherwise liable for any costs, expenses, losses, damages, claims or actions of any conceivable kind under any conceivable theory under this Purchase Contract or any document or instrument referred to herein or by reason of or in connection with this Purchase Contract or other document or instrument except to the extent it receives amounts from the Corporation available for such purpose.

**9. Arms-Length Transaction.**

The Treasurer, the Authority and the Underwriter acknowledge and agree that (i) the purchase and sale of the Bonds pursuant to this Purchase Contract is an arm's-length, commercial transaction between the Treasurer, the Authority and the Underwriter in which the Underwriter is acting solely as a principal and is not acting as an agent, advisor or fiduciary of the Treasurer or the Authority, (ii) the Underwriter has not assumed any advisory or fiduciary responsibility to the Treasurer or the Authority with respect to this Purchase Contract, the offering of the Bonds and the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriter, or any affiliate of the Underwriter, has provided other services or is currently providing other services to the Treasurer, the Corporation or the Authority on other matters), (iii) the only contractual obligations the Underwriter has to the Treasurer and the Authority with respect to the transactions contemplated hereby are those set forth in this Purchase Contract, (iv) the Underwriter has financial and other interests that differ from those of the Treasurer, the Corporation and the Authority, and (v) the Treasurer and the Authority have consulted with their own legal, accounting, tax, financial and other advisors, as applicable, to the extent they have deemed appropriate. Nothing in the foregoing paragraph is intended to limit the Underwriter's obligations of fair dealing under MSRB Rule G-17.

**10. Governing Law.**

(a) The laws of the State of California govern all matters arising out of or relating to this Purchase Contract, including, without limitation, its validity, interpretation, construction, performance, and enforcement.

(b) Any party bringing a legal action or proceeding against any other party arising out of or relating to this Purchase Contract shall bring the legal action or proceeding in the Sacramento County Superior Court, Sacramento, California, unless the Authority waives this requirement in writing. Each party agrees that the exclusive (subject to waiver as set forth herein) choice of forum set forth in this section does not prohibit the enforcement of any judgment obtained in that forum or any other appropriate forum. Each party waives, to the fullest extent permitted by law, (1) any objection which it may now or later have to the laying of venue of any legal action or proceeding arising out of or relating to this Purchase Contract brought in the Sacramento County Superior Court, Sacramento, California, and (2) any claim that any such action or proceeding brought in such court has been brought in an inconvenient forum.

**11. Miscellaneous.**

This Purchase Contract is made solely for the benefit of the Treasurer, the Authority, the Corporation and the Underwriter (including the successors or assigns of the Underwriter) and no other persons, partnership, association or corporation shall acquire or have any right hereunder or by virtue hereof except as expressly provided herein. All representations and agreements of the Authority in this Purchase Contract, and all representations, warranties, and agreements made by the Corporation in its Letter of Representations or by virtue of its approval of this Purchase Contract, shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Underwriter and shall survive the delivery of and payment for the Bonds. This Purchase Contract may be executed in several counterparts, each of which shall be deemed an original and all of which shall constitute one and the same agreement. Delivery of an executed counterpart signature page to this Purchase Contract by electronic mail shall be effective as delivery of a manually executed counterpart signature page to this Purchase Contract.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Underwriter the enclosed counterparts hereof whereupon it will become a binding agreement among the Treasurer, the Authority, the Corporation and the Underwriter.

**CITIGROUP GLOBAL MARKETS INC.**  
as underwriter

By: \_\_\_\_\_  
Director

Accepted and Agreed to:

**CALIFORNIA HEALTH FACILITIES  
FINANCING AUTHORITY**

By: \_\_\_\_\_  
Executive Director

**TREASURER OF THE STATE OF  
CALIFORNIA**

By: \_\_\_\_\_  
Deputy Treasurer  
For California State Treasurer John Chiang

Approved:

**EL CAMINO HOSPITAL**

By: \_\_\_\_\_  
Chief Financial Officer

S-1

California Health Facilities Financing Authority Revenue Bonds (El Camino Hospital) Series 2017,  
signature page for Purchase Contract

**EXHIBIT A**

**TERMS OF THE BONDS**

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY  
REVENUE BONDS  
(EL CAMINO HOSPITAL)  
SERIES 2017**

		\$ _____		<b>Serial Bonds</b>			
<u>Maturity</u> <u>February 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Maturity</u> <u>February 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>

\$ \_\_\_\_\_ % **Term Bonds due February 1, 20\_\_** Yield \_\_\_\_\_ %<sup>(1)</sup>  
 \$ \_\_\_\_\_ % **Term Bonds due February 1, 20\_\_** Yield \_\_\_\_\_ %<sup>(1)</sup>  
 \$ \_\_\_\_\_ % **Term Bonds due February 1, 20\_\_** Yield \_\_\_\_\_ %<sup>(1)</sup>  
 \$ \_\_\_\_\_ % **Term Bonds due February 1, 20\_\_** Yield \_\_\_\_\_ %<sup>(1)</sup>

<sup>(1)</sup> Yield to call at par on February 1, 20\_\_.

**Redemption**

**Optional Redemption.** The Bonds maturing on or after February 1, 20\_\_, are subject to redemption prior to their stated maturity, at the option of the Corporation (which option shall be exercised upon Request of the Corporation given to the Bond Trustee (unless waived by the Trustee in its sole discretion) at least twenty-five (25) days prior to such redemption date), from any source of available funds, as a whole or in part on any date (in such amounts and maturities as may be specified by the Corporation) on or after February 1, 20\_\_, by lot, at a Redemption Price equal to 100% of the principal amount of Bonds called for redemption, together with interest accrued thereon (if any) to the date fixed for redemption.

**Extraordinary Optional Redemption.** The Bonds are subject to redemption prior to their stated maturity, at the option of the Corporation (which option shall be exercised upon Request of the Corporation given to the Trustee (unless waived by the Trustee in its sole discretion) at least twenty-five (25) days prior to the date fixed for redemption) in whole or in part (in such amounts and maturities as may be specified by the Corporation, by lot, on any date, from hazard insurance or condemnation proceeds received with respect to the facilities of any of the Members and deposited in the Special

Redemption Account, at a Redemption Price equal to the principal amount thereof, together with interest accrued thereon (if any) to the date fixed for redemption, without premium.

**Optional Redemption in the Event of a Change in Law.** The Bonds are subject to optional redemption prior to their stated maturity, at the option of the Corporation (which option shall be exercised upon Request of the Corporation given to the Bond Trustee), as a whole (but not in part) on any date at the principal amount thereof and interest accrued thereon (if any) to the date fixed for redemption, without premium, if as a result of any changes in the Constitution of the United States of America or any state, or legislative or administrative action or inaction by the United States of America or any state, or any agency or political subdivision thereof, or by reason of any judicial decisions there is a good faith determination by any Member that (a) the Master Indenture has become void or unenforceable or impossible to perform, or (b) unreasonable burdens or excessive liabilities have been imposed on such Member, including without limitation, federal, state or other ad valorem property, income or other taxes being then imposed which were not being imposed on the date of issuance of the Bonds.

**Mandatory Redemption.** The Bonds maturing on February 1, 20\_\_, and bearing interest at \_\_\_\_%, are subject to mandatory redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments, on any February 1, on or after February 1, 20\_\_, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, as follows:

<b><u>Payment Date</u></b> <b><u>(February 1)</u></b>	<b><u>Mandatory Sinking</u></b> <b><u>Account Payments</u></b>
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<sup>(†)</sup> Maturity.

The Bonds maturing on February 1, 20\_\_, and bearing interest at \_\_\_\_%, are subject to mandatory redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments, on any February 1, on or after February 1, 20\_\_, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, as follows:

<b><u>Payment Date</u></b> <b><u>(February 1)</u></b>	<b><u>Mandatory Sinking</u></b> <b><u>Account Payments</u></b>
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<sup>(†)</sup> Maturity.

The Bonds maturing on February 1, 20\_\_, and bearing interest at \_\_\_\_%, are subject to mandatory redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments, on any February 1, on or after February 1, 20\_\_, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, as follows:

<b><u>Payment Date</u></b> <b><u>(February 1)</u></b>	<b><u>Mandatory Sinking</u></b> <b><u>Account Payments</u></b>
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<sup>(†)</sup> Maturity.

The Bonds maturing on February 1, 20\_\_, and bearing interest at \_\_\_\_%, are subject to mandatory redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments, on any February 1, on or after February 1, 20\_\_, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, as follows:

<b><u>Payment Date</u></b> <b><u>(February 1)</u></b>	<b><u>Mandatory Sinking</u></b> <b><u>Account Payments</u></b>
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<sup>(†)</sup> Maturity.

**EXHIBIT B**

**LETTER OF REPRESENTATIONS**

March \_\_, 2017

California Health Facilities Financing Authority  
915 Capitol Mall, Suite 435  
Sacramento, California 95814

Treasurer of the State of California  
915 Capitol Mall, Suite 261  
Sacramento, California 95814

Citigroup Global Markets Inc.  
444 South Flower Street, 27th Floor  
Los Angeles, California 90071

**Re: California Health Facilities Financing Authority Revenue Bonds (El Camino Hospital) Series 2017**

Ladies and Gentlemen:

The California Health Facilities Financing Authority (the "Authority") and El Camino Hospital (the "Corporation") have negotiated and expect to enter into a loan agreement, to be dated as of March 1, 2017 (the "Loan Agreement"). Pursuant to a purchase contract, dated the date hereof (the "Purchase Contract"), by and among Citigroup Global Markets Inc. (the "Underwriter"), and the Authority, and the Treasurer of the State of California, as agent for sale (the "Treasurer"), which the Corporation has approved, the Treasurer on behalf of the Authority proposes to sell \$\_\_\_\_\_ principal amount of California Health Facilities Financing Authority Revenue Bonds (El Camino Hospital) Series 2017 (the "Bonds") to the Underwriter. Capitalized terms used herein and not defined herein shall have the respective meanings set forth in the Purchase Contract.

The offering of the Bonds is described in a preliminary official statement dated March \_\_, 2017 (the "Preliminary Official Statement") and an official statement, dated the date hereof (the "Official Statement"). The Authority will loan the proceeds of the Bonds to the Corporation pursuant to the terms of the Loan Agreement. The proceeds of the Bonds will thereafter be used (i) to finance certain capital expenditures at facilities owned or operated by the Corporation (the "Project"); (ii) to fund capitalized interest on the Bonds; and (iii) to pay costs of issuance (including the Underwriter's fee) with respect to the Bonds.

Certain revenues and other moneys received by the Authority pursuant or with respect to the Loan Agreement will be pledged to secure the payment of the Bonds, including the interest thereon, pursuant to a Bond Indenture, to be dated as of March 1, 2017 (the "Indenture"), between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Corporation hereby deems final, ratifies, confirms and approves the use by the Underwriter, prior to the date hereof, of the Preliminary Official Statement and the Official Statement. The Corporation hereby approves the use of the Official Statement in connection with the offer and sale of the Bonds.



In order to induce you to enter into the Purchase Contract and to make the sale and purchase and reoffering of the Bonds therein contemplated, the Corporation hereby represents, warrants and agrees with each of you as follows:

1. The Corporation is a nonprofit public benefit corporation duly organized, validly existing, qualified to do business and is doing business in, and is in good standing under the laws of the State of California. The Corporation has, and at the Closing Date will have, the requisite legal right, power and authority to enter into this Letter of Representations (this "Letter of Representations"), the Loan Agreement, the Master Indenture, Supplement No. 6, Obligation No. 6, the Continuing Disclosure Agreement, and the Tax Agreement (collectively the "Corporation Documents"), to approve the Purchase Contract, the Indenture and the Official Statement (as defined herein), and to carry out and consummate all transactions contemplated by the Corporation Documents, the Indenture, the Purchase Contract and the Official Statement, and by proper corporate action has duly authorized the execution and delivery of the Corporation Documents, the approval of the Purchase Contract, the Indenture and the Official Statement, and the distribution of the Official Statement.

2. The officers of the Corporation executing the Corporation Documents and approving the Purchase Contract, the Indenture and the Official Statement are duly and properly in office and fully authorized to execute and approve the same.

3. The approval of the Purchase Contract, the Indenture and the Official Statement by an officer of the Corporation has been duly authorized by the Corporation; this Letter of Representations has been duly authorized, executed and delivered by the Corporation; the execution and delivery of each of the other Corporation Documents have been duly authorized by the Corporation and at the Closing such documents will have been duly executed and delivered by the Corporation; and the Loan Agreement, when assigned to the Trustee pursuant to the terms of the Indenture, and the other Corporation Documents will constitute the legal, valid and binding obligations of the Corporation to the Trustee enforceable against the Corporation in accordance with their respective terms for the benefit of the holders of the Bonds and any rights of the Authority and obligations of the Corporation not so assigned to the Trustee will constitute the legal, valid and binding obligations of the Corporation to the Authority enforceable against the Corporation in accordance with their respective terms; except as enforcement of each of the above-referenced documents may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium or other laws affecting the enforcement of creditors' rights generally and the effect of such principles on the availability of particular remedies, whether considered in a proceeding in equity or at law.

4. The Corporation is not (i) in violation of any applicable law or administrative regulation of the State of California or the United States or any applicable judgment or decree, which violation would materially adversely affect the financial position or operations of the Corporation or (ii) in default under any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Corporation is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice or both, would constitute an event of default under any such instrument, in each case which default or event of default would materially adversely affect the financial position or operations of the Corporation or the validity of the Corporation Documents, the Indenture, or the Purchase Contract or the Corporation's ability to perform its obligations thereunder.

5. The execution and delivery of the Corporation Documents by the Corporation, the Corporation's approval of the Purchase Contract, the Indenture and the Official Statement, the consummation by the Corporation of the transactions herein and therein contemplated, and the Corporation's fulfillment of or compliance with the terms and conditions hereof and thereof will not (a) conflict with or constitute a violation or breach of or default (with due notice or the passage of time or

both) under (i) the Articles of Incorporation of the Corporation, (ii) the bylaws of the Corporation, (iii) any indenture, mortgage, deed of trust, loan agreement, contract, lease or other agreement or instrument to which the Corporation is a party or by which it or its properties are otherwise subject or bound, or (iv) any law or administrative rule or regulation or any court or administrative decree or order applicable to the Corporation, or (b) result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Corporation, which conflict, violation, breach, default, lien, charge or encumbrance would materially and adversely affect the consummation of the transactions contemplated by the Corporation Documents, the Indenture, the Purchase Contract or the Official Statement, or the financial condition, assets, properties or operations of the Corporation. The Corporation is not in breach, default, or in violation of any statute, indenture, mortgage, deed of trust, note, loan agreement, or other agreement or instrument which would allow the obligee or obligees thereof to take any action which would adversely affect its performance under the Corporation Documents, the Indenture, or the Purchase Contract.

6. No consent or approval of any trustee, insurer, guarantor or holder of any indebtedness of the Corporation, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority (except in connection with Blue Sky proceedings and except for such licenses, certificates, approvals, variances and permits as may be necessary for the development and operation of the Project, as such term is defined in the Indenture) is necessary in connection with the execution and delivery of this Letter of Representations, the execution and delivery of the other Corporation Documents at or before the Closing, the approval of the Purchase Contract, the Indenture or the Official Statement, or the consummation of any transaction herein or therein contemplated, except in all such cases as have been obtained or made and as are in full force and effect (or, in the case of those Corporation Documents to be executed at the Closing, will be obtained or made and will be in full force and effect at the Closing).

7. Except as described in the Preliminary Official Statement and the Official Statement, there are no actions, suits, proceedings, inquiries or investigations before or by any judicial or administrative court or agency as to which notice has been served on the Corporation or are otherwise pending or, to the knowledge of the Corporation after due inquiry, threatened against the Corporation:

(a) seeking to restrain or enjoin the issuance or delivery of any of the Bonds or the collection of Revenues (as such term is defined in the Indenture) pledged under the Indenture or any payments to be made by the Corporation pursuant to the Loan Agreement;

(b) in any way contesting or affecting the authority for the issuance or delivery of the Bonds or the validity when executed and delivered of the Bonds, the Indenture, the Purchase Contract, or the Corporation Documents or the collection of Revenues pledged under the Indenture or the distribution of the Official Statement;

(c) in any way contesting the corporate existence or powers of the Corporation;

(d) which, if determined adversely to the Corporation, could reasonably be expected to materially adversely affect the consummation of the transactions contemplated by the Corporation Documents, the Indenture, the Purchase Contract or the Official Statement, or the ability of the Corporation to perform its obligations under the Corporation Documents, or the financial condition, assets or properties of the Corporation; or

(e) contesting or adversely affecting the Corporation's status as an organization described in Section 501(c)(3) of the Code or which would subject any income of the Corporation to

federal income taxation to such extent as would result in loss of the exclusion from gross income for federal income tax purposes of interest on any of the Bonds under Section 103 of the Code.

8. The Corporation is an organization described in Section 501(c)(3) of the Code; and the Corporation is exempt from federal income tax under Section 501(a) of the Code, except with respect to any unrelated business income of the Corporation. Such status is based on a letter confirming such determination from the Internal Revenue Service to the Corporation dated September 22, 1993. The Corporation is not a private foundation within the meaning of Section 509(a) of the Code; and the Corporation at all times will maintain its status as an organization described in Section 501(c)(3) of the Code and its exemption from federal income tax under Section 501(a) of the Code or corresponding provisions of future federal income tax laws. The facts and circumstances which formed the basis of the Corporation's status as an organization described in Section 501(c)(3) of the Code as represented to the Internal Revenue Service continue to exist.

9. The Corporation, as it is using proceeds of the Bonds, is a "participating health institution," as that term is defined in the California Health Facilities Financing Authority Act (the "Act"), and the Project (as defined in the Indenture) is a "project" as that term is defined in the Act. The Corporation is organized and operated exclusively for charitable purposes, not for pecuniary profit, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

10. Except as described in the Tax Agreement, no facility financed by any portion of the proceeds of the Bonds is or at any time will be used by any person which is not an "exempt person" within the meaning of the Code and the regulations proposed and promulgated thereunder, or by a governmental unit or a 501(c)(3) organization (including the Corporation) in an "unrelated trade or business" within the meaning of Section 513(a) of the Code and the regulations proposed and promulgated thereunder, in such manner or to such extent as would result in loss of exclusion from gross income for federal tax purposes of interest on any of the Bonds under Section 103 of the Code.

11. The Corporation's audited Combined Financial Statements as of and for the Years Ended June 30, 2016 and 2015 and Independent Auditors' Report (copies of which, certified by Moss Adams LLP, have been furnished to the Authority and the Underwriter), present fairly, in all material respects, the financial position, activities and cash flows of the Corporation at June 30, 2016 and 2015, respectively, in conformity with generally accepted accounting principles, and since June 30, 2016, there has been no material adverse change in the assets, operations or financial condition of the Corporation other than any such change which the Corporation has disclosed in writing to the Authority and the Underwriter and that is described in the Official Statement.

12. All financial and other information that has been or will be delivered to the Authority, the Underwriter or the Trustee by the Corporation did or will (as applicable), in all material respects, correctly and fairly present the financial condition of Corporation, including all material contingent liabilities as of said dates and the results of the operations of the Corporation for such period. The Corporation does not have any asset, liability, liability for taxes, long-term lease or unusual forward or long-term commitment material to the financial condition of the Corporation which is not reflected in the financial statements referred to above.

13. Between the date hereof and the Closing Date, the Corporation will not, without the prior written consent of the Underwriter, except as described in or contemplated by the Official Statement, incur any material liabilities, direct or contingent, other than in the ordinary course of business.

14. No Property (as defined in the Master Indenture) of the Corporation is subject to any lien other than Permitted Liens (as defined in the Master Indenture).

15. The Corporation delivered, or caused to be delivered, to the Underwriter copies of the Preliminary Official Statement in the electronic format designated by the MSRB. The Corporation represents and warrants that information contained in the Preliminary Official Statement was deemed final as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (“Rule 15c2-12”). The Corporation will cooperate in the preparation and delivery to the Underwriter of the final Official Statement, dated the date hereof, substantially in the form of the Preliminary Official Statement, with only such changes, additions thereto or deletions therefrom as the Underwriter may approve (the “Official Statement”). The Preliminary Official Statement, as of its date and as of the date hereof, as amended or supplemented, if applicable, did not and does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (*provided that* no representation is made with respect to the information regarding the Authority, The Depository Trust Company (“DTC”) and the book-entry system, or the Underwriter.

16. The Corporation:

(a) is in compliance with all laws, ordinances, governmental rules and regulations to which it is subject and which are material to its properties, operations, finances or status as an organization described in Section 501(c)(3) of the Code;

(b) has obtained all licenses, permits, franchises or other governmental authorizations necessary and material to the ownership of its property or to the conduct of its activities, and agrees to obtain all such licenses, permits, franchises or other governmental authorizations as may be required in the future for its operations in all cases where failure to obtain such licenses, permits, franchises or other governmental authorizations could reasonably be expected to materially and adversely affect the condition (financial or otherwise) of the Corporation or its ability to perform its obligations under the Corporation Documents; and

(c) has obtained, or in a timely manner will obtain, all licenses, permits, franchises or other governmental authorizations necessary for the Project.

17. The Corporation will not, while any Bonds are outstanding, take or permit to be taken any action which would result in the interest component represented by any of the Bonds being included in gross income for federal income tax purposes.

18. As of the date of the Official Statement and as of the Closing Date, (i) the statements and information contained in the Official Statement as amended or supplemented pursuant to the Purchase Contract or this Letter of Representations, if applicable, were and will be true and correct in all material respects and (ii) the Official Statement does not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (provided in each case that no representation is made with respect to the information regarding the Authority, DTC and the book-entry system, or the Underwriter). Within the past five years, neither the Corporation nor the El Camino Healthcare District has failed to comply in all material respects with any undertaking with regard to Rule 15c2-12 to provide annual reports or notices of enumerated events.

19. If, between the date hereof and up to and including the 25th day following the end of the underwriting period (as such term is defined in Rule 15c2-12), any event shall occur of which the Corporation has knowledge which is reasonably likely to cause the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the

circumstances under which they were made, not misleading, the Corporation shall notify the Authority and the Underwriter and, if, in the opinion of the Corporation, the Authority or the Underwriter such event requires the preparation and publication of a supplement or amendment to the Official Statement, the Corporation will request the Authority to cause the Official Statement to be amended or supplemented in a form and in a manner approved by the Underwriter, provided all expenses thereby incurred will be paid by the Corporation and provided further that, for purposes of this provision, the end of the underwriting period shall be the Closing Date unless the Underwriter provides written notice to the contrary to the Authority and the Corporation on the date of Closing.

20. For 25 days from the date of the end of the underwriting period (as such term is defined in Rule 15c2-12), (a) the Corporation will not participate in the issuance of any amendment or supplement to the Official Statement to which, after being furnished with a copy, any of you shall reasonably object in writing or which shall be disapproved by your respective counsel and (b) if any event related to or affecting the Authority or the Corporation or its present or proposed facilities shall occur as a result of which it is necessary, in the opinion of counsel for the Underwriter or the Authority, to amend or supplement the Official Statement in order to make the Official Statement not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, the Corporation shall forthwith prepare and furnish to the Underwriter and the Authority (at the expense of the Corporation) in the electronic format designated by the MSRB an amendment of or supplement to the Official Statement (in form and substance reasonably satisfactory to counsel for the Underwriter and counsel to the Authority) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time the Official Statement is delivered to a purchaser, not misleading. For the purposes of this subsection, the Corporation will furnish such information with respect to itself and its present and proposed facilities as any of you may from time to time reasonably request.

21. (a) To the extent permitted by law, the Corporation agrees to indemnify and hold harmless the Authority, the Treasurer, the Underwriter, each person, if any, who controls (as such term is defined in either of Section 15 of the Securities Act of 1933, as amended (the "Securities Act") or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as applicable) the Authority, the Treasurer and the Underwriter and the respective past, present or future directors, officers, officials, employees, and members of the Authority, the Treasurer and the Underwriter (collectively, with respect to their rights under this Subsection 21(a), the "Indemnified Persons," and individually, an "Indemnified Person") from and against any and all liabilities, obligations, suits, actions, judgments, losses, claims, damages, demands, fines, penalties, costs and expenses, joint or several, including, without limitation, any legal or other expenses reasonably incurred by them in connection with investigating or defending any such liabilities, obligations, suits, actions, judgments, losses, claims, damages, demands, fines, penalties, costs and expenses, arising out of or based upon (a) any allegation or determination that the Bonds are not exempt from registration under the Securities Act of 1933, as amended, or the Indenture is not exempt from qualification under the Trust Indenture Act of 1939, as amended; and (b) any untrue or alleged untrue statement of a material fact contained in the Preliminary Official Statement or the Official Statement (or in any supplement or amendment thereto) (except, (x) solely with respect to indemnification of the Authority, for the information set forth under the captions "THE AUTHORITY," and "ABSENCE OF MATERIAL LITIGATION—The Authority," and (y), solely with respect to indemnification of the Underwriter, information furnished by or on behalf of the Underwriter specifically for inclusion therein), or arising out of or based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (except, (x) solely with respect to indemnification of the Authority, for the information set forth under the captions "THE AUTHORITY," and "ABSENCE OF MATERIAL LITIGATION—The Authority," and (y), solely with respect to

indemnification of the Underwriter, information furnished by or on behalf of the Underwriter specifically for inclusion therein). The foregoing indemnity shall not inure to the benefit of the Underwriter or to the benefit of any person controlling the Underwriter if a copy of the Official Statement (as amended or supplemented if the Corporation shall have furnished any amendments to supplements thereto) was not sent or given by the Underwriter or on behalf of the Underwriter to the person asserting the claim against the Underwriter or the person controlling the Underwriter (the "Claimant"), if required by law to so have been delivered, at or prior to the written confirmation of the sale of the securities to the Claimant, (and if the Official Statement as so amended or supplemented would have prevented such loss, claim, damage or liability), unless the failure to deliver the Official Statement (as amended or supplemented) was the result of noncompliance by the Corporation or the Authority with any provision of this Letter of Representations or the Purchase Contract. This indemnity agreement will be in addition to any liability which the Corporation may otherwise have. The Authority, the Treasurer and the Corporation each acknowledge that the statements set forth in the last paragraph of the cover page of the Official Statement regarding the delivery of the Bonds, the second sentence of the second paragraph and the fourth paragraph, in each case on the page immediately following the inside front cover of the Official Statement and the section under the heading "UNDERWRITING," constitute the only information furnished in writing by or on behalf of the Underwriter for inclusion in the Official Statement (or in any amendment or supplement thereto).

(b) The Underwriter agrees to indemnify and hold harmless the Corporation, each of its officials, directors, officers and employees, and each person who controls the Corporation within the meaning of either the Securities Act or the Exchange Act (collectively, with respect to their rights under this Subsection 21(b), the "Indemnified Persons," and individually, an "Indemnified Person"), to the same extent as the foregoing indemnity from the Corporation to the Underwriter, but only with reference to written information relating to the Underwriter furnished to the Corporation by or on behalf of the Underwriter specifically for inclusion in the Preliminary Official Statement or the Official Statement (or in any amendment or supplement thereto). This indemnity agreement will be in addition to any liability which the Underwriter may otherwise have. The Corporation acknowledges that the statements set forth in the last paragraph of the cover page of the Official Statement regarding the delivery of the Bonds, and the fourth paragraph on the legend page appearing on the page immediately following the page facing the inside front cover of the Official Statement and the section under the heading "UNDERWRITING," constitute the only information furnished in writing by or on behalf of the Underwriter for inclusion in the Official Statement (or in any amendment or supplement thereto).

(c) Promptly after receipt by an Indemnified Person under this Section 21 of notice of the assertion of any claim or the commencement of any action, such Indemnified Person will, if a claim in respect thereof is to be made against the applicable indemnifying party under this Section 21, notify the indemnifying party in writing of the commencement thereof; but the failure so to notify the indemnifying party (i) will not relieve it from liability under paragraph (a) or (b) of this Section 21 unless and to the extent it did not otherwise learn of such action and such failure results in the forfeiture by the indemnifying party of substantial rights and defenses; and (ii) will not, in any event, relieve the indemnifying party from any obligations to any Indemnified Person other than the indemnification obligation provided in paragraph (a) or (b) of this Section 21. The indemnifying party shall be entitled to appoint counsel of the indemnifying party's choice at the indemnifying party's expense to represent the Indemnified Person in any action for which indemnification is sought (in which case the indemnifying party shall not thereafter be responsible for the fees and expenses of any separate counsel retained by the Indemnified Person or parties except as set forth below); provided, however, that such counsel shall be satisfactory to the Indemnified Person. Notwithstanding the indemnifying party's election to appoint counsel to represent the Indemnified Person in an action, the Indemnified Person shall have the right to employ separate counsel (including local counsel), and the indemnifying party shall bear the reasonable fees, costs and expenses of such separate counsel if (i) the use of counsel chosen by the indemnifying

party to represent the Indemnified Person would present such counsel with a conflict of interest; (ii) the actual or potential defendants in, or targets of, any such action include both the Indemnified Person and the indemnifying party and the Indemnified Person shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party; (iii) the indemnifying party shall not have employed counsel satisfactory to the Indemnified Person to represent the Indemnified Person within a reasonable time after notice of the institution of such action; or (iv) the indemnifying party shall authorize the Indemnified Person to employ separate counsel at the expense of the indemnifying party. An indemnifying party will not, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each Indemnified Person from all liability arising out of such claim, action, suit or proceeding.

(d) In order to provide for just and equitable contribution in circumstances in which the indemnity provided in paragraph (a) or (b) of this Section 21 is unavailable to or insufficient to hold harmless an Indemnified Person for any reason, the Corporation and the Underwriter agree to contribute to the aggregate losses, claims, damages and liabilities (including legal or other expenses reasonably incurred in connection with investigating or defending same) (collectively “Losses”) to which the Corporation and the Underwriter may be subject in such proportion as is appropriate to reflect the relative benefits received by the Corporation, on the one hand, and by the Underwriter, on the other, from the offering of the Bonds. If the allocation provided by the immediately preceding sentence is unavailable for any reason, the Corporation and the Underwriter shall contribute in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Corporation, on the one hand, and of the Underwriter, on the other, in connection with the statements or omissions which resulted in such Losses, as well as any other relevant equitable considerations. In no case shall the Underwriter be responsible for any amount in excess of the purchase discount or commission applicable to the Bonds purchased by the Underwriter hereunder. Benefits received by the Corporation shall be deemed to be equal to the total net proceeds from the offering (before deducting expenses) received by it, and benefits received by the Underwriter shall be deemed to be equal to the total purchase discounts and commissions in each case set forth in the Official Statement. Relative fault shall be determined by reference to, among other things, whether any untrue or any alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information provided by the Corporation, on the one hand, or the Underwriter, on the other, the intent of the parties and their relative knowledge, information and opportunity to correct or prevent such untrue statement or omission. The Corporation and the Underwriter agree that it would not be just and equitable if contribution were determined by pro rata allocation or any other method of allocation which does not take account of the equitable considerations referred to above. Notwithstanding the provisions of this paragraph (d) of this Section 21, no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 21, each person who controls the Underwriter within the meaning of either the Securities Act or the Exchange Act and each director, officer, employee and agent of the Underwriter shall have the same rights to contribution as the Underwriter, and each person who controls the Corporation within the meaning of either the Securities Act or the Exchange Act and each official, director, officer and employee of the Corporation shall have the same rights to contribution as the Corporation, subject in each case to the applicable terms and conditions of this paragraph (d) of this Section 21. Any party entitled to contribution will, promptly after receipt of notice of commencement of any action, suit or proceeding against such party in respect of which a claim for contribution may be made against another party or parties under this paragraph, notify such party or parties from whom contribution may be sought, but the omission so to notify shall not relieve the party or parties from whom contribution

may be sought from any other obligation it or they may have hereunder or otherwise than under this paragraph. No party shall be liable for contribution with respect to any action or claim settled without its consent.

22. The Corporation acknowledges and agrees that (i) the purchase and sale of the Bonds pursuant to the Purchase Contract is an arm's-length, commercial transaction between the Treasurer, the Authority and the Underwriter in which the Underwriter is acting solely as a principal and is not acting as an agent, advisor or fiduciary of the Treasurer, the Authority, or the Corporation, (ii) the Underwriter has not assumed any advisory or fiduciary responsibility to any of the Treasurer, the Authority, or the Corporation with respect to the Purchase Contract, the offering of the Bonds and the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriter, or any affiliate of the Underwriter, has provided other services or is currently providing other services to any of the Treasurer, the Authority, or the Corporation on other matters), (iii) the only contractual obligations the Underwriter has to any of the Treasurer, the Authority, or the Corporation with respect to the transactions contemplated by the Purchase Contract are those set forth in the Purchase Contract, (iv) the Underwriter has financial and other interests that differ from those of the Treasurer, the Authority, and the Corporation, and (v) the Treasurer, the Authority, and the Corporation have each consulted with their own legal, accounting, tax, financial and other advisors, as applicable, to the extent they have deemed appropriate. Nothing in the foregoing paragraph is intended to limit the Underwriter's obligations of fair dealing under MSRB Rule G-17.

23. The Corporation hereby agrees to pay the expenses described as payable by it in the Purchase Contract and any expenses incurred in amending or supplementing the Official Statement pursuant to the Purchase Contract or this Letter of Representations. The Corporation shall reimburse the Underwriter for expenses incurred on behalf of the Corporation's employees which are incidental to implementing the Purchase Contract, including, but not limited to, meals, transportation and lodging of those employees.

The representations, warranties, agreements and indemnities herein shall survive the Closing under the Purchase Contract and any investigation made by or on behalf of any of you, or by any person who controls any of you, into any matters described in or related to the transactions contemplated hereby and by the Corporation Documents, the Purchase Contract, the Indenture, the Official Statement and the Indenture.

This Letter of Representations shall be binding upon and inure solely to the benefit of each of you and the Corporation and, to the extent set forth herein, persons controlling any of you, and your and their respective officers, employees, agents and personal representatives, successors and assigns, and no other person or firm shall acquire or have any right under or by virtue of this Letter of Representations. No recourse under or upon any obligation, covenant or agreement contained in this Letter of Representations shall, under any circumstances, exist or be had against any officer, agent, employee or director of the Corporation as individuals.

This Letter of Representations may be executed in any number of counterparts and all such counterparts shall together constitute one and the same instrument. Each provision of this Letter of Representations shall be construed to preserve its validity and enforceability to the extent possible. In the event any provision of this Letter of Representations is declared void, invalid, or unenforceable, the party who would have the provision enforced shall be entitled to elect whether (1) the provision should be modified to the extent necessary to make it valid and enforceable or (2) the provision shall be deemed not to be a part of this Letter of Representations.



If the foregoing is in accordance with your understanding of the agreement among us, kindly sign and return the duplicates of this Letter of Representations whereupon this will constitute a binding agreement among us in accordance with the terms hereof.

**EL CAMINO HOSPITAL**

By: \_\_\_\_\_  
Chief Financial Officer

Accepted and Agreed to:

**CALIFORNIA HEALTH FACILITIES  
FINANCING AUTHORITY**

By: \_\_\_\_\_  
Executive Director

**TREASURER OF THE STATE OF  
CALIFORNIA**

By: \_\_\_\_\_  
Deputy Treasurer  
For California State Treasurer John Chiang

Approved:

**CITIGROUP GLOBAL MARKETS INC.**

By: \_\_\_\_\_  
Authorized Officer

B-S-1

California Health Facilities Financing Authority Revenue Bonds (El Camino Hospital) Series 2017,  
signature page for Letter of Representations

**EXHIBIT C**

**FORM OF OPINION OF COUNSEL TO THE CORPORATION**

**March \_\_, 2017**

California Health Facilities Financing Authority  
915 Capitol Mall, Room 435  
Sacramento, California 95814

Citigroup Global Markets Inc.  
444 South Flower Street, 27th Floor  
Los Angeles, California 90071

Wells Fargo Bank, National Association  
Corporate Trust Services  
MAC A0119-181  
333 Market Street, 18<sup>th</sup> Floor  
San Francisco, California 94105

Orrick, Herrington & Sutcliffe LLP  
400 Capitol Mall, Suite 3000  
Sacramento, California 95814

Re: California Health Facilities Financing Authority Revenue Bonds (El Camino Hospital),  
Series 2017

Ladies and Gentlemen:

We have acted as counsel to El Camino Hospital, a California nonprofit public benefit corporation, (the "Corporation"), in connection with the issuance by the California Health Facilities Financing Authority (the "Authority") of \$ \_\_\_\_\_ principal amount of California Health Facilities Financing Authority Revenue Bonds (El Camino Hospital) Series 2017 (the "Bonds"). The Bonds are being issued pursuant to a Bond Indenture dated as of March 1, 2017 (the "Indenture"), between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The proceeds of the sale of the Bonds will be loaned to the Corporation pursuant to a Loan Agreement, dated as of March 1, 2017 (the "Loan Agreement"), by and between the Authority and the Corporation. The proceeds of the Bonds will thereafter be used as described in the Purchase Contract (defined herein), (i) to finance certain capital expenditures at facilities owned or operated by the Corporation (the "Project"); (ii) to fund capitalized interest on the Bonds; and (iii) to pay costs of issuance (including the Underwriter's fee) with respect to the Bonds.

The Bonds are being sold pursuant to a purchase contract, dated March \_\_, 2017 (the "Purchase Contract"), by and among the Authority, the Treasurer of the State of California (the "Treasurer") and Citigroup Global Markets Inc., as underwriter (the "Underwriter"), and approved by the Corporation. The Purchase Contract contains a letter of representations, executed and delivered by Corporation (the "Letter of Representations"), dated March \_\_, 2017, attached thereto as Exhibit B.

This letter is furnished pursuant to Section 3(e)(3) of the Purchase Contract. Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Indenture.

As such counsel, we have examined such matters of fact and questions of law as we have considered appropriate for purposes of this letter, except where a specified fact confirmation procedure is stated to have been performed (in which case we have with your consent performed the stated procedure). We have examined, among other things, the following:

- (a) The Loan Agreement;
- (b) The Letter of Representations;
- (c) The Tax Certificate and Agreement, dated as of the date hereof, by and between the Authority and the Corporation;
- (d) The Continuing Disclosure Agreement, dated as of March \_\_, 2017, between the Corporation and the Trustee, with respect to the Bonds;
- (e) The Master Indenture;
- (f) Supplement No. 6;
- (g) Obligation No. 6;
- (h) The Restricted Account and Securities Control Agreement, dated as of March 22, 2007, by and among Wells Fargo, National Association, as Depository Bank (the "Depository Bank"), the Master Trustee and the Corporation (the "Account Control Agreement");
- (i) The Purchase Contract;
- (j) The material agreements to which the Corporation is subject that are listed on Exhibit A hereto;
- (k) The Indenture;
- (l) The Preliminary Official Statement, dated March \_\_, 2017 (the "Preliminary Official Statement") and the Official Statement, dated March \_\_, 2017 (the "Official Statement"), relating to the Bonds;
- (m) The Articles of Incorporation and the Bylaws of the Corporation, both as amended to date (the "Governing Documents");
- (n) A Resolution relating to the transactions referred to herein, adopted by the Board of Directors of the Corporation (the "Board") on March 8, 2017 (the "Resolution");
- (o) A certificate of status of the Corporation issued by the Secretary of State of the State of California and an exempt letter of good standing issued by the Franchise Tax Board of the State of California, each of recent date; and

- (p) Evidence of the Corporation's status as a corporation described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), including a letter of determination, dated September 22, 1993, and November 3, 1998, from the Internal Revenue Service (the "IRS") with respect to the Corporation, and a copy of the Application for Recognition of Exemption, Form 1023, filed with the IRS with respect to the Corporation.

The documents described in subsections (a) – (i) above are referred to herein collectively as the "Financing Documents." In addition to the items listed in subsections (a) through (q) above, in connection with our opinion rendered in numbered paragraph 2 below, we have examined and relied with your permission upon a certificate of a responsible officer of the Corporation, and we have also examined corporate and committee minutes for the last three years, the agreements specifically identified in the certificate, and Form 990T for the last three years.

We are aware that the Preliminary Official Statement and the Official Statement describing the Bonds, among other things, have been prepared and circulated, based in part upon information supplied by the Corporation. We have not independently verified the accuracy, completeness or fairness of the statements made or the information contained in the Preliminary Official Statement and the Official Statement and we are not passing upon and do not assume any responsibility therefor. In the course of the preparation of the Preliminary Official Statement and the Official Statement, we have participated in discussions with representatives of the Underwriter, their counsel, bond counsel and representatives of the Corporation, in which the operations and affairs of the Corporation and the contents of the Official Statement were discussed. On the basis of information that we have gained in the course of representing the Corporation in connection with the issuance of the Bonds, nothing came to our attention that caused us to believe as a matter of fact, not opinion, that (i) the Preliminary Official Statement, as of the date of the Purchase Contract, (except the sections of the Preliminary Official Statement entitled "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION – The Authority," any CUSIP numbers, financial, accounting, and statistical or economic, engineering, or demographic information, data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, Appendices B, D and E, or any information about book-entry, Depository Trust Company, underwriters, underwriting, included or referred to therein or omitted therefrom, or any other disclosure document, materials or activity, or as to any information from another document or source referred to by or incorporated by reference therein, as to which we express no view) contained an untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and (ii) the Official Statement (except the sections of the Official Statement entitled "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION – The Authority," any CUSIP numbers, financial, accounting, and statistical or economic, engineering, or demographic information, data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, Appendices B, D and E, or any information about book-entry, Depository Trust Company, underwriters, underwriting, included or referred to therein or omitted therefrom, or any other disclosure document, materials or activity, or as to any information from another document or source referred to by or incorporated by reference therein, as to which we express no view) as of its date and as of the date hereof, contained or contains an untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

With your consent, we have relied upon our review of the foregoing, including the representations and warranties of the Corporation in the Financing Documents, and upon certificates of officers of the Corporation and of others with respect to certain factual matters. We have not independently verified such factual matters. For purposes of this opinion, we have assumed that each of the parties, other than the Corporation, to the documents referred to herein has all requisite power and authority and has taken

all necessary corporate action, consistent with all applicable laws and regulations, to execute and deliver such documents and to effect the transactions contemplated thereby and, in the case of the Authority, to cause the Bonds to be sold. Whenever a statement herein is qualified by “to the best of our knowledge” or a similar phrase, it is intended to indicate that the attorneys who have rendered services in connection with the issuance of the Bonds do not have current actual knowledge of the inaccuracy of such statement. However, except as otherwise expressly indicated, we have not undertaken any independent investigation to determine the accuracy of any such statement.

We are opining herein as to the effect on the subject transaction only of the federal laws of the United States and the internal laws of the State of California, and we express no opinion with respect to the applicability thereto, or the effect thereon, of the laws of any other jurisdiction or as to any matters of municipal law or the laws of any other local agencies within any state. We express no opinion as to any state or federal laws or regulations applicable to the subject transactions because of the nature or extent of the business of any parties to the Financing Documents, other than the Corporation.

Subject to the foregoing and the other matters set forth herein, we are of the opinion that, as of the date hereof:

1. The Corporation is a nonprofit public benefit corporation duly incorporated under the Nonprofit Corporation Law of the State of California with corporate power and authority adequate to enter into the Financing Documents and perform its obligations thereunder and as described in the Official Statement, and approve the Official Statement, the Indenture and the Purchase Contract. Based on certificates from public officials, we confirm that the Corporation is validly existing and in good standing under the laws of the State of California.

2. The Corporation is an organization described in Section 501(c)(3) of the Code or corresponding provisions of prior law, and is exempt from federal income tax under Section 501(a) of the Code, except with respect to any unrelated business income of the Corporation under Section 511 of the Code.

3. The execution, delivery and performance of the Financing Documents and the approval of the Official Statement, the Indenture and the Purchase Contract by the Corporation have been duly authorized by all necessary corporate action of the Corporation, and the Financing Documents have been duly executed and delivered by the Corporation and the Official Statement, the Indenture and the Purchase Contract have been duly approved. The Corporation has authorized the distribution of the Preliminary Official Statement and the Official Statement.

4. Each of the Financing Documents constitutes a legally valid and binding obligation of the Corporation (assuming due authorization, execution and delivery by the other parties thereto) and, subject to the qualifications in the next to the last paragraph of this letter, enforceable against the Corporation in accordance with its terms.

5. To the best of our knowledge, the execution and delivery of the Financing Documents, the approval of the Official Statement, the Indenture and the Purchase Contract by the Corporation and the consummation by the Corporation of the transactions contemplated by the Financing Documents on the date hereof do not:

- (i) violate the provisions of the Governing Documents,
- (ii) result in the breach of or a default under any of the material agreements to which the Corporation is subject listed on Exhibit A,

- (iii) violate any federal or California statute, rule, or regulation applicable to the Corporation (except that our opinion is limited by the penultimate paragraph of this letter), or
- (iv) require any consents, approvals, or authorizations to be obtained by the Corporation from any authority or agency within the State of California or the federal government of the United States, or any registrations, declarations or filings to be made by the Corporation, under any federal or California statute, rule, or regulation applicable to the Corporation that have not been obtained or made except certain Project related approvals and permits which may be required. We express no opinion as to any approvals or consents that may be required under any state or federal blue sky or securities laws, nor as to licensure, land use approvals, entitlements or other private or public authorizations that may be required to expand, renovate or equip any hospital facilities with the proceeds of the Bonds.

6. Except as disclosed in the Official Statement, to our knowledge after having made inquiry of officers of the Corporation, but without having investigated any governmental records or court dockets, there is no action, suit, proceeding, litigation or governmental investigation before or by any judicial or administrative court or agency pending (for which the Corporation has received service of process or otherwise been notified) or overtly threatened in writing against the Corporation which seeks to prohibit, restrain, enjoin or invalidate the execution, delivery or performance of any of the Financing Documents, the approval of the Indenture or the Purchase Contract, or any of the transactions contemplated by the Financing Documents.

7. The provisions of the Master Indenture create a valid security interest in the Gross Revenues (as defined in the Master Indenture) of the Obligated Group to the extent that a security interest can be created under Article 9 of the Uniform Commercial Code as in effect in the State of California (the “UCC”). Assuming (i) the execution and delivery of the Account Control Agreement, and (ii) that the Depository Bank is a “bank” and that the accounts subject to such control agreement are “deposit accounts” (as those terms are defined in the California Uniform Commercial Code), the Account Control Agreement is in proper form to have perfected the security interest in such deposit accounts in favor of the Master Trustee.

8. The Corporation is an organization described in Section 3(a)(4) of the Securities Act of 1933, as amended.

9. Supplement No. 6 is not subject to registration under the Trust Indenture Act of 1939, as amended, and Obligation No. 6 is not subject to registration under federal or state securities laws.

We express no opinion herein as to the existence of, or as to the title to the Gross Revenues or as to the priority or (except as provided in paragraph 7) the perfection of any security interest in Gross Revenues. We call your attention to the fact that the security interest may not continue to be perfected with respect to Gross Revenues that are not kept in separate deposit accounts that are subject to the Account Control Agreement. We further call your attention to the fact that creation and enforcement of any right to receive payments under the Medicare and Medicaid programs may be subject to limitations under federal and state laws and regulations. We assume that the Account Control Agreement is governed by California law and that the Depository Bank’s jurisdiction under the UCC is the State of California.

Our opinions that each of the Financing Documents delivered to you today is enforceable in accordance with its terms, are subject to: (i) bankruptcy, insolvency, reorganization, moratorium, and laws relating to fraudulent conveyances and transfers and other similar laws affecting the rights and remedies of creditors and secured parties generally; (ii) the effect of (a) general principles of equity, regardless of whether applied in proceedings in equity or at law (including the possible unavailability of specific performance or injunctive relief), (b) concepts of materiality, reasonableness, good faith and fair dealing, unconscionability, contravention of public policy and (c) the discretion of the court before which a proceeding is brought; (iii) laws concerning recourse by creditors to security in the absence of notice and hearing; (iv) the unenforceability of provisions in the Financing Documents providing for indemnification or for exculpation from liability of a party or its officers, agents or employees, which may be limited by federal or state laws, public policy considerations or court decisions that limit the rights of the indemnified or exculpated party to obtain indemnification or exculpation; (v) the unenforceability of provisions expressly or by implication waiving (a) broadly or vaguely stated rights; (b) the benefits of statutory, regulatory or constitutional rights, unless and to the extent that the statute, regulation or constitutional provision explicitly allows waiver; (c) unknown future defenses; and (d) rights to damages; (vi) the unenforceability under certain circumstances of provisions to the effect that rights or remedies are not exclusive, that every right or remedy is cumulative and may be exercised in addition to or with any other right or remedy, that election of a particular remedy or remedies does not preclude recourse to one or more other remedies, that any right or remedy may be exercised without notice, or that failure to exercise or delay in exercising rights or remedies will not operate as a waiver of any such right or remedy; (vii) the unenforceability under certain circumstances of provisions imposing penalties, forfeitures, late payment charges or an increase in interest rate upon delinquency in payment or the occurrence of a default; and (viii) the unenforceability of choice-of-law, forum selection and consent to jurisdiction clauses.

This letter is delivered only to you and is solely for your benefit in connection with the transactions covered hereby. This letter may not be relied upon by you for any other purpose, or furnished to, assigned to, quoted to, or relied upon by any other person, firm or other entity for any purpose (including any person, firm or corporation that acquires Bonds from you) without our prior written consent, which may be granted or withheld in our sole discretion, except that this letter may be included in the transcript of proceedings for the Bonds.

Very truly yours,



## EXHIBIT A

1. “Ground Lease Agreement between El Camino Hospital District and El Camino Healthcare System,” dated as of December 17, 1992, by and between El Camino Hospital (formerly known as El Camino Healthcare System) and El Camino Healthcare District (formerly known as El Camino Hospital District).
2. “First Amendment to Ground Lease Agreement,” dated as of November 3, 2004, by and between El Camino Hospital and El Camino Hospital District.
3. “Second Amendment to Ground Lease Agreement,” dated as of April 9, 2015, by and between El Camino Hospital and El Camino Healthcare District (formerly El Camino Hospital District).
4. “ISDA Master Agreement” and “Schedule” thereto dated as of March 7, 2007, by and between the Corporation and Citibank N.A., New York, together with three Confirmations dated March 7, 2007, as amended and restated as of May 15, 2008, entered into pursuant to the ISDA Master Agreement and Schedule.
5. “Supplemental Master Indenture for Obligation No. 3,” dated as of April 1, 2009, by and between the Corporation and the Master Trustee.
6. “Supplemental Master Indenture for Obligation No. 4,” dated as of April 1, 2009, by and between the Corporation and the Master Trustee.
7. “Supplemental Master Indenture for Obligation No. 5,” dated as of May 1, 2015, by and between the Corporation and the Master Trustee.
8. “Letter of Credit and Reimbursement Agreement,” dated as of April 1, 2009, by and between the Corporation and Wells Fargo Bank, National Association, as amended.

**EXHIBIT D-1**

**FORM OF OPINION OF COUNSEL TO AUTHORITY**

**March \_\_, 2017**

California Health Facilities Financing Authority  
915 Capitol Mall, Suite 435  
Sacramento, CA 95814

**\$ \_\_\_\_\_**  
**California Health Facilities Financing Authority**  
**Revenue Bonds**  
**(El Camino Hospital)**  
**Series 2017**

Ladies and Gentlemen:

We have acted as counsel to the California Health Facilities Financing Authority (the “Authority”) in connection with the issuance of the above-referenced bonds (the “Bonds”). This opinion is delivered to you pursuant to Section 3(e)(5) of a purchase contract, dated March \_\_, 2017 (the “Purchase Contract”), among the Authority, the Treasurer of the State of California (the “State Treasurer”), as agent for sale on behalf of the Authority, and Citigroup Global Markets Inc., as underwriter, and approved by El Camino Hospital (the “Borrower”).

The Bonds are authorized to be issued pursuant to the provisions of the California Health Facilities Financing Authority Act, constituting Part 7.2 (commencing with section 15430) of Division 3 of Title 2 of the Government Code of the State of California (the “Act”). The Bonds are being issued under a bond indenture, dated as of March 1, 2017 (the “Indenture”), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the “Trustee”). The proceeds of the Bonds are being loaned by the Authority to the Borrower pursuant to a loan agreement, dated as of March 1, 2017 (the “Loan Agreement”), by and between the Authority and the Borrower. Capitalized terms used herein and not otherwise defined shall have the meanings given such terms in the Indenture.

The Authority’s only source of payment for the principal of, premium, if any, or interest on the Bonds are Revenues and amounts held in certain funds and accounts under the Indenture to the extent described therein. The Authority is not obligated to pay the principal of, premium, if any, or interest on the Bonds except from such Revenues and amounts. Except as described in the official statement relating to the Bonds, dated March \_\_, 2017 (the “Official Statement), neither the faith and credit nor the taxing power of the State of California or any subdivision thereof, or any local agency, is pledged to the payment of the principal of, premium, if any, or interest on the Bonds. The Authority has no taxing power with which to provide for payment of the principal of, premium, if any, or interest on the Bonds, nor does it have the power to commit the faith and credit or the taxing power of the State of California or any other subdivision thereof, or any local agency, to the payment of the principal of, premium, if any, or interest on the Bonds.

As to questions of fact material to this opinion, we have relied upon representations contained in the Indenture, the Loan Agreement, and the Purchase Contract (the “Authority Documents”) and in certain certificates, documents, records, statements, and opinions furnished by, or on behalf of, the

Authority and the Borrower, without undertaking to verify such facts by independent investigation. We have reviewed the Authority Documents, certificates of the Authority and others, certain parts of the Official Statement under the captions “THE AUTHORITY” and “ABSENCE OF MATERIAL LITIGATION - The Authority” and such other documents, opinions and matters to the extent deemed necessary to render the opinions set forth herein. In addition, we have assumed compliance with the covenants and agreements contained in the Authority Documents.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof, and we disclaim any obligation to update this opinion. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the immediately preceding paragraph hereof.

We express no opinion as to whether interest on the Bonds is excluded from gross income for federal income tax purposes or exempt from State of California personal income taxes or as to any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. Although one or more Authority Documents may reference or incorporate the Tax Agreement, we express no opinion regarding the Tax Agreement. We take no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto, except as expressly set forth in numbered paragraph 2 below.

Based upon and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that:

1. The Authority is duly organized and validly existing under the Constitution and laws of the State of California.

2. The Official Statement has been duly authorized, executed and delivered by the Authority, and the information contained in the Official Statement under the captions “THE AUTHORITY” and “ABSENCE OF MATERIAL LITIGATION - The Authority” is true and correct.

3. Resolution No. 420, adopted on October 19, 2016, approving and authorizing the execution and delivery of the Authority Documents, the Bonds and the Official Statement, was duly adopted at a meeting of the governing body of the Authority which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and such Resolution No. 420 is in full force and effect and has not been amended or rescinded.

4. There is no action, suit or proceeding pending (with service of process against the Authority having been accomplished) or any action, suit, proceeding, inquiry or investigation before any court, governmental agency, public board or body to our knowledge threatened against the Authority to restrain or enjoin the issuance or delivery of the Bonds, the collection of Revenues pledged under the Indenture, the assignment of the Loan Agreement and Obligation No. 6 under the Indenture or the loaning of the proceeds of the Bonds to the Borrower under the Loan Agreement, or contesting any authority for the issuance of the Bonds, the validity of the Bonds or the Authority Documents or contesting the existence or powers of the Authority with respect to the issuance of the Bonds or the security therefor wherein an unfavorable decision, ruling or finding would adversely affect the transactions contemplated

by the Authority Documents or the validity of the Bonds (it being understood that we have made no docket search of state or federal courts nor any other similar inquiry regarding such matters).

5. The execution and delivery of the Bonds and the Authority Documents and compliance with the provisions thereof under the circumstances contemplated thereby do not and will not in any material respect conflict with or constitute on the part of the Authority a breach of or default under any agreement or other instrument known to us to which the Authority is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the Authority is subject, which would, in any such case, adversely affect the Authority's ability to perform its obligations under the Authority Documents; provided that no representation is made regarding compliance with any federal or state securities or "blue sky" laws.

6. The Authority Documents have been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the other parties thereto, are valid and binding obligations of the Authority, and the Bonds have been duly authorized, executed and delivered and, assuming proper authentication by the Trustee, constitute valid and binding limited obligations of the Authority, payable only from Revenues and from certain other specified funds in accordance with their terms and secured as provided in the Indenture, in each case enforceable in accordance with their respective terms, subject to the laws relating to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other similar laws related to or affecting creditors' rights generally and to the application of equitable principles as the court having jurisdiction may impose, regardless of whether such enforceability is considered in a proceeding in equity or law, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, severability, or waiver provisions contained in the Authority Documents.

We are furnishing this letter to you as your counsel. It is being delivered to you as issuer of the Bonds, is solely for your benefit as such issuer, and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person. This letter is not intended to, and may not, be relied upon by owners of the Bonds or by any other party to whom it is not specifically addressed.

Sincerely,

\_\_\_\_\_  
Deputy Attorney General

For XAVIER BECERRA  
Attorney General

**EXHIBIT D-2**

**FORM OF RELIANCE LETTER TO UNDERWRITER**

**§ \_\_\_\_\_**  
**California Health Facilities Financing Authority**  
**Revenue Bonds**  
**(El Camino Hospital)**  
**Series 2017**

Ladies and Gentlemen:

In connection with the delivery of the above-referenced bonds (the “Bonds”), I have delivered my final legal opinion concerning the validity of the Bonds and certain other matters, dated the date hereof and addressed to the issuer of the Bonds.

You may rely on numbered paragraphs 1 and 6 of said opinion as though the same were addressed to you. No attorney-client relationship has existed or exists between you and myself or my office in connection with the Bonds or by virtue of this letter or otherwise.

Sincerely,

\_\_\_\_\_  
Deputy Attorney General

For XAVIER BECERRA  
Attorney General

**EXHIBIT E**

**FORM OF OPINION OF COUNSEL TO THE TRUSTEE**

**March \_\_, 2017**

California Health Facilities Financing Authority  
915 Capitol Mall, Room 435  
Sacramento, California 95814

Citigroup Global Markets Inc.  
444 South Flower Street, 27th Floor  
Los Angeles, California 90071

El Camino Hospital  
2500 Grant Road  
Mountain View, California 94040-4378

§ \_\_\_\_\_  
California Health Facilities Financing Authority  
Revenue Bonds  
(El Camino Hospital)  
Series 2017

Ladies and Gentlemen:

I am special counsel for Wells Fargo Bank, National Association, a banking corporation organized under the laws of the State of California. As such, I have reviewed the provisions of (i) the Bond Indenture dated as of March 1, 2017 (the “Indenture”) between the California Health Facilities Financing Authority, as issuer (the “Authority”), and Wells Fargo Bank, National Association, as trustee (the “Trustee”) and (ii) the Continuing Disclosure Agreement dated as of March \_\_, 2017 (the “Continuing Disclosure Agreement,” and together with the Indenture, the “Trustee Documents”) between El Camino Hospital and the Trustee. In addition, I am generally familiar with the Articles of Association and the Bylaws of the Trustee and am also familiar with the corporate proceedings of the Trustee with regard to its authorization, execution and delivery of the Trustee Documents. Capitalized terms used herein shall have the respective meanings ascribed to them in the Indenture, except as otherwise defined herein.

For purposes of this opinion, I have assumed the genuineness of all signatures, the authenticity of all documents submitted to me as originals, and the conformity with originals of all documents submitted to me as copies. In making my examination of documents executed by entities other than the Trustee, I have assumed that each such other entity had the power to enter into and perform all its obligations thereunder, and also have assumed the due authorization of all requisite action and due execution of such documents by each such entity. Where questions of fact material to my opinions expressed below were not established independently, I have relied upon statements of officers of the Trustee as contained in their certificates.

Based upon the foregoing, I am of the opinion that:

1. The Trustee is a banking corporation duly incorporated and validly existing under the laws of the State of California, having full power and being qualified to enter into and to perform its duties as Trustee under the Trustee Documents.

2. The Trustee Documents have been duly authorized, executed and delivered by the Trustee and assuming due authorization, execution and delivery by the other parties thereto, constitute the legal, valid and binding obligations of the Trustee enforceable in accordance with their respective terms.

The foregoing opinions are being furnished to you solely for your benefit and that of your counsel and may not be relied upon by, nor may copies be delivered to, any other person without my prior written consent.

Very truly yours,

[COUNSEL TO TRUSTEE]

## EXHIBIT F

### CERTIFICATE OF THE TRUSTEE

The undersigned, Wells Fargo Bank, National Association, as trustee (the “Trustee”), does hereby certify as follows:

1. This Certificate is being provided in connection with the issuance and delivery of the \$\_\_\_\_\_ principal amount of California Health Facilities Financing Authority Revenue Bonds (El Camino Hospital) Series 2017 (the “Bonds”) executed and delivered pursuant to the Bond Indenture, dated as of March 1, 2017 (the “Indenture”), between the California Health Facilities Financing Authority (the “Authority”) and the Trustee.

2. The Trustee is a national banking association organized and existing under and by virtue of the laws of the United States of America, and has all requisite power, including trust powers, and authority to accept, execute, deliver, and perform all of its obligations as Trustee under and pursuant to: (a) the Indenture; and (b) the Continuing Disclosure Agreement dated as of March \_\_, 2017 (the “Continuing Disclosure Agreement” and together with the Indenture, the “Trustee Documents”), between El Camino Hospital and the Trustee, and to take all actions required of it under the Trustee Documents and the Bonds.

3. The Trustee Documents have been duly executed and delivered by an officer of the Trustee duly authorized to execute and deliver such documents as evidenced by the Authorizing Resolution attached hereto as Exhibit A, and the execution, delivery and performance of the Trustee Documents have been duly authorized by all necessary action of the Trustee.

4. Pursuant to the provisions of the Indenture, the Bonds were authenticated in the name of and on behalf of the undersigned by authorized signatories of the undersigned, duly authorized to so authenticate the Bonds, as evidenced by the Authorizing Resolution referred to in paragraph 3 hereof, and as set forth in the Incumbency Certificate of the Trustee attached hereto as Exhibit B, were registered and delivered by the Trustee pursuant to the Indenture and the Order of the Authority, dated the date hereof, and as directed by the underwriter for the Bonds.

5. The Trustee has duly accepted the trusts created pursuant to the Indenture, and such acceptance and performance by the Trustee of its obligations in accordance with the Trustee Documents will not contravene the Articles of Incorporation or Bylaws of the Trustee or, to the best knowledge of the Trustee, conflict with or constitute a breach of or a default under any law, administrative or governmental regulation, consent, decree, order, indenture, contract or other agreement or instrument to which the Trustee is subject or bound or by which any of its assets is bound, and the performance of the obligations of the Trustee under the Trustee Documents have been duly authorized by all necessary corporate action.

6. To the best knowledge of the Trustee, all approvals, consents and orders of any governmental authority or agency having jurisdiction in the matter, receipt of which would constitute a condition precedent to the performance by the Trustee of its obligations under the Trustee Documents, have been obtained and are in full force and effect. The undersigned certification does not include compliance with federal and state securities laws.

7. To the best knowledge of the Trustee, no litigation has been served or threatened (either in state or federal courts): (a) in any way contesting the existence or trust powers of the Trustee or the Trustee’s ability to fulfill its obligations under the Trustee Documents; (b) to restrain or enjoin the



execution or delivery of any of the Bonds by the Trustee; or (c) in any way contesting or affecting any authority for the execution and delivery of the Bonds.

IN WITNESS WHEREOF, the Trustee has caused this Certificate to be executed by its officer thereunto duly authorized as of November \_\_, 2016.

\_\_\_\_\_, as Trustee

By: \_\_\_\_\_  
Its: \_\_\_\_\_

## EXHIBIT G

### FORM OF MOSS ADAMS PROCEDURE LETTER

March \_\_, 2017

El Camino Hospital  
2500 Grant Road  
Mountain View, California 94040-4378

Citigroup Global Markets Inc.  
Public Finance  
444 South Flower Street, 27th Floor  
Los Angeles, California 90071

Ladies and Gentlemen:

We have audited the consolidated balance sheets of El Camino Healthcare District (the “District”) as of June 30, 2016 and 2015, and the consolidated statements of revenues, expenses and changes in net position and cash flows for each of the two years ended June 30, 2016 and 2015, included in the Preliminary Official Statement for the \$\_\_\_\_\_ California Health Facilities Financing Authority Revenue Bonds (El Camino Hospital) Series 2017 (the “Preliminary Official Statement”). The Preliminary Official Statement is herein referenced to as the Official Statement.

We are independent certified public accountants with respect to the District and the El Camino Hospital (the “Corporation”) under Independence Rule 1.200.001 (formerly known as Rule 101) of the Code of Professional Conduct of the American Institute of Certified Public Accountants, and its rulings and interpretations.

We have not audited any financial statements of the Corporation or District as of any date or for any period subsequent to June 30, 2016. Although we have conducted an audit for the year ended June 30, 2016, the purpose (and therefore the scope) of the audit was to enable us to express an opinion on the consolidated financial statements of the District as of June 30, 2016 and for the year then ended, but not on the financial statements for any interim period within that year. Therefore, we are unable to and do not express any opinion on the unaudited data as of December 31, 2016 and 2015, or for the six-month periods then ended, included in the Official Statement, or on the financial position, results of operations or cash flows of the Corporation as of any date or for any period subsequent to June 30, 2016.

At your request, we have carried out procedures through \_\_\_\_\_, 2017, as follows:

1. Read the unaudited condensed Balance Sheets and unaudited condensed Statements of Revenues, Expenses and Changes in Net Position of the Corporation as of and for the six-month periods ended December 31, 2016 and 2015, and agreed amounts contained therein with the accounting records of the Corporation as of December 31, 2016 and 2015, and for the six-month periods then ended.
2. Inquired of certain officials of the Corporation who have responsibility for financial and accounting matters whether: (1) the unaudited financial information referred to in Section 1 above are in conformity with accounting principles generally accepted in the United States of America applied on a basis substantially consistent with that of the Corporation’s financial information in the consolidating statements to the audited consolidated financial statements of the District included in Appendix B to the Official Statement; and (2) at December 31, 2016, there was any increase in long-

term debt of the Corporation as compared with amounts shown on the Corporation’s financial information in the consolidating statements to the audited consolidated financial statements of the District at June 30, 2016.

Those officials stated that: (1) the financial data referred to in Section 1 above are stated on a basis substantially consistent with that of the Corporation’s financial information in the consolidating statements to the audited consolidated financial statements of the District included in the Official Statement; and (2) at December 31, 2016, there was no increase in long-term debt of the Corporation as compared with amounts shown on the Corporation’s financial information in the consolidating statements to the audited consolidated financial statements of El Camino Healthcare District at June 30, 2016.

3. For purposes of this letter, we have also read the following as set forth in Appendix A to the Preliminary Official Statement [and the Final Official Statement], and performed the related procedures noted in the table below. For purposes of reporting our procedures and findings, the phrase “compared” refers to the comparison of one or more data elements to underlying documentation, for which the data elements and the underlying documentation have been found to be in agreement, unless otherwise indicated. In addition, the term “recalculated” means that the amounts, percentages or ratios recalculated were in agreement or mathematically correct; or, if different, the differences were attributable to rounding and were not greater than one unit of dollar amount, percentage or ratio (to the last decimal place) presented.

Item	Description	a.	b.	c.	d.
1	“Selected Utilization and Financial Information - Summary Financial Information for the Corporation” – the dollar amounts	*	*		*
2	“Selected Utilization and Financial Information - Sources of Patient Services Revenue” – the percentages			*	
3	“Selected Utilization and Financial Information - Capitalization” – the dollar amounts and percentages	*		*	*
4	“Selected Utilization and Financial Information - Debt Service Coverage” – the dollar amounts and ratios	*		*	*
5	“Selected Utilization and Financial Information - Liquidity and Capital Resources - Days Cash on Hand” – the dollar amounts and ratios	*	*		*
6	“Management’s Discussion of Financial Operations” – the dollar amounts and the percentages	*	*	*	*
7	“Management’s Discussion of Financial Operations - Investments” – the percentages			*	

\* The individual dollar amounts and percentages each procedure will be performed on were identified by you on the attached pages to be included in the Preliminary Official Statement and Final Official Statement and will be identified in the report on the application of agreed-upon procedures.

- a. We compared the amounts, rounded to thousands where indicated, to the corresponding amounts included in or derived from the consolidating schedules to the audited consolidated financial statements of the District included in the Preliminary and Final Official Statements.
  - b. We compared the amounts, rounded to thousands where indicated, to the corresponding amounts included in or derived from the consolidating schedules to the audited consolidated financial statements of the District not included in the Preliminary and Final Official Statements.
  - c. We compared the amounts, rounded to thousands where indicated, to the corresponding amounts included in or derived from the Corporation's accounting records.
  - d. We recalculated the percentage or dollar amount for mathematical accuracy.
3. Our audits of the consolidated financial statements of the District for the periods referred to in the introductory paragraph of this letter comprised audit tests and procedures deemed necessary for the purpose of expressing an opinion on such financial statements taken as a whole. For none of the periods referred to therein, nor for any other period, did we perform audit tests for the purpose of expressing an opinion on individual balances of accounts or summaries of selected transactions such as those enumerated above; and, accordingly, we express no opinion thereon.
4. It should be understood that we have no responsibility for establishing (and did not establish) the scope and nature of the procedures enumerated above; rather, the procedures enumerated therein are those the requesting party asked us to perform. Accordingly, we make no representations regarding questions of legal interpretation or regarding the sufficiency for your purposes of the procedures enumerated in the preceding paragraphs. Also, such procedures would not necessarily reveal any material misstatement of the amounts or percentages listed above as set forth in the Official Statement. Further, we have addressed ourselves solely to the foregoing data and make no representations regarding the adequacy of disclosures or whether any material facts have been omitted. This letter relates only to the financial statement items specified above and does not extend to any financial statement of the Corporation or consolidated financial statement of the District taken as a whole.
5. The foregoing procedures do not constitute an audit conducted in accordance with auditing standards generally accepted in the United States of America. Had we performed additional procedures or had we conducted an audit or a review of the Corporation's December 31, 2016 and 2015, condensed financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you.
6. These procedures should not be taken to supplant any additional inquiries or procedures that you would undertake in your consideration of the proposed offering.
7. This letter is solely for your information and to assist you in your inquiries in connection with the offering of the securities, covered by the Official Statement, and it is not to be used, circulated, quoted, or otherwise referred to for any other purpose, including but not limited to the registration, purchase, or sale of securities, nor is it to be filed with or referred to in whole or in part in the Official Statement or any other document, except that reference may be made to it in any list of closing documents pertaining to the offering of the securities covered by the Official Statement.

8. We have no responsibility to update this letter for events and circumstances occurring after \_\_\_\_\_, 2017, other than to provide a bring down letter dated [closing date].

Very truly yours,

## ECH BOARD MEETING AGENDA ITEM COVER SHEET

<b>Item:</b>	Community Benefit Grant Audit FY17 Midterm Grant Results  Community Benefit El Camino Hospital Board of Directors  March 8, 2017
<b>Responsible party:</b>	Cecile Currier, VP Corporate and Community Health Services and President, CONCERN, EAP  Barbara Avery, Director, Community Benefit
<b>Action requested:</b>	None, For Information Only
<p><b>Background – Community Benefit Grantee Audits:</b></p> <p>The three largest FY17 Hospital funded community grants were audited by a third party evaluation firm. The purpose of the audit was to evaluate the reliability of reported financials and evaluation metrics. Specifically, the audit evaluated confidence in a) data and metrics reported and b) accuracy, accessibility and appropriateness of systems.</p> <p><b>Background – FY17 Midterm Grant Results:</b></p> <p>As part of the application process, prospective grantees are required to establish relevant metrics that speak to the quality and quantity of services being provided. It is the role of Community Benefit staff to hold grantees accountable to these metrics and provide assistance wherever possible. The Community Benefit staff assesses performance against those metrics and we are now also tracking year over year results. Overall, grantees performed well against established FY17 metric targets. Of the 105 midterm metrics, 93% were either met or exceeded. 30 out of 35 (86%) of grants met at least 90% of their established metrics. Community Benefit staff will continue to monitor and work with underperforming grants.</p>	
<b>Board Advisory Committee(s) that reviewed the issue and recommendation, if any:</b> None.	
<b>Summary and session objectives:</b> N/A	
<b>Suggested discussion questions:</b> N/A	
<b>Proposed board motion, if any:</b> N/A	
<p><b>LIST OF ATTACHMENTS:</b></p> <ol style="list-style-type: none"> <li>1. PowerPoint Presentation – Actionable Insights Audit</li> <li>2. Memo to the Board of Directors – FY17 Grant Audit</li> <li>3. PowerPoint Presentation – Mid-Term Metrics</li> </ol>	

# 2017 Grant Process Audit Summary

## El Camino Hospital Community Benefit



**MELANIE ESPINO**

CO-FOUNDER & PRINCIPAL

**DR. JENNIFER VAN STELLE, PH.D.**

CO-FOUNDER & PRINCIPAL

# Value

- ▶ Confidence in funded grantee work
- ▶ Strong metrics which show impact of investment
- ▶ Improvement in the quality of grant applications, strengthening the portfolio



# Guiding Questions

- ▶ What data collection process does the grantee follow?
- ▶ What steps does the grantee take for quality assurance?
- ▶ What reporting process is used for the evaluation metrics and the budget report?

# Audited Grantees

**School Nurse Program**

**Preventive Health Screening & Education Program**

**School-based Counseling Program**



## **El Camino Hospital**

Community Benefit Grant Process Monitoring Audit 2017

Executive Memo to the Board of Directors

March 8, 2017

### **About the audit**

El Camino Hospital contracted with Actionable Insights (AI) to conduct a process monitoring audit with three Community Benefit funded organizations. The grants were identified by the size of financial support. The purpose of the audit was to evaluate a sample of grantees to assess the reliability of the reported evaluation metrics and budget information. Specifically, the audit evaluated confidence in:

- Data and metrics reported
- Accuracy, accessibility and appropriateness of systems

The protocol used by AI focused on three main questions:

- What data collection process does the organization follow?
- What steps does the organization take for quality assurance of the data?
- What reporting process is used for the evaluation metrics and the budget report?  
*Includes reporting number served and impact metrics (measures of change).*

Melanie Espino, from Actionable Insights, served as the project lead. She was assisted by staff from her organization. AI spent approximately three hours on site with each of the three organizations. Multiple organization representatives were included in the audit process. AI conducted follow-up discussions with the grantees through phone calls and emails to complete the information gathering process.

### **About Actionable Insights**

Melanie Espino and Dr. Jennifer van Stelle have been partners for five years, and are the co-founders and principals of Actionable Insights. Melanie and Jen served El Camino Hospital and its partners in the Santa Clara County Community Benefit Coalition from 2012 to 2016, in addition to other county Community Benefit collaboratives. They each have extensive

program evaluation experience. This includes assisting organizations in measuring their impact, discovering key insights in their data, better telling the story of their work, and executing effective, data-driven action for those they serve. In previous experience as internal evaluators for funding organizations, the AI team conducted grantee monitoring and training to ensure data integrity and that grantees met their contracted obligations. Melanie and Jen also worked with the Santa Clara County Juvenile Probation grantees (under the auspices of another firm) for its annual program evaluation.

## Grant audit summaries

### School District Nurse Program

#### Grant overview:

- **FY17 funding amount:** \$215,000
- **Purpose:** Grant funds school nurses and bi-lingual community liaison
- **Program metrics tracked:**
  - Students served
  - Uninsured students who have applied for healthcare insurance
  - Students with a failed health screening who saw a healthcare provider
  - Students identified as needing urgent dental care through on-site screenings who saw a dentist
  - Percent of staff CPR certified

#### Program staff who participated in audit:

- Superintendent
- 2 District Nurses
- Bi-lingual Community Liaison

#### Findings:

This is an organization with strong data collection systems and a good understanding of the importance of using data to improve programs and demonstrate program efficacy. They have used PowerSchool, a widely adopted student information portal, for 15 years. The system tracks attendance, demographics, health insurance status and results of visual and dental screenings, among other information. In addition to PowerSchool, data collection is done by using Microsoft Excel to track information that cannot be entered into the portal but is required for the ECH grant. Systematic outreach to the families of students who fail school site health screening or who do not have health coverage is conducted by school nurses and the bi-lingual community liaison. Staff report actual budget numbers and clients served for all metrics.

### **Financial reporting**

Salaries and benefits as well as non-personnel expenses are reported by the school district's payroll department. Actual amount spent is reported.

### **Conclusions & Recommendations:**

- The data systems in place are suitable and effective for the reporting requirements; however, some processes may be burdensome or inefficient for staff to use for aggregate totals.
- AI recommends organization explores how to leverage technology for easier aggregation:
  - Use MS Excel more efficiently with a formula or pivot table for tracking notes and aggregating totals
  - Explore how PowerSchool may be used more effectively
- These school nurses provide a value to the district that extends beyond the specific goals and metrics specified in the grant. Not all services supported by funding can be captured by the evaluation metrics. For example:
  - Direct nursing services for medically fragile children;
  - Individualized care plans for students with chronic diseases and other special needs.

## **Preventive Health Screening and Education Program**

### **Grant overview:**

- **FY17 funding amount:** \$200,922
- **Purpose:** Grant funds two levels of disease specific risk screening for at 3 community service agencies. The grant also funds program enrollment, healthy food distribution to participants, education, post screening and support for a program coordinator.
- **Program metrics tracked:**
  - Clients who take the CDC Risk Assessment
  - Clients pre-screened
  - Clients enrolled in the program
  - Clients post-screened
  - Participants who report a moderate to significant increase in knowledge of risks and causes of disease
  - Participants who have made at least one life style improvement as measured by pre/post-test

**Program staff who participated in audit:**

- Associate Director, lead agency
- Program Coordinator, lead agency
- Senior Research Associate, lead agency

**Findings:**

This program is a collaborative of three community service agencies – one of which agreed to serve as the lead agency. The program uses an industry-standard client-level database to track data (Salesforce). They also use MS Excel to track program activities related to education and monitoring. The lead agency’s finance department has established appropriate cost centers for reporting budget expenses. For clinical testing measures, a subcontractor, BaySport, is used. BaySport administers pre and post testing and provides data with analysis to the lead agency.

**Financial reporting:**

The Chief Financial Officer at the lead provides the data on grant expenditures that is reported to El Camino Hospital.

**Conclusions & Recommendations:**

While AI is confident about the accuracy of the reported number served, the audit revealed that:

- The grantee had some challenges reporting impact metrics based on their client surveys. However, the organization has recently hired a staff person with survey writing and data analysis skills who will oversee data collection and reporting.
- AI recommends the grantee submit a detailed written explanation of how these metrics will be reported going forward.
- AI noted that the grantee is clearly aware of improvements needed in their systems, dedicated to addressing them and has a plan in place to do so. They have developed a new tracking system for the remainder of FY17 and revised some survey questions based on AI’s recommendations for their FY18 proposal.

**School Based Counseling Program**

**Grant overview:**

- **FY17 funding amount:** \$230,000
- **Purpose:** Grant funds addiction prevention programs for high school students and their parents and group and individual counseling for students.
- **Program metrics tracked:**
  - Students served through:
    - Individual and/or group counseling

- Classroom presentations
  - Services provided
  - Students in individual and group sessions who show at least 50% increase in improved choices related to high risk behaviors
  - Students participating in classroom presentations who show an increase in knowledge which impact behaviors related to high risk activities
  - Parents/caregivers who show an increase in knowledge of the topics presented (e.g., gangs, bullying, suicide prevention, substance abuse) and a better understanding of how to access services for youth

**Program staff who participated in audit:**

- Program Manager
- Program Coordinator
- Note: organization has an Outcome & Evaluation Department

**Findings:**

The grantee has good procedures in place for collecting and entering client (student) information for their school-based services. Counselors use MS Excel for tracking aggregate services provided and perform regular data quality checks of these totals. The organization also administers surveys to measure satisfaction, increase in learning, and other behavior change. These surveys are straightforward and easy to tabulate. One of the impact metrics is based on both the answers students provide to the survey and on the counselor’s rating of how strong the change was. However, the grantee’s data system does not have the ability to determine unduplicated client counts for classroom presentations (attendance and audience size varies).

**Note:** The grantee counts unduplicated students served through direct counseling. They also count students attending large educational presentations as part of their prevention effort, which they do not de-duplicate given the level of service provided.

**Financial Reporting:**

The grantee’s accounting department generates the budget report. Salaries and benefits are calculated on actual employee timecards, which specify the time spent on the program. For general expenses, they allocate the proportion of expenses based on the number of days that the staff is working on the ECH grant.

**Conclusions & Recommendations:**

- The grantee makes good use of the surveys and attendance data to improve services to clients.
- The metric for counselors reporting behavior change should be based on the strict survey response for consistency.

- The metrics on classroom presentations should be updated to reflect that the client counts are duplicated. Data reported on students receiving counseling is unduplicated.
  - The grantee, along with all Community Benefit school counseling grantees, has developed standardized volume metrics for defining and tracking encounters for FY18, including a clear separation of classroom presentations and one-on-one counseling.

## Conclusion

In early 2017 AI conducted a process audit with a sampling of ECH grantees. Overall, the three hospital grantees have tools and systems in place that effectively support reporting requirements for collecting and reporting data. Key takeaways include:

- All three organizations are using MS Excel to track services provided to clients, but not all of them are fully leveraging MS Excel functions to efficiently calculate aggregate totals.
- Reporting on most impact metrics for these programs is very straight-forward and does not require advanced program evaluation expertise.
- Metrics assessing impact on knowledge and behavior change would benefit from more attention to the methods for calculating change.
- For all three grantees, actual program expenses for the grant amount are reported by their respective accounting/finance departments based on standard accounting practices. No concerns were found regarding expense reporting for these grants.

Community Benefit Program staff will meet with each grantee to debrief on the audit findings and ensure they understand AI's recommendations for process improvements. Staff will also review the audit findings for process improvements within the Community Benefit program grant cycle and collaboration with grantee partners.





**El Camino Hospital<sup>®</sup>**

THE HOSPITAL OF SILICON VALLEY

**Community Benefit**  
ECH Board of Directors

March 8, 2017

Barbara Avery

Director Community Benefit

# FY17 Midterm Data



Number of grants in FY17: 35

- 25% increase since FY16
- Seven new programs



FY17 Midterm Metrics

- 93% of the metrics met or exceeded targets
- 83% of grants achieved at least 90% of their metrics



Trending Metrics

- 50% flat, 17% decrease, 33% increase

# Grant Program Oversight

- Development of enhanced tool, providing year-over-year, midterm and annual metric targets and outcomes
- Strengthens staff's ability to strategically assess performances over time and inform future target-setting



# Learnings from Midyear Reports

- Political climate
  - Anxiety about program enrollment
  - ACA uncertainty and concerns about access and coverage
- Housing, cost of living and commutes
  - Staff hiring and retention → delays
- Language barriers
  - More time-intensive services
- Resourceful solutions to meet goals



## ECH BOARD MEETING AGENDA ITEM COVER SHEET

<b>Item:</b>	Governance Committee Report El Camino Hospital Board of Directors March 8, 2017
<b>Responsible party:</b>	Peter C. Fung, MD, Governance Committee Chair
<b>Action requested:</b>	For Information
<p><b>Background:</b></p> <p>Date of last Committee Meeting: February 7, 2017; Date of next Committee Meeting: April 4, 2017</p> <ol style="list-style-type: none"> <li><b>1. <u>Progress Against Goals:</u></b> The Committee is on track to complete its FY17 goals</li> <li><b>2. <u>Other Key Accomplishments</u></b> <ul style="list-style-type: none"> <li>- The Committee discussed the possibility of forming a Strategic Planning Oversight Committee.</li> <li>- Committee member Gary Kalbach is assisting the El Camino Healthcare District with selection of potential ECH Board candidates as an advisor to the District's ECH Board Member Election Ad Hoc Committee</li> <li>- There are ongoing discussions related to competency-based governance.</li> </ul> </li> <li><b>3. <u>Important Future Activities</u></b> <ul style="list-style-type: none"> <li>- Review of FY17 Board Self-Assessment</li> <li>- Further discussions about the utility, charter, and composition of a possible Strategic Planning Oversight Committee</li> <li>- Review of current Board Officer election procedure</li> <li>- Review of current Board Director Compensation Policy</li> </ul> </li> </ol>	
<b>Board Advisory Committee(s) that reviewed the issue and recommendation, if any:</b> N/A	
<b>Summary and session objectives :</b> To update the Board on the work of the Governance Committee	
<b>Suggested discussion questions:</b> None.	
<b>Proposed Board motion, if any:</b> None.	
<b>LIST OF ATTACHMENTS:</b> None.	



**Minutes of the Open Session of the  
El Camino Hospital Board of Directors  
Wednesday, February 8, 2017  
2500 Grant Road, Mountain View, CA 94040  
Conference Rooms E, F & G (ground floor)**

**Board Members Present**

Lanhee Chen  
Dennis Chiu, Vice Chair  
Neal Cohen, MD, Chair  
Jeffrey Davis, MD (via teleconference)  
Peter Fung, MD  
Julia Miller  
David Reeder  
John Zoglin

**Board Members Absent**

None

**Members Excused**

None

Agenda Item	Comments/Discussion	Approvals/ Action
<b>1. CALL TO ORDER/ ROLL CALL</b>	The open session meeting of the Board of Directors of El Camino Hospital (the “Board”) was called to order at 5:30 pm by Chair Cohen. A verbal roll call was taken. All Directors were present except Directors Davis and Chen. Director Davis joined the meeting at 5:31pm and participated via teleconference. Director Chen arrived at 5:32pm during Agenda Item 3: Quality Committee Report.	
<b>2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES</b>	Director Cohen asked if any Board members may have a conflict of interest with any of the items on the agenda. No conflicts were noted.	
<b>3. QUALITY COMMITTEE REPORT</b>	<p>Dave Reeder, Chair of the Quality Committee, shared a patient story from the Committee’s materials. He reported that the Committee received a presentation of the clinical and quality programs of Behavioral Health Services.</p> <p>Director Reeder provided an overview of the metrics on the Quality dashboard, newly annotated by Catherine Carson, Senior Director of Patient Safety and Quality Assurance. He also commended Cheryl Reinking, CNO and the nursing and other staff for their hard work during the delayed flu season.</p> <p>In response to Director Miller’s question, Ms. Reinking described the peak census plan, which has been in place but recently had to be implemented to address the influx of patients in the Emergency Department during the worst flu season in 10 years. She explained that staff activated what is in essence an internal disaster plan: setting up a command center, bringing in additional staff, maximizing space use, and implementing creative solutions in a short period of time. She noted that the plan and ECH’s implementation was complimented by the state and county for its effectiveness.</p>	
<b>4. FINANCE REPORT</b>	<p>a. <b><u>FY17 Period 6 Financials</u></b></p> <p>Iftikhar Hussain, CFO, outlined the highlights of the FY17 Period 6 Financials, including:</p> <ul style="list-style-type: none"> <li>- Operating margin is higher than it has been in the last three years. In revenue, ECH is \$17 million ahead of plan due to \$10 million in governmental payments received off schedule and improved revenue cycle operations, due to successful Epic implementation.</li> <li>- Expenses are favorable; productivity is good.</li> </ul>	<b><i>FY17 Period 6 Financials approved</i></b>

- Current volume is below budgeted growth, but favorable compared to last year.

He also provided an overview of monthly financial trends, noting that December volume is strong due to flu season, AR days is ahead of target, and commercial payor mix improved in December.

In response to Director Reeder's question, Mr. Hussain explained payor mix improvement is due to the increase in the commercial share of the payor mix.

**Motion:** To approve the FY17 Period 6 Financials.

**Movant:** Chiu

**Second:** Zoglin

**Ayes:** Chen, Chiu, Cohen, Davis, Fung, Miller, Reeder, Zoglin

**Noes:** None

**Abstentions:** None

**Absent:** None

**Recused:** None

**b. Finance Committee Report**

Dennis Chiu, Finance Committee Chair, noted that the meeting frequency was corrected in the materials.

He reported that the Committee has received the service line updates, including, most recently, the Men's Health and Urology service line; the Committee has also been discussing the best format and content of the reviews.

He noted that the Committee will review the long-term financial forecast at its March 27, 2017 meeting.

In response to Director Fung's question, Mick Zdeblick, COO, explained that the contract amendment reviewed and recommended for approval by the Finance Committee on the Board's consent calendar is listed under physician contracts because it is an extension of an agreement with Stanford even though it is for Physical and Occupational Therapy services.

In response to Director Reeder's question, Director Chiu reported that the Committee received a review of capital projects from Ken King, CASO. He reported that construction costs (supplies and labor) continue to increase due to the competitive construction market in the Bay Area. He also noted that the Committee reviewed the capital projects in light of going to the bond market for a second time. Director Zoglin requested that updates in more detail on very high cost projects be brought to the full Board.

Director Zoglin described the efforts to develop the service line reviews with staff, noting that there is improvement in content and format, but still work to be done.

**c. Community Benefit Funding – Board-Designated Fund**

Mr. Hussain explained that Board established a \$10 million Board Designated Fund for Community Benefit in September 2015. He noted that the Finance Committee reviewed the proposal and recommended that for FY18 \$400,000 be allocated from this fund to maintain total community benefit funding of approximately \$3.4 million.

In response to Director Fung's questions, Mr. Hussain explained that the total funding for community benefit will be maintained and not decrease. He

	<p>also explained that the amount of funding can be re-evaluated as investment income changes over time.</p> <p><b>Motion:</b> To approve funding \$400,000 from the Board-Designated Community Benefit Fund in FY18 and no changes to the endowment principal.</p> <p><b>Movant:</b> Fung <b>Second:</b> Chiu <b>Ayes:</b> Chen, Chiu, Cohen, Davis, Fung, Miller, Reeder, Zoglin <b>Noes:</b> None <b>Abstentions:</b> None <b>Absent:</b> None <b>Recused:</b> None</p>	<p><b>Board-designated CB Funding for FY18 approved</b></p>
<p><b>5. PUBLIC COMMUNICATION</b></p>	<p>None.</p>	
<p><b>6. ADJOURN TO CLOSED SESSION</b></p>	<p><b>Motion:</b> To adjourn to closed session at 5:59pm pursuant to <i>Gov't Code Section 54957.2</i> for approval of the Minutes of the Closed Session of the Special Meeting to Conduct a Study Session of the Hospital Board (January 4, 2017); Minutes of the Closed Session of the Hospital Board Meeting (January 11, 2017); Minutes of the Closed Session of the Special Meeting to Conduct a Study Session of the Hospital Board (January 25, 2017); Minutes of the Closed Session of the Joint Meeting of the Hospital Board and the Corporate Compliance/Privacy and Internal Audit Committee (November 9, 2016); pursuant to <i>Health and Safety Code 32155</i> for deliberations concerning reports on Medical Staff quality assurance matters: Medical Staff Report; pursuant to <i>Health and Safety Code 32155</i> for deliberations concerning reports on Medical Staff quality assurance matters: Organizational Clinical Risks; pursuant to <i>Gov't Code Section 54957.6</i> for a conference with labor negotiator Kathryn Fisk: Labor Negotiations Update; pursuant to <i>Health and Safety Code 32106(b)</i> for a report involving health care facility trade secrets: Bundled Payments for Care Improvement (BPCI); pursuant to <i>Gov't Code Section 54957</i> and <i>54957.6</i> for report and discussion on personnel matters and <i>Health and Safety Code 32106(b)</i> for a report involving health care facility trade secrets: Informational Items; pursuant to <i>Gov't Code Section 54957</i> for discussion and report on personnel performance matters and <i>Health and Safety Code 32106(b)</i> for a report involving health care facility trade secrets: CEO Search Committee Report; pursuant to <i>Gov't Code Section 54957</i> for discussion and report on personnel performance matters: Executive Session.</p> <p><b>Movant:</b> Chen <b>Second:</b> Fung <b>Ayes:</b> Chen, Chiu, Cohen, Davis, Fung, Miller, Reeder, Zoglin <b>Noes:</b> None <b>Abstentions:</b> None <b>Absent:</b> None <b>Recused:</b> None</p>	<p><b>Adjourned to closed session at 5:59 pm.</b></p>
<p><b>7. AGENDA ITEM 17: RECONVENE OPEN SESSION/ REPORT OUT</b></p>	<p>Agenda items 7-16 were addressed in closed session.</p> <p>Open session was reconvened at 7:41pm. During the closed session, the Board approved the ratified SEIU-UHW Memorandum of Understanding two-year extension to the current Memorandum of Understanding by a vote of seven in favor (Directors Chen, Cohen, Chiu, Davis, Fung, Miller, Reeder) and one abstention (Zoglin) and the Minutes of the Closed Session</p>	



	of the Special Meeting to Conduct a Study Session of the Hospital Board (January 4, 2017), Minutes of the Closed Session of the Hospital Board Meeting (January 11, 2017), Minutes of the Closed Session of the Special Meeting to Conduct a Study Session of the Hospital Board (January 25, 2017), Minutes of the Closed Session of the Joint Meeting of the Corporate Compliance/Privacy and Internal Audit Committee and Hospital Board (November 9, 2016) and the Medical Staff Report by a unanimous vote in favor of all members present (Directors Chen, Chiu, Cohen, Davis, Fung, Miller, Reeder, and Zoglin).	
<b>8. AGENDA ITEM 18: CONSENT CALENDAR</b>	<p>Director Cohen asked if any member of the Board or the public wished to remove an item from the consent calendar. No items were removed.</p> <p><b>Motion:</b> To approve the consent calendar: Minutes of the Open Session of the Special Meeting to Conduct a Study Session of the Hospital Board (January 4, 2017); Minutes of the Open Session of the Hospital Board Meeting (January 11, 2017); Minutes of the Open Session of the Special Meeting to Conduct a Study Session of the Hospital Board (January 25, 2017); Minutes of the Open Session of the Joint Meeting of the Hospital Board and the Corporate Compliance/Privacy and Internal Audit Committee (November 9, 2016); the Board of Director Approval of Policies; Policy and Procedure Formulation, Approval, and Distribution (Policy on Policies); Orthopedic Co-Management Agreement; Ventilator Replacement Funding; PT-OT Services Amendment; FY17 Period 5 Financials; Summary List of Sterile Processing Policies Reviewed with No Changes; and the Medical Staff Report.</p> <p><b>Movant:</b> Chiu  <b>Second:</b> Chen  <b>Ayes:</b> Chen, Chiu, Cohen, Fung, Davis, Miller, Reeder, Zoglin  <b>Noes:</b> None  <b>Abstentions:</b> None  <b>Absent:</b> None  <b>Recused:</b> None</p>	<i>Consent calendar approved</i>
<b>9. AGENDA ITEM 19: INFO ITEMS</b>	There were no questions or additional comments on the CEO Report.	
<b>10. AGENDA ITEM 20: BOARD COMMENTS</b>	Director Miller complimented staff on the Annual Service Awards Banquet.	
<b>11. AGENDA ITEM 21: ADJOURNMENT</b>	<p><b>Motion:</b> To adjourn at 7:43 pm.</p> <p><b>Movant:</b> Chiu  <b>Second:</b> Miller  <b>Ayes:</b> Chen, Chiu, Cohen, Davis, Fung, Miller, Reeder, Zoglin  <b>Noes:</b> None  <b>Abstentions:</b> None  <b>Absent:</b> None  <b>Recused:</b> None</p>	<i>Meeting adjourned at 7:43 pm.</i>

**Attest as to the approval of the foregoing minutes by the Board of Directors of El Camino Hospital:**

\_\_\_\_\_  
Neal Cohen, MD  
Chair, ECH Board

\_\_\_\_\_  
Peter C. Fung, MD  
ECH Board Secretary

Prepared by: Cindy Murphy, Board Liaison  
Sarah Rosenberg, Board Services Coordinator



**Minutes of the Open Session of the  
El Camino Hospital Board of Directors  
Special Meeting to Conduct a Study Session  
Wednesday, February 15, 2017  
2500 Grant Road, Mountain View, CA 94040  
Conference Rooms A&B (ground floor)**

**Board Members Present**

Lanhee Chen  
Dennis Chiu, Vice Chair  
Neal Cohen, MD, Chair  
Peter Fung, MD  
Julia Miller  
David Reeder  
John Zoglin

**Board Members Absent**

Jeffrey Davis, MD

**Members Excused**

None

Agenda Item	Comments/Discussion	Approvals/Action
<b>1. CALL TO ORDER/ ROLL CALL</b>	The open session meeting of the El Camino Hospital Board of Directors (the "Board") was called to order at 5:33 pm by Chair Cohen. A verbal roll call was taken. Directors Davis and Chen were absent. All other Board members were present.	
<b>2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES</b>	Director Cohen asked if any Board members may have a conflict of interest with any of the items on the agenda. No conflicts were noted.	
<b>3. ADJOURN TO CLOSED SESSION</b>	<p><b>Motion:</b> To adjourn to closed session at 5:35 pm pursuant to <i>Health and Safety Code 32106(b)</i> for a report involving health care facility trade secrets: Strategic Priorities.</p> <p><b>Movant:</b> Chiu <b>Second:</b> Miller <b>Ayes:</b> Chiu, Cohen, Fung, Miller, Reeder, Zoglin <b>Noes:</b> None <b>Abstentions:</b> None <b>Absent:</b> Chen, Davis <b>Recused:</b> None</p>	<b>Adjourned to closed session at 5:35 pm.</b>
<b>4. AGENDA ITEM 18: RECONVENE OPEN SESSION/ REPORT OUT</b>	Open session was reconvened at 8:30 pm. Director Chen arrived during the closed session at 5:36 pm. There were no actions taken during the closed session.	
<b>5. AGENDA ITEM 23: ADJOURNMENT</b>	<p><b>Motion:</b> To adjourn at 8:30 pm.</p> <p><b>Movant:</b> Fung <b>Second:</b> Chiu <b>Ayes:</b> Chiu, Cohen, Chen, Fung, Miller, Reeder, Zoglin <b>Noes:</b> None <b>Abstentions:</b> None <b>Absent:</b> Davis <b>Recused:</b> None</p>	<b>Meeting adjourned at 8:30pm.</b>

**Attest as to the approval of the foregoing minutes by the Board of Directors of El Camino Hospital:**

\_\_\_\_\_  
Neal Cohen, MD  
Chair, ECH Board

\_\_\_\_\_  
Peter C. Fung, MD  
ECH Board Secretary

Prepared by: Cindy Murphy, Board Liaison

## ECH BOARD MEETING AGENDA ITEM COVER SHEET

<b>Item:</b>	Executive Compensation Committee Member Appointment El Camino Hospital Board of Directors March 8, 2017
<b>Responsible party:</b>	Cindy Murphy, Board Liaison
<b>Action requested:</b>	Possible Motion (in open session); this item is on the consent calendar.
<b>Background:</b>	<p>At its November 16, 2016 meeting, the Executive Compensation Committee requested staff to begin recruitment of a new member in accordance with the Board’s Advisory Committee Member Nomination and Selection Policy.* To that end, Cindy Murphy, Board Liaison, Julie Johnston, Director, Total Rewards, Kathryn Fisk, CHRO, and Committee Chair Lanhee Chen developed the attached Position Specification. The Specification was circulated to the Board, Committee Members, and Senior Leadership Team and we advertised in local print media. In addition, at the suggestion of a Committee member, we also worked with the staff at Boardlist to identify potential candidates.</p> <p>We screened a number of candidates and those who expressed interest spoke with Director Chen who recommended that three individuals be invited to interview with the Committee. Two of those individuals interviewed with the Committee on February 16<sup>th</sup>. A third candidate will be interviewed on March 23<sup>rd</sup>.</p> <p>*Due to a second recent resignation, there are currently two vacancies on the Committee.</p>
<b>Other Advisory Committees that reviewed the issue and recommendation, if any:</b>	The Executive Compensation Committee voted to recommend that the Board appoint Jaison Layney to the Executive Compensation Committee.
<b>Summary and session objectives :</b>	To obtain Board approval.
<b>Suggested discussion questions:</b>	None. This is a consent item.
<b>Proposed Board motion, if any:</b>	To appoint Jaison Layney to the Executive Compensation Committee for a term of service expiring June 30 2017, renewable annually.
<b>LIST OF ATTACHMENTS:</b>	<ol style="list-style-type: none"> <li>1. Position Specification</li> <li>2. Candidate Profile – Jaison Layney</li> </ol>

## **Executive Compensation Committee Position Specification – December 2016**

### Executive Compensation Committee Charter (Attached)

### Executive Compensation Committee Membership Requirements

The El Camino Hospital Executive Compensation Committee of the Board presently meets four times per year (beginning at 4:00 pm) and jointly with the Board of Directors for educational sessions 2-3 times per year (beginning at 5:30 pm). This Committee position is non-compensated (i.e. volunteer)

### Professional Experience and Competencies

- Candidates will have demonstrated strategic effectiveness in the areas of executive compensation, performance goal setting and evaluation, and executive development and succession planning.
- Candidates with a strong foundation in executive and/or employee benefits, and all elements of a “total remuneration” analysis, are highly desirable.
- An understanding of the healthcare sector would be a plus but is not required.
- Board experience would also be a plus, but is not required.
- Residency with the Silicon Valley would be a strong plus.
- Candidates are likely to have current or recent roles as Chief Human Resources Officers (CHRO), Senior Executive Compensation Officers or General Managers with a strong foundation in executive compensation matters.

### Education/Credentials

- Candidates with an advanced degree will be preferred but not required.

### Work Style and Personal Traits

- High Integrity
- Collaborative Nature
- Clear Communicator
- Energy and a sense of urgency
- Creative and imaginative
- An innovator
- A sense of humor
- Mission driven
- Comfortable with change

## SUMMARY

Independent consultant and former corporate compensation executive with nineteen years experience working with companies in the financial services, high tech, biotechnology, retail and utility industries on all aspects of compensation for executives, employees and Boards of Directors. Specific skills include: developing comprehensive compensation strategies, designing pay structures for executives and employees, managing annual compensation planning processes and advising Boards of Directors and executives on all compensation related issues.

## EXPERIENCE

### **Independent Compensation Consultant** *San Francisco, California*

*January 2013 – present*

Retained by the Chief Administrative Officer and EVP of Human Resources at Bank of the West, a large commercial and retail bank, to consult on a variety of executive compensation and broader HR-related projects. Specifically:

- Project manager for all aspects of company-wide career framework (job titling, leveling, career streams and job families) and salary broad band initiative covering all functions and business lines (10,000+ employees)
- On behalf of the CEO and EVP Human Resources, developed responses to federal regulatory requests (FDIC, Federal Reserve Board and Federal Advisory Council)
- Developed Compensation Committee materials in collaboration with EVP Human Resources and SVP Total Rewards; prepared Committee meeting minutes and other Committee communications
- Recommended new hire packages (cash, equity, etc.) for all SVP and above hires

### **Union Bank, N.A.** *San Francisco, California*

*June 2011 – January 2013*

*Vice President, Executive Compensation.* Led the executive compensation function for one of the nation's largest commercial banks with 12,000+ employees and over \$100B in assets. Led team responsible for managing all executive compensation programs and processes across the enterprise for 550+ executives, including annual and long-term incentive plans, job leveling, promotions, competitive benchmarking, new hire offers, incentive accruals, special retention arrangements, and change-in-control agreements.

- Managed all aspects of highly complex performance cash and restricted stock unit plans, including plan design, grant guidelines, budgeting, accruals, vesting/payments and third-party administrator relationship. Developed and led new processes for annual and off-cycle long-term incentive grants
- Led first comprehensive executive benchmarking review that company had completed in nearly 10 years. Proposed and implemented changes to annual and long-term incentive targets to align with competitive market practices
- Co-led annual compensation planning/focal review process, working with vendor to implement significant changes to compensation management tool (Workscape). Oversaw monthly annual and long-term incentive plan accrual processes
- Consulted with Bank senior leadership and HR partners on all executive compensation issues to develop solutions to meet strategic business needs while remaining fiscally responsible; partnered with senior leadership to drive executive workforce diversity initiative
- Served as HR/compensation program subject matter expert for merger and acquisition due diligence. Developed global mobility template to manage movement of employees across newly-created holding company entity and other subsidiaries of parent company

### **Allianz of America Corporation** *Novato, California*

*October 2007 – January 2011*

*Senior Director, Compensation.* Led the compensation function for Allianz of America, a \$10+ billion dollar insurance and financial services organization comprised of Fireman's Fund Insurance Company (Novato, CA) and Allianz Life Insurance Company (Minneapolis, MN). Responsible for administering all compensation programs and processes for 6,000+ employees in both locations and over \$450M in cash compensation expenses. Specifically:

#### **Executive Compensation**

- Led all aspects of executive compensation programs, including annual and long-term incentive plans, job leveling and titling, competitive benchmarking, special incentive and retention arrangements and deferred compensation
- Managed highly complex parent company mid-term and long-term incentive programs consisting of performance cash, restricted stock units and stock appreciation rights
- Developed and implemented comprehensive changes to long-term incentive and deferred compensation programs to drive executive attraction and retention and align with competitive market practices

#### **Broad Based Employee Compensation**

- Led annual compensation planning and performance management processes and provided day to day consulting support to HR business partners on compensation related issues

#### **Compensation Governance**

- Developed all Compensation Committee materials and provided support at all Committee meetings; prepared Committee minutes
- Represented the Americas on global compensation task force for European parent company, Allianz SE, a *Fortune* Global 20 company; instrumental in developing compensation minimum standards and best practices that were leveraged across the globe

## **Towers Perrin San Francisco, California**

*June 1998 – October 2007*

*Senior Consultant, Executive Compensation and Rewards.* Responsible for leading complex client engagements and teams on large-scale compensation projects and generating \$850,000 in new business revenue on an annual basis. Project work included advising Boards of Directors and management on:

- Total compensation strategies for executives, Boards of Directors and employees
- Annual and long-term incentive program design that links compensation to client business strategy
- Competitive pay structures and performance management programs
- Competitiveness of cash and equity programs compared to peer organizations
- Stock grant guidelines, stock ownership strategies and incentive payout schedules
- Incentive plan performance measure selection and calibration and long-term incentive valuations
- Executive retention strategies, severance arrangements and change-in-control provisions
- SEC and FASB regulations related to executive and Board of Directors compensation, including proxy disclosure requirements

*Client engagements included:*

### **Biotechnology/Pharmaceutical Company**

Consulted directly with the Chairman of the Compensation Committee, CEO and Vice President of Human Resources in auditing the total compensation programs for the company's executives, employees and Board of Directors.

- Evaluated the design of the annual incentive program and developed recommendations regarding target awards, eligibility, financial and operational performance measures, performance measure weightings, plan funding and administration
- Developed competitive equity grant guidelines for executives and employees, including a mix of stock options and restricted stock units; tested these guidelines against the annual stock option dilution for selected peer companies
- Evaluated competitiveness of total direct compensation levels for executives and employees by overseeing competitive pay analysis for positions covering over 75% of the organization and made recommendations for pay adjustments

### **Private Financial Services Company**

Worked with Senior Vice President of Human Resources to assess the design and competitiveness of numerous employee rewards programs.

- Designed comprehensive performance management system, including scale and definition of new performance ratings, target ratings distribution, year-end performance calibration and translating ratings into annual incentive payouts
- Reviewed salary structure and provided recommendations on number of grades in the structure, midpoint progression, range spread, grade compression, career pathing and geographic differentials for each of the company's 15 U.S. markets
- Reviewed the structure of the organization's annual incentive plan, including plan mechanics and target levels by grade, and provided recommendations for managing a broad-based incentive program in a high-performance culture

### **Wholesale Distribution Company**

Consulted with the Chairman of the Compensation Committee, CEO and Executive Vice President of Human Resources of *Fortune 500* company to design new equity compensation program, develop executive and outside director stock ownership guidelines, and provide expertise regarding proxy disclosure guidelines.

- Developed recommendations for a new equity compensation program for the company's executives and directors, including overall pool of shares for plan funding, allocation of shares within the plan, eligibility and participation provisions, vesting schedule and other design features
- Provided guidance to the Compensation Committee and management regarding proxy disclosure guidelines, including elements for inclusion in the Compensation Discussion and Analysis report and preparation of SEC-mandated tables

## **Hay Group Philadelphia, Pennsylvania**

*January 1997 – June 1998*

*Project Manager* at international management consulting firm specializing in human resources planning and development, organizational design and compensation and benefits planning. Served as Project Manager for three nationally recognized compensation and pay practices surveys involving thirty organizations in the natural gas and energy industries. Developed trend analyses and statistical interpretation of survey results and drafted final client reports with recommendations for using competitive market data to implement new compensation administration policies.

## **EDUCATION**

### **University of Pennsylvania Philadelphia, Pennsylvania**

Bachelor of Arts Degree in Diplomatic History with minor in International Relations

Post-Baccalaureate coursework at the University of California at Berkeley

## **AFFILIATIONS**

Active member of WorldatWork and Bay Area Compensation Association (BACA)

## El Camino Hospital Board of Directors

### Executive Compensation Committee Candidate Questionnaire

**1. Please describe how your professional background demonstrates your knowledge and experience with the following:**

- a. Your experience with developing a compensation philosophy, development of executive compensation program, review of the CEO's incentive programs, benefits, perquisites and contractual terms.

*Both as an executive compensation consultant and as former corporate compensation executive at several multi-billion dollar organizations, I have 20 years of experience working with companies in a variety of industries, including financial services, high tech, biotechnology, retail and healthcare, to develop comprehensive, thoughtful compensation philosophies and programs that support the mission and values of the organization and drive performance aligned with strategic goals. I have many years of experience advising Boards and executive management teams on all aspects of annual and long-term incentive programs, benefits and perquisites and executive employment arrangements, including retention strategies, severance arrangements and change-in-control provisions. I have also developed, and managed, these programs as a corporate compensation executive at several organizations including, Allianz of America and Union Bank.*

- b. Establishing salary ranges for each executive and placement in the range for the CEO and other executives eligible for the plan.

*I have developed competitive executive pay structures for many organizations based on a combination of external marketplace data and internal equity. I have done this as an external consultant and as a corporate compensation executive. I am currently consulting with an on-line medical and health advice company to conduct a competitive analysis of all of their roles (up through and including the CEO) and to develop a national salary range structure to support stronger pay management and alignment.*

- c. Making recommendations to a Board for salary changes and/or any performance incentive payouts based on the evaluation of the CEO's performance.

*As a compensation executive, I have managed inputs to the CEO's performance scorecard and made recommendations for resulting incentive payouts based on achievement of goals relative to that scorecard. In both my consulting and internal roles at Allianz of America and Union Bank, I have made many recommendations for CEO pay adjustments based on individual performance and competitive market practices relative to the company's peers.*

d. Making recommendations of cost and reasonableness of severance and benefits for executives.

*As a consultant, I have advised many companies on the design and competitiveness of their executive severance and benefits programs, encouraging them to balance fiscal responsibility with their compensation philosophy, mission and values of the organization, and competitive market practices. While with Allianz of America I recommended changes to the company's severance plans and executive deferred compensation plans to drive executive retention and better align with competitive market practices.*

e. Providing input into the CEO's recommendations regarding annual organization goals and measures for executive performance incentive plans.

*As a consultant, I have advised organizations on annual and long-term incentive plan financial and operational performance measure selection and calibration, performance measure weightings and plan funding mechanisms. When I led the compensation function for Allianz of America, I worked closely with the management of the parent company (Allianz SE in Munich, Germany) on developing the annual performance scorecard for the CEO. I also provided input into assessing the achievement of goals relative to targets set in the scorecard.*

f. Providing input into the CEO's and executive team's annual performance incentive goals to execute a strategic plan, and then recommending these goals for approval by the Board.

*As stated above, I have consulted with many organizations on selection and calibration of annual incentive plan financial and operational performance metrics to drive strategic goals. While at Allianz of America, I also partnered with the Finance organization to recommend specific incentive goals for approval by the Compensation Committee.*

g. The annual review of the CEO's own succession plan. This includes a leadership and development plan.

*As a consultant, I have assisted several organizations (most recently Bank of the West) with the development and presentation of the CEO's succession plan to the Compensation Committee. When I led the compensation function for Allianz of America, I worked closely with management of the parent company to formulate the development plan for the CEO.*

h. The annual review of the CEO's succession plan for the executive team, thereby identifying and developing potential executives.

*As stated above, I have assisted several organizations with the development and presentation of executive succession plans to Compensation Committees and am very familiar with the conversations that occur during succession planning meetings with the Compensation Committee.*

**2. Why are you interested in being considered for a position on El Camino Hospital's Executive Compensation Committee?**

*As I mentioned to Lanhee, I am very interested in "sitting on the other side of the table," so to speak. I have been involved with Compensation Committees as both a consultant and as a management team member, and I think I can bring a unique perspective to the Committee. I*



*have seen both the good and the not-so-good in terms of Compensation Committee processes and practices and recognize the need for continuous improvement; I am anxious to share what I have learned over the years as a member of an Executive Compensation Committee. My style is collaborative in nature but I am also decisive and data-driven. I can see the big picture, ask the right questions and am comfortable respectfully challenging management, and other peers on the Committee, as appropriate to arrive at the best possible solution for the organization and the community. I recognize the delicate balance that is often required to develop executive compensation programs and practices that drive executive attraction and retention and are market competitive while remaining fiscally responsible and aligned with the needs of shareholders (or, in the case of El Camino Hospital, the Board and communities served by the Hospital).*

**3. Are there any civil, employment related or criminal incidents in your background that we may uncover in a reference or background check?**

*No.*

**4. Have you ever been involved in a government investigation for business related issues (e.g. SEC)?**

*No.*

**5. Would this position create a conflict of interest with any of your other commitments?**

*No, I have no conflicts of interest.*

**6. Are you able to make the necessary time Commitment (4-6 meetings per year)?**

*Yes –as an independent consultant my schedule is flexible and I am both able and excited to make this time commitment.*

**7. The El Camino Hospital Executive Compensation Committee membership position is non compensated and has one year renewable terms. Is this acceptable?**

*Yes, these terms are acceptable.*

**Minutes of the Open Session of the  
 Executive Compensation Committee  
 Wednesday, November 16, 2016  
 El Camino Hospital | 2500 Grant Road, Mountain View, CA 94040  
 Conference Rooms A&B (ground floor)**

**Members Present**

**Lanhee Chen**, Chair  
**Teri Eyre**  
**Bob Miller**, Vice Chair  
**Julia Miller**

**Members Absent**

**Jing Liao**

Agenda Item	Comments/Discussion	Approvals/Action
<b>1. CALL TO ORDER/ ROLL CALL</b>	The open session meeting of the Executive Compensation Committee of El Camino Hospital (the “Committee”) was called to order at 4:02 pm by Chair Chen. A silent roll call was taken. Ms. Liao was absent. All other Committee members were present.	
<b>2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES</b>	Chair Chen asked if any Committee members may have a conflict of interest with any of the items on the agenda. No conflicts were noted.	
<b>3. PUBLIC COMMUNICATION</b>	None.	
<b>4. CONSENT CALENDAR</b>	<p>Chair Chen asked if any member of the Committee or the public wished to remove an item from the consent calendar. No items were removed.</p> <p><b>Motion:</b> To approve the consent calendar: Minutes of the Open Session of the Executive Compensation Committee Meeting of September 12, 2016.</p> <p><b>Movant:</b> B. Miller  <b>Second:</b> J. Miller  <b>Ayes:</b> Chen, Eyre, B. Miller, J. Miller  <b>Noes:</b> None  <b>Abstentions:</b> None  <b>Absent:</b> Liao  <b>Recused:</b> None</p>	<i>Consent calendar approved</i>
<b>5. REPORT ON BOARD ACTIONS</b>	<p>Chair Chen reported on actions taken by the Board since the last Committee meeting; he highlighted that the Board approved the Committee’s recommendations regarding FY16 Performance Incentive Payouts, FY17 Executive Base Salaries, and FY17 Executive Salary Ranges.</p> <p>Chair Chen introduced Don Sibery, Interim CEO.</p> <p>The Committee discussed whether or not the Executive Compensation approval process could be streamlined including 1) overarching philosophical decisions (e.g., 25% geographic differential); 2) Board interest in detailed discussion; 3) deference to the Committee’s recommendations; and 4) political concerns for publically elected Board members.</p> <p>The Committee discussed the advisory nature of the Committees and</p>	

	how governance/strategy of the Hospital may affect the role of the Committees.	
<b>6. LETTERS OF REBUTTABLE PRESUMPTION</b>	<p>Stephen Pollack of Mercer, LLC presented the draft Letter of Rebuttable Presumption to the Committee, explaining that the final draft will incorporate minor clarifications and wording changes based on internal peer review. He noted that the “Basis for Opinion” section will include an additional paragraph about the CASO.</p> <p>In response to Mr. Miller’s question, Mr. Pollack clarified that difference between TCC (total cash compensation) and TDC (total direct compensation) is long-term incentives. He noted that the larger an organization is, the more likely they are to have an LTIP (long term incentive plan).</p> <p>In response to Ms. Eyre’s question, Mr. Pollack explained that ECH has a lower base, higher variable components, and competitive benefits compared to the market.</p> <p>Mr. Pollack and Heidi O’Brien, also of Mercer, LLC, clarified that market data are based on actual payouts, not design, which on average is close to target for most organizations.</p> <p>In response to the Committee’s questions, Mr. Sibery reported that filling the Chief Strategy Officer position is an open question.</p> <p><b>Motion:</b> To approve letters of rebuttable presumption, with the revisions specified by Mercer.</p> <p><b>Movant:</b> B. Miller  <b>Second:</b> Eyre  <b>Ayes:</b> Chen, Eyre, B. Miller, J. Miller  <b>Noes:</b> None  <b>Abstentions:</b> None  <b>Absent:</b> Liao  <b>Recused:</b> None</p>	<i>Letters of Rebuttable Presumption approved</i>
<b>7. ADJOURN TO CLOSED SESSION</b>	<p><b>Motion:</b> To adjourn to closed session at 4:18 pm.</p> <p><b>Movant:</b> B. Miller  <b>Second:</b> Eyre  <b>Ayes:</b> Chen, Eyre, B. Miller, J. Miller  <b>Noes:</b> None  <b>Abstentions:</b> None  <b>Absent:</b> Liao  <b>Recused:</b> None</p>	<i>Adjourned to closed session at 4:18pm.</i>
<b>8. AGENDA ITEM 13: RECONVENE OPEN SESSION/REPORT ON BOARD ACTIONS</b>	<p>Open Session was reconvened at 5:32 pm.</p> <p>During the closed session, the Committee approved the Minutes of the Closed Session of the Executive Compensation Committee Meeting of September 12, 2016, by a vote in favor of 4 members present (Chen, Eyre, B. Miller, J. Miller) and one absent (Liao).</p>	
<b>9. AGENDA ITEM 14: COMMITTEE RECRUITMENT</b>	<p>Chair Chen reported that Mr. Prasad Setty had resigned from the Committee. Chair Chen suggested that he facilitate recruitment for an additional Committee member and asked the Committee and Mercer to email any candidate recommendations to him. He noted that, ideally, the Committee could interview potential finalists at the March 23, 2017 meeting. Ms. Miller also suggested advertising the</p>	<i>Informal recruitment initiated</i>

	vacancy through local print media and LinkedIn.	
<b>10. AGENDA ITEM 15: FY17 PACING PLAN</b>	<p>The next Executive Compensation Committee meeting will be on March 23, 2017.</p> <p>The Committee discussed the consideration of Board Director compensation and where best to initiate the conversation (District Board, Hospital Board, and/or Governance Committee). Mr. Miller explained that he had raised the question, as other Executive Compensation committees also consider Board Director compensation. Staff will follow up with Cindy Murphy, Board Liaison about the proper procedure for pacing and discussing this topic. The Committee requested that the topic be tentatively paced for the March meeting, pending determination of the appropriate venue for discussion.</p>	<i>Board Director compensation added to March meeting; no additional changes to pacing plan</i>
<b>11. AGENDA ITEM 16: CLOSING COMMENTS</b>	There were no additional comments.	
<b>12. AGENDA ITEM 17: ADJOURNMENT</b>	<p><b>Motion:</b> To adjourn at 5:38 pm.</p> <p><b>Movant:</b> B. Miller</p> <p><b>Second:</b> Eyre</p> <p><b>Ayes:</b> Chen, Eyre, B. Miller, J. Miller</p> <p><b>Noes:</b> None</p> <p><b>Abstentions:</b> None</p> <p><b>Absent:</b> Liao</p> <p><b>Recused:</b> None</p>	<i>Meeting adjourned at 5:38 pm.</i>

**Attest as to the approval of the foregoing minutes by the Executive Compensation Committee and the Board of Directors of El Camino Hospital.**

\_\_\_\_\_  
 Lanhee Chen  
 Chair, Executive Compensation Committee

\_\_\_\_\_  
 Peter C. Fung, MD  
 Secretary, ECH Board of Directors

Prepared by: Sarah Rosenberg, Board Services Coordinator



**Board of Directors Open Session – March 08, 2017**

**To:** El Camino Hospital Board of Directors

**From:** Rebecca Fazilat, MD, Chief of Staff MV  
J. Augusto Bastidas, MD, Chief of Staff LG

**Date:** February 28<sup>th</sup>, 2017

**RE: REPORT FROM THE MEDICAL STAFF EXECUTIVE COMMITTEE**

This report is based upon the Medical Staff Executive Committee meeting of **February 23<sup>rd</sup>, 2017**.

**Request Approval of the Following:**

**Patient Care Policies & Procedures – Policy Summaries (pp. 2-4)**

- **New Policies (attached)**
  - Clinical Documentation Improvement Procedure (pp. 5-8)
  - Clinical Documentation Improvement Policy (pp. 9-10)
- **Policies with Major Revisions**
  - Management of the Infant Sepsis Screening (pp. 11-13)
- **Policies with Minor / No Revisions (See Summary pp. 2-4)**

**SUMMARY OF POLICIES/PROTOCOLS FOR REVIEW AND APPROVAL**

NEW POLICIES/PROCEDURES			
Policy Name	Department	Date	Summary of Policy Changes
Clinical Documentation Improvement Procedure	Administration	2/17	
Clinical Documentation Improvement Policy	Administration	2/17	
POLICIES WITH MAJOR REVISIONS			
Policy Name	Department	Review or Revised Date	Summary of Policy Changes
Management of the Infant Sepsis Screening	NICU/MBU	2/17	
POLICIES WITH MINOR REVISIONS			
Policy Name	Department	Review or Revised Date	Summary of Policy Changes
FRESENIUS 2008 K2 - Sequential Ultrafiltration (PUF)	Inpatient Dialysis	2/17	30 Minutes to 15 Minutes
FRESENIUS 2008K2 - Alarm Blood Leak Header Leak	Inpatient Dialysis	2/17	Addition of dialysis catheters, and changed from 5ml to 10 ml
FRESENIUS 2008K2 - Disconnecting Patient From Dialysis Machine at End of Treatment	Inpatient Dialysis	2/17	Dialysis Nurse and/or patient care technician
FRESENIUS 2008K2 - Initiating Dialysis Treatment	Inpatient Dialysis	2/17	Keep 10 cc syringes of Heparin 1000 units/ml and addition of "unless Heparin is ordered by physician"
FRESENIUS 2008K2 Acetic Acid Rinse (Vinegar)	Inpatient Dialysis	2/17	Addition of patient care technician and chief technician, change to ACLS to BLS
FRESENIUS 2008K2 Chemical (Beach) Disinfection and Rinse	Inpatient Dialysis	2/17	Addition of RN, patient care technician and chief technician
FRESENIUS 2008K2 Heat Disinfection and Cooling	Inpatient Dialysis	2/17	Addition of patient care technician and chief technician
FRESENIUS 2008K2 Set Up Dry Pack	Inpatient Dialysis	2/17	Addition of patient care technician, chloramine tester removal of "content" subtitle

Crash Cart	Pharmacy	2/17	added language to state- will wipe down with hospital approved products
Formulary Development and Maintenance	Pharmacy	2/17	Added "cost effective" to the purpose and removed "annually" in Review and Revision of the Formulary section.
Formulary Non-Formulary Medications Prescribing-Ordering-Procuring	Pharmacy	2/17	An example was removed from policy.
Formulary Selection-Procurement	Pharmacy	2/17	Procedure #4 removed.
IV Piggybacks (IVPB)	Pharmacy	2/17	Preparation/labeling of IVPBs under Procedure was revised.
Pyxis Anesthesia System	Pharmacy	2/17	Section 5e and 7e changed/updated
Re-labeling Inpatient Medications for Outpatient Use	Pharmacy	2/17	Drug name updated under section 2
Storage	Pharmacy	2/17	Several items updated/removed from policy,
Unit Inspections of Medication Areas	Pharmacy	2/17	CA BOP regulatory change now allows Pharmacy Technicians and Intern Pharmacist to perform monthly unit inspections; policy updated to reflect new regulatory change.
Compounding-Manufacturing	Pharmacy	2/17	Formulas are reviewed as needed , Formulas currently in use moved as addendum document
Patient Management of	PACU	2/17	Initian and On-going assessment Phase-I , Discharge assessment and management Phase -I was revised.
Medical Equipment Management 5.06 Incoming Medical Equipment Inspection Requirement	Medical Equipment Management	2/17	Procedure was revised.
CCU-eICU Policy	CCU	2/17	Removed incomplete, "Clinical Workflows", covered in other policies, Removed scanning of plan of Care for downtime policy, Removed statement that staff will use cell phones if phone system fails
Animal Visitation and Pet Therapy	Administration	2/17	Combined 2 policies into 1 - Animal Visitation and Animal (Therapy Dogs) Visits
<b>POLICIES WITH NO REVISIONS</b>			
<b>Policy Name</b>	<b>Department</b>	<b>Review or Revised Date</b>	
FRESENIUS 2008 K2 On Line Clearance(OLC)	Inpatient Dialysis	2/17	
FRESENIUS 2008 K2 Sodium Variation Systsem (SVS)	Inpatient Dialysis	2/17	

FRESENIUS 2008 K2 UF Profiling (UFP)	Inpatient Dialysis	2/17	
FRESENIUS 2008K2 Power Failure During Dialysis	Inpatient Dialysis	2/17	
FRESENIUS 2008K2 Recirculation of Blood in Extracorporeal Circuit	Inpatient Dialysis	2/17	
Adult Anaphylactic Exchange Kit Program	Pharmacy	2/17	
Drug Product Problem Reporting	Pharmacy	2/17	
Intervention Reporting	Pharmacy	2/17	
Intravenous Immune Globulin (IVIG) Indication Guideline	Pharmacy	2/17	
Ordering-Purchasing-- Procurement of Varicella Zoster Immune Globulin	Pharmacy	2/17	
Parenteral Nutrition (TPN-PPN) Protocol	Pharmacy	2/17	
Parenteral Nutrition; Neonatal Hyperalimentation Solution	Pharmacy	2/17	
Stat Medications	Pharmacy	2/17	
Vancomycin, Use of Intravenous	Pharmacy	2/17	
Extended Infusion of Piperacillin-Tazobactam (Zosyn) for Adult Patients	Pharmacy	2/17	
NICU: Blood Emergency Release to NICU	NICU	1/17	







**TITLE:** Administrative: Clinical Documentation Improvement Procedure  
**CATEGORY:**  
**LAST APPROVAL:**

**TYPE:**  Policy  Protocol  Practice Guideline  Standardized  
 Procedure  Plan  Scope of Service Procedure

**SUB-CATEGORY:** Administration: Clinical Effectiveness

**OFFICE OF ORIGIN:** Clinical Documentation Improvement Department

**ORIGINAL DATE:** 01/2017



**I. COVERAGE:**

El Camino Hospital CDI specialists, the CDI manager, HIM coders, and CDI physician advisors

**II. PURPOSE:**

- A. To eEstablishes a consistent and replicable concurrent review process that achieves proper code assignment of patient records, in accordance with CMS and UHDDS regulations.
- B. To Ensures appropriate MS-DRG and APR-DRG assignment relative to the resources consumed for each inpatient admission.
- C. To Supports the enterprise in the collection and submission of a variety of quality data, including but not limited to: national Core Measures, the Bundled Payment for Care Improvement (BPCI) initiative, the Hospital Readmission Reduction Program (HRRP), Value Based Purchasing (VBP), Hospital Acquired Conditions (HAC) and Patients Safety Indicator (PSI) HAC and PSI reporting, and nongovernmental quality reporting agencies.
- D. To Defines team roles, responsibilities, and daily practices to ensure efficiency and collaboration.

**III. ROLES AND RESPONSIBILITIES**

**Clinical Documentation Specialist (CDS)** – reviews medical records on a concurrent basis, communicates appropriate working DRG placement to the coders, and queries the provider if opportunities to improve documentation are identified. The CDS will also be responsible for providing education and feedback to physicians in the form of pocket cards, tip sheets, participation in physician rounds, and periodic live education sessions.

**Physician Advisor** – serves as a liaison between the clinical documentation specialist and the medical staff to encourage physician cooperation for thorough and specific documentation. The physician champion will also be involved in: CDI education concerning new or evolving treatment modalities, the query escalation process, and serving as a representative of the CDI department to newly hired medical staff.

**Clinical Documentation Improvement Department Manager** - responsible for the day to day guidance of the CDI Department, including division or supervision of the division of the daily worklist, weekly chart audits to ensure consistency and compliance, weekly CDI team meetings, query escalation through appropriate channels, second level review of difficult cases, interaction

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**TITLE:** Administrative: Clinical Documentation Improvement Procedure

**CATEGORY:**

**LAST APPROVAL:**

with the HIM/ Coding manager when a CDI/ Coding DRG mismatch occurs, and the supervision/ coordination of CDI education to physicians.

**IV. PROCEDURE:**

Internal processes will be modified as needed by the CDI Team, under the supervision of the CDI Manager. The processes will include, but are not limited to:

**1. Chart Review**

**A.**

- 2-1. Prioritization of Daily Review: 1) Pending Discharges, 2) Pending Queries, 3) New reviews, 4) Re- reviews, 5) DRG Mismatch list, 6) BPCI, HAC, PSI, LOS Outliers
- 3-2. Initial Review: Review all new admits on CDI worklist within 36-48 hours of admission
- 4-3. Subsequent Review: Every 1-2 days, as needed for LOS < 5 days. Every 3-5 days, as needed for LOS > 5 days.
- 5-4. CDS Worksheet: Each CDS will utilize a templated worksheet for their reviews in the Findings tab of 3M 360, the CDI Review tab of EPIC, or other designated space in the department software. The worksheet template should include: 1) Chief Complaint, 2) ED signs and symptoms, 3) VS & Initial Labs, 4) Imaging Results 5) Pertinent PMH, 6) H&P notes, 7) Subsequent Labs, 8) Consult notes, 9) Progress notes 10) Query notes 11) Follow up topics, 12) Discharge Summary notes

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**B. HIM/ CDI Communication**

- 1. The CDI Team will utilize the CDS Worksheet and the Working DRG to communicate to inpatient coders the CDI perspective on each reviewed admission
- 2. In the event of a CDI/ HIM Final DRG mismatch, the coder will alert the CDS via EPIC worklist, 3M 360 Notification, or other designated manner. The CDS then has 2 days to respond to the coder's finding and resolve the mismatch.
- 3. If the mismatch cannot be resolved between the coder and CDS, the case is to be brought to the attention of the Coding Manager and the CDI Manager to discuss. The resulting DRG will then be presented to the CDS and Coder in the form of an educational case review.
- 4. HIM and CDI will hold weekly meetings, as needed, to discuss coding updates, PSI/ HAC flagged cases, and perform educational case review
- 5. The HIM team will alert the CDI Manager of PSI/ HAC cases on a weekly basis. The CDI Manager will then review the cases or delegate to the team for additional review.

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**C. Physician/ CDI Communication**

- 1. CDS will communicate clarification queries to physicians through the messaging function of EPIC, in person, or over the phone.
- 2. Physician education will occur as needed through CDI presentations at Medical Staff meetings, monthly department meetings, pocket cards, tip sheets, or face to face interactions.
- 3. Physician education topics will be informed by measurement of query template usage, physician agree rates, physician response rates, or by request

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**D. Query Escalation Process**

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**TITLE:** Administrative: Clinical Documentation Improvement Procedure

**CATEGORY:**

**LAST APPROVAL:**

1. If the physician does not furnish a satisfactory query answer after one try and/or within 48 hours, the CDS will escalate the case to the CDI Manager
2. The CDI Manager will review the query, rewrite it with the CDS for clarity if needed, and resubmit to the physician
3. The CDI Manager will then follow up with the physician personally or alert the Physician Advisor for follow up
4. If the concurrent query is still open 2 days after discharge, and the escalation process has been exhausted, the query is forwarded to the HIM department for follow up and can/ will generate an HIM deficiency for the physician.

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**E. Internal Reporting**

1. The CDI Manager will be responsible for collecting the productivity data and impact data of the CDI Team, including but not limited to:
  - a. CDI inpatient review coverage
  - b. Time to initial case review
  - c. Query rate
  - d. CC/MCC capture rate
  - e. CMI
  - f. Query Impact
  - g. Expected GMLOS
  - h. Expected Mortality
  - i. CDI/HIM Mismatch Rate
  - j. Query response rate
  - k. Query agree rate
2. These reports are to be compiled into a CDI Dashboard to be shared with the CDI Team, physician leadership, hospital leadership, the Clinical Effectiveness Team, and others as deemed appropriate by the Director of Improvement and patient safety.
3. The data from these reports will inform CDI Education, case review, physician education, coding and CDI roundtables, internal Clinical Effectiveness team resource allocation, and CDI Team performance reviews.
4. The CDS will be responsible for keeping accurate records of their work in the 3M 360 tool, EPIC, or whichever software or system is designated by the CDI department leadership. Examples of activities that should be recorded by CDS include, but are not limited to:
  - a. Charts on the CDS work list: new reviews and subsequent reviews
  - b. Initial review date
  - c. Query subject, recipient, and response
  - d. Subsequent review date and frequency
  - e. Daily working DRG assignment
  - f. BPCI, HAC, PSI, and LOS cases reviewed in addition to daily worklist
  - g. Unique cases for weekly case review or other educational benefit

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**F. Compliance**

- 1. CDI team and coding compliance will be monitored by comparing final coding data with PEPPER reports, CMS National 80<sup>th</sup> Percentile reports, and RAC/ Insurance Denial rates

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**TITLE:** Administrative: Clinical Documentation Improvement Procedure  
**CATEGORY:**  
**LAST APPROVAL:**

G. *CDS Absentee/ PTO/ Sick Leave Coverage*

1. CDS that are taking planned PTO or Sick Leave will assign their high priority open chart reviews to their colleagues on a rotating basis (to be determined by CDI Team during team meetings), as staffing allows
2. CDS that take unplanned PTO will have their high priority cases reviewed by the CDI Manager or will be delegated to members of the CDI team, as staffing allows

H. *BPCI, LOS Outlier, and Other Quality Reviews*

- ~~6-1.~~ BPCI (Bundled Payment for Care Improvement), LOS Outlier, and HRRP (Hospital Readmission Reduction Program) cases will be reviewed by the CDI team as needed and as requested by other quality review teams.
- ~~4-2.~~ The CDI Manager will coordinate with the other quality review teams as needed to assure interdepartmental alignment of medical record review

**A. APPROVAL:**

APPROVING COMMITTEES AND AUTHORIZING BODY	APPROVAL DATES
Originating Committee or UPC Committee	
CDI Steering Committee	11/2016
ePolicy Committee:	<a href="#">02/2017</a>
Medical Executive Committee:	
Board of Directors:	
Historical Approvals:	

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**TITLE:** Administrative: Clinical Documentation Improvement Policy

**CATEGORY:**

**LAST APPROVAL:**

**TYPE:**

- Policy       Protocol    Practice Guideline    Standardized
- Procedure    Plan    Scope of Service/ADT      Procedure

**SUB-CATEGORY:** Administration: Quality and Quality Reporting

**OFFICE OF ORIGIN:** Clinical Effectiveness

**ORIGINAL DATE:** 09/10

**I. COVERAGE:**

El Camino Hospital medical staff, clinical documentation specialists, the CDI manager, and HIM coders

**II. PURPOSE:**

- To obtain accurate and complete medical record coding through concurrent chart review, in accordance with CMS and UHDDS regulations.
- To ensure proper MS- DRG and APR-DRG assignment of patient records relative to the resources consumed for each inpatient admission.
- To support El Camino Hospital in the collection and submission of a variety of quality data, including, but not limited to: national Core Measures, BPCI (Bundled Payment for Care Improvement) initiatives, the HRRP (Hospital Readmission Reduction Program), VBP (Value Based Purchasing) HAC and PSI (Hospital Acquired Conditions and Patient Safety Indicators) reporting, and nongovernmental reporting agencies.

**III. POLICY STATEMENT:**

The El Camino Hospital Clinical Documentation Improvement Program is a program designed to facilitate accurate, complete, and compliant physician documentation in the medical record of hospitalized patients in order to reflect the severity of illness, resource consumption, and risk of mortality of each patient. Clinical Documentation Specialists trained in Clinical Documentation Improvement will review medical records and seek clarification from healthcare providers on a concurrent basis with the focus of improving the quality of clinical documentation.

It is the policy of the El Camino Hospital CDI Department to comply with the practice standards set forth by the American Health Information Management Association (AHIMA), the Association of Clinical Documentation Improvement Specialists (ACDIS), the Centers for Medicare and Medicaid Services (CMS), and the Office of the Inspector General.

**IV. RESPONSIBILITY:**

It is the responsibility of the Clinical Documentation Specialists (CDS), the CDI Manager, Health Information Management (HIM) Staff, and Medical Staff to implement this policy.

**NOTE:** Printed copies of this document are uncontrolled. In the case of a conflict between printed and electronic versions of this document, the electronic version prevails.

**TITLE:** Administrative: Clinical Documentation Improvement Policy

**CATEGORY:**

**LAST APPROVAL:**

It is the responsibility of the Chief Medical Officer, Senior Director of Quality and Patient Safety, and the Director of Health Information Management Services ~~to implement~~ to assure compliance to this policy.

**V. APPROVAL:**

APPROVING COMMITTEES AND AUTHORIZING BODY	APPROVAL DATES
Physician Services Steering Committee	
CDI Steering Committee	11/16
ePolicy Committee:	
Medical Executive Committee:	
Board of Directors:	
Historical Approvals:	
Physician Services Steering Committee:	9/29/10, 10/12
Medical Executive Committee:	10/28/10, 10/12
Board of Directors:	11/10/10, 11/12

**VI. ATTACHMENTS (if applicable):**

Note that Attachments not considered part of the actual policy and updates to the attachments do not require committee approval.



**POLICY/PROCEDURE TITLE: NICU: MANAGEMENT OF THE INFANT SEPSIS SCREENING**

**CATEGORY: Patient Care Services**

**LAST APPROVAL DATE: 4/15**

- Policy
- Procedure
- Protocol
- Standardized Procedure
- Scope of Service
- Practice Guideline

**SUB-CATEGORY: NICU, L&D, Mother/Baby**

**ORIGINAL DATE: 9/14**

**OUTCOME:**

Infants with signs of sepsis will be identified and treated.

**SUPPORTIVE DATA:**

Overuse of antibiotics in the NICU has been associated with increased morbidity including multi-drug resistant organisms. OB prevention strategies have reduced the incidence of early onset sepsis (EOS) dramatically. Among infants >34 weeks or with birth weight >2500g, recent EOS rates are only 0.5-0.8 per 1000 live births. This number is even lower in infants who are clinically well-appearing. Recent literature suggests that “neither identification of maternal risk factors nor screening using laboratory testing is an effective strategy for the ascertainment of infants with EOS in the current era.” Because of the low sensitivity of risk factors, late preterm and term infants who appear clinically well should be managed with close clinical observation. Infants with clinical signs consistent with EOS should be admitted to the NICU, blood cultures drawn, and treated with empiric antibiotics.

**CONTENT:**

For infants born to mothers with any **oral** temperature  $\geq$  100.4 F (38C) during labor, delivery and up to one hour after delivery:

*If temperature occurs prior to delivery, Neonatologist to attend delivery if present in hospital, and will assess infant for unit of admission (MBU vs. Transitional Nursery). If Neonatologist not present in hospital, NICU team to attend delivery and evaluate baby.*

If infant shows signs of sepsis (including, but not limited to, tachypnea, lethargy, hypothermia, etc.) during the transitional period (up to 6 hrs of age):

- a. Infant is observed in Transitional Nursery by NICU RN
- b. Physician (Neonatology or Pediatrician) consultation is obtained per NICU RN's request



**POLICY/PROCEDURE TITLE: NICU: MANAGEMENT OF THE INFANT SEPSIS SCREENING**

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If infant is asymptomatic:

- a. Admit to MBU with vital signs q4 hrs for the first 48 hours of life
- b. No labs drawn

*If infant develops signs of sepsis after the transitional period (after 6 hrs of age), MBU nurses are to contact MBU physician on call to determine course of action*

*Discharge prior to 24 hours for these infants is not recommended, but if it does happen, outpatient follow-up should occur within one day. Follow-up within two days is recommended if discharged prior to 48 hours.*

**Notify Pediatrician:**

1. If infant is symptomatic. May include but not limited to:
  - a. Temperature instability < 97 F (36.1 C) or > 100.4 F (38 C)
  - b. Respiratory rate < 30 per min or > 70 per min for > 15 min
  - c. Heart Rate < 100 per min or > 170 per min for > 15 min
  - d. Grunting, flaring or retractions

**DOCUMENTATION:**

1. Assessments and interventions
2. Laboratory values
3. Notifications of MD
4. Record under critical lab value if appropriate

**REFERENCES:**

Shakib J, et al. Management of Newborns Born to Mothers with Chorioamnionitis: Is it Time for a Kinder, Gentler Approach? *Academic Pediatrics* 2015;15:340-344.

Kiser C, et al. Role of Guidelines on Length of Therapy in Chorioamnionitis and Neonatal Sepsis. *Pediatrics* 2014;133:992.

Benitz W, et al. Reappraisal of Guidelines for Management of Neonates with Suspected Early-Onset Sepsis. *Journal of Pediatrics* 2015;166; issue 4;1070-1074.





**POLICY/PROCEDURE TITLE: NICU: MANAGEMENT OF THE INFANT SEPSIS SCREENING**

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<b>APPROVAL</b>	<b>APPROVAL DATES</b>
MCH Partnership:	1/17
Los Gatos MCH:	1/17
Peds Dept:	
ePolicy Committee:	2/17
NICU Partnership:	
Medical Executive Committee:	
Board of Directors:	

**Historical Approvals:**

Medical Executive Committee:

Board of Directors:

NICU Partnership:



Date: March 8, 2017  
 To: El Camino Hospital Board of Directors  
 From: Donald Sibery, Interim CEO  
 Re: CEO Report - Open Session

Organizational Goals FY17		Benchmark	2016 ECH Baseline	Minimum	Target	Maximum	Weight	Performance Timeframe	FY17 through Jan	
<b>Threshold Goals</b>										
Budgeted Operating Margin		90% threshold <i>[Recommended by Exec Comp Consultant (FY16)]</i>	105% of Budgeted	90% of Budgeted			Threshold	FY 17		Met
<b>Quality, Patient Safety &amp; iCare</b>										
Quality Pain Management	Pain Reassessment (% Pain Reassessment Documented within 60 min on RN Flowsheet)	Internal Improvement	56.3% <i>Nov 2015 (post iCare go-live) to Apr 2016 [6-month measurement]</i>	75%	80%	90%	34%	Q4 FY 2017		73.2%
	Pain Patient Satisfaction (CMS HCAPHS Pain Management % Scored Top Box- 2 month delay)	Internal Improvement	72.9% <i>FY 2016 Q1 - Q3 [9-month measurement]</i>	73%	74%	76%				75.4%
LOS & Readmission	Achieve Medicare Length of Stay Reduction while Maintaining Current Readmission Rates for Same Population (Readmission - 45 day delay)	Internal Improvement	FY16 Max Goal 4.86 LOS Readmission Target 12.39%	4.81 .05 Day Reduction from FY16 Max, Readmission at or below FY16 Target	4.76 .10 Day Reduction from FY16 Max, Readmission at or below FY16 Target	4.66 .20 Day Reduction from FY16 Max, Readmission at or below FY16 Target	33%	FY17		LOS: 4.58 Readmission: 11.36% (312/2746)
<b>Smart Growth</b>										
Achieve budgeted inpatient growth (surgical and procedural cases plus Deliveries and NICU), and budgeted outpatient growth (surgical and procedural cases plus infusion).		Internal Documentation	94.26% of FY17 Budget	95% of Budgeted Volume	100% of budgeted Volume	110% of Budgeted Volume	33%	FY 17		93.0% of Budgeted Volume

**El Camino Hospital Auxiliary  
Activity Report to the Hospital Board  
March 8, 2017**

February Highlights:

- Each year in February, the Auxiliary hosts Friendship Luncheons, and this year was no exception. Each day, during the week of February 13-17, a different menu was prepared by Nutrition Services to the delight of approximately 40 guests. The luncheons are intended to reacquaint fellow volunteers and to welcome invited staff to join in, meet volunteers, and learn about some of the services which volunteers provide.
  
- Six volunteers from Mountain View and Los Gatos attended the annual CAHHS conference in San Diego the week of February 20. Keynote speakers included Duane Dauner, President/CEO, California Hospital Association, as well as other distinguished doctors and CEO's from California hospitals. This year's theme was population health and the potential impact of the changes which may be coming to the Affordable Care Act. Other subjects included the alignment of hospital and volunteer strategic goals. And, as this is a volunteer conference, there was also much discussion on the subject of recruitment (tools and methodologies). Most everyone commented on the dearth of available committed volunteers across the nation, but particularly in health care.
  
- The Auxiliary is in the process of developing its own recognition program, as it is no longer a part of the new hospital employee recognition program. When complete, volunteers will be able to acknowledge individuals for singular extraordinary accomplishments. At the time this new program is launched, we hope to incorporate a method by which staff are also able to recognize volunteers. Conversely, the volunteers would like to recognize staff for extraordinary service as well.

## Memorandum

DATE: February 22, 2017

TO: El Camino Hospital Board of Directors

FROM: Lane Melchor, Chair, El Camino Hospital Foundation Board of Directors  
Jodi Barnard, President, El Camino Hospital Foundation

SUBJECT: Report on Foundation Activities FY 2017 – Period 7

ACTION: For Information

During the month of January, the Foundation raised \$334,278. This brings total revenue secured to date in fiscal year 2017 to \$5,737,117. As of January 31, 2017, the Foundation has reached 93% of our fundraising goal.

### **Major Gifts**

The Foundation received a \$75,000 gift commitment in support of senior mental health services from the grateful daughter of a patient. Another \$1.6 million is in the pipeline to potentially close by the end of the fiscal year.

### **Planned Gifts**

In January, the Foundation received \$14,514 in the category of planned gifts. This includes the realization of planned gift revenue from one estate, as well as sponsorships and ticket sales for the annual Allied Professionals Seminar (APS), which took place on February 16.

### **Special Events**

- ***Sapphire Soirée*** – In January, the Foundation received \$14,500 in ticket sales and sponsorship for Sapphire Soirée, which will be held on April 29 at the Menlo Circus Club in Atherton and will celebrate the Cancer Center's 10<sup>th</sup> anniversary. As of January 31, the Foundation had received \$21,250 for the Soirée, which includes both new revenue for this year's event and payments on expected commitments from the 2016 event.
- ***Scarlet Masquerade*** – In period 7, the Foundation received \$33,100 in ticket sales and sponsorships for the South Asian Heart Center's annual gala benefit. The total raised as of January 31 was \$113,395. The masquerade ball will take place on March 18, 2017 at The Mountain Winery in Saratoga. It is sold out.

- ***Norma's Literary Luncheon*** – In period 7, the Foundation received \$48,620 in table sponsorships and individual ticket sales for the 5<sup>th</sup> annual Norma's Literary Luncheon, which took place on February 2 at Sharon Heights Golf & Country Club. The sold-out crowd of nearly 300 responded to journalist Anna Quindlen's message that women must help to make the world a better place for all. The Foundation continues to receive donations to the event, which was underwritten by the Melchor Family, so we cannot yet report the final financial results. Monies raised will be used to support the therapeutic programs of the women's specialty unit in the new mental health pavilion. Mystery writer Jacqueline Winspear will be the featured speaker at next year's luncheon, which will take place on February 8, 2018.

### **Annual Giving**

The Foundation raised \$116,850 through its annual giving program in January, the result of direct mail, online donations, Hope to Health memberships, and the 2017 Employee Giving Campaign. The amount reported for period 7 includes employee giving payroll deduction donations carried over from the 2016 campaign that are projected to continue through the end of the year.

## Memorandum

**DATE:** February 22, 2017

**TO:** El Camino Hospital Board of Directors

**FROM:** David Reeder, Hospital Board Liaison to the Foundation Board of Directors

**SUBJECT:** Report on Foundation Activities FY 2017 – Period 7

**ACTION:** For Information

El Camino Hospital Foundation advances health care through philanthropy by raising funds that support El Camino Hospital's strategic priorities, foster innovation, and support patient and family-centered care.

During period 7, the Foundation secured \$334,278, bringing total FY 2017 revenue to \$5,737,117, which is 93% of the annual goal.

### Upcoming Events

Please mark your calendars and plan to support one or more of the following events:

*March 18, 2017* – Scarlet Masquerade (formerly Scarlet Night), benefiting the South Asian Heart Center

*April 29, 2017* – Sapphire Soirée, celebrating the Cancer Center's 10<sup>th</sup> anniversary

**El Camino Hospital Auxiliary**  
**Membership Report to the Hospital Board**  
**Meeting of March 8, 2017**

Combined Data as of January 31, 2017 for Mountain View and Los Gatos Campuses

**Membership Data:**

**Senior Members**

Active Members	391	+8 relative to previous month
Dues Paid Inactive	89	(Includes Associates & Patrons)
Leave of Absence	16	
<b>Subtotal</b>	<b>496</b>	

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Resigned in Month	0
Deceased in Month	1

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**Junior Members**

Active Members	249	-3 relative to previous month
Dues Paid Inactive	0	
Leave of Absence	2	
<b>Subtotal</b>	<b>251</b>	

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<b>Total Active Members</b>	<b>640</b>
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<b>Total Membership</b>	<b>747</b>
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**Combined Auxiliary Hours from Inception (to January 31, 2017): 5,691,342**  
**Combined Auxiliary Hours for FY2016 (to January 31, 2017): 56,253**  
**Combined Auxiliary Hours for January 2017: 9,207**

## ECH Foundation Fundraising Report

FY17 Income figures through January 31, 2017 (Period 7)

ACTIVITY		FY17 YTD (7/1/16 - 1/31/17)	FY17 Goals	FY17 % of Goal	Difference Period 6 & 7	FY16 YTD (7/1/15 - 1/31/16)	FY15 YTD (7/1/14 - 1/31/15)
Major Gifts		\$470,000	\$2,500,000	19%	\$75,000	\$1,632,737	\$2,080,200
Planned Gifts		\$3,459,932	\$1,000,000	346%	\$14,514	\$168,926	\$1,476,417
Special Events	Sapphire Soirée	\$21,250	\$850,000	3%	\$14,500	\$40,700	\$32,600
	Golf	\$273,100	\$325,000	84%	\$3,500	\$326,205	\$326,650
	Scarlet Masquerade	\$113,395	\$300,000	38%	\$33,100	\$68,991	\$21,745
	Norma's Literary Luncheon	\$94,020	\$145,000	65%	\$48,620	\$132,259	\$97,350
Annual Gifts		\$442,083	\$550,000	80%	\$116,850	\$429,005	\$459,884
Grants*		-	-	-	-	\$52,083	\$334,350
Investment Income		\$863,336	\$500,000	173%	\$28,194	\$456,946	\$441,366
<b>TOTALS</b>		<b>\$5,737,117</b>	<b>\$6,170,000</b>	<b>93%</b>	<b>\$334,278</b>	<b>\$3,307,852</b>	<b>\$5,270,562</b>

\* Beginning in FY17 Grants is no longer an activity line. Any grants received in the future will either be reflected in the Annual Gifts or Major Gifts activity line pending funding level.