

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
STAFF SUMMARY AND RECOMMENDATION
CEDARS-SINAI MEDICAL CENTER (the “Medical Center”)
Reconsideration of Resolution Number F-311**

July 13, 2005

AMOUNT REQUESTED: \$556,000,000

EXPECTED RATING: A3 (Moody’s)

SENIOR UNDERWRITER: UBS Financial Services Inc.

TYPE OF FACILITY: General Acute Care Hospital – Tertiary Care Teaching Hospital

LOCATION: Los Angeles, California, Los Angeles County

BACKGROUND: The following request for approval by the Medical Center is a reconsideration of the application presented to the Authority on June 30, 2005. At that time, the Authority received a request by the California Nurses Association (CNA) to delay approval based on their interpretation of Government Code Sections 15459.1 (Community Service Requirement) and 15438.5 (Savings Pass Through) of the Authority’s Act and its concerns regarding the Medical Center’s eligibility for financing.

A motion for approval of the resolution failed. The Authority members agreed that staff should be provided adequate time to address the CNA’s allegations, with direction to schedule a special meeting within two weeks to reconsider the application.

Please refer to Tab A for a copy of the original staff report presented at the June 30th Authority meeting.

COMPLIANCE WITH THE ACT (Government Code Section 15459): Section 15459 states, “As a condition of the issuance of revenue bonds, whether by the authority or any local agency, to finance the construction, expansion, remodeling, renovation, furnishing, or equipping of a health facility, or the acquisition of a health facility, each borrower shall give reasonable assurance to the authority that the services of the health facility will be made available to all persons residing or employed in the area served by the facility.”

The State Attorney General’s office has concluded that if the Medical Center provides services to managed care Medi-Cal patients on an emergency basis and to fee-for-services Medi-Cal patients, the Medical Center is not required to provide services for managed care Medi-Cal patients on a non-emergency basis as a condition of issuance of tax-exempt bond financing.

CNA asserts that discontinuing its Medi-Cal managed care contract, which mainly serves women and young children, was a deliberate policy pursued by the Medical Center. The Medical Center does not have a policy regarding Medi-Cal managed care contracts and it continues to serve the Medi-Cal population as one of Los Angeles County’s top ten providers by volume (15% of the

Medical Center's patients are Medi-Cal). As of July 1, 2004, the Medical Center no longer contracts as a Blue Cross Medi-Cal Managed Care provider. Prior to this date, in January 2004, the Medical Center collaborated with UCLA to integrate operations of its Pediatrics Training Program into the equally acclaimed UCLA program. Effective July 1, 2004, residents officially became part of the UCLA Intercampus Training Program.

According to the Medical Center, it continues to take a leadership role in the care of seriously ill children with its specialty pediatric surgical services. Specialty outpatient pediatric clinical services are provided in the Ruth Bergman/Fashion Industry Guild Ambulatory Care Center. Primary OB/GYN care is provided by OB/GYN residents at a clinic that is federally qualified, licensed, and operated by the California Hospital Medical Center as part of their extensive primary care clinic network. Through this collaboration, Cedars-Sinai has focused efforts on providing specialty OB/GYN care, including high-risk pregnancy care, through the OB/GYN Clinic at the Cedars-Sinai Ambulatory Care Center.

Care of the Poor and Community Benefit

The Medical Center's policy is to treat emergency patients regardless of ability to pay. Charity services are defined as those services for which no payment is anticipated. A patient is classified as a charity patient under these circumstances. The Medical Center provides programs and activities that contribute to charity care, care of the poor and community benefit. These programs and activities serve a majority of individuals who are beneficiaries of Medi-Cal and County/State programs for the medically indigent including activities that improve the community's health status, and educate or provide social services to the elderly and children. The costs associated with these programs and activities are as follows for the last four years:

	Costs (000's)			
	2004	2003	2002	2001
Traditional Charity Care and Uninsured Patients (Category 1)	\$12,504	\$19,250	\$44,694	* \$24,495 *
Unpaid Cost of Public Programs (Category 2)	68,297	56,696	49,569	27,945
Community Benefit (Category 3)	<u>22,494</u>	<u>23,993</u>	<u>20,658</u>	<u>18,879</u>
Totals	\$103,295	\$99,393	\$116,465	\$114,921

The Medical Center uses three categories to classify care of the poor and community benefit:

Category 1: Traditional Charity Care and Uninsured Patients – (care of the poor) includes the cost of services (* full charges for 2001 and 2002) provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured or underinsured. If there is any subsidy donated for these services, that amount is deducted from the gross amount.

Category 2: Unpaid Cost of Public Programs – also benefits the poor, but is listed separately. This amount represents the unpaid cost of services provided to patients in the

Medi-Cal program and enrolled in HMO and PPO plans under contract with the Medi-Cal program.

Category 3: Community Benefit – cost of services that are beneficial to the broader community such as other needy populations that may not qualify as poor but that need special services and support. Examples include the elderly, substance abusers, the homeless, victims of child abuse, people with AIDS, the cost of health promotion and education, health clinics and screenings, and medical research.

COMPLIANCE WITH THE ACT (Government Code Section 15438.5): Section 15438.5 states, “It is the intent of the Legislature in enacting this part to provide financing only to health facilities that can demonstrate the financial feasibility of their projects. It is further the intent of the Legislature that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates.”

As a result of the savings experienced with the issuance of tax-exempt financing, the Medical Center is able to provide additional community service benefits. Please refer to Tab B, which provides updated information regarding Passing on Savings.

CNA STATISTICS: The CNA handout distributed at the June 30th Authority meeting included various statistics including Medi-Cal discharge data, total charge-to-cost ratios, average inpatient charges, average costs, and net income amounts relating to the Medical Center. Authority staff spent a significant amount of time trying to verify the information provided by CNA with no success. Evidently, the data was generated by multiple sources including the Office of Statewide Health Planning & Development (OSHPD) website, and Federal Hospital Medicare Cost Reports with CNA staff performing calculations to derive ratios and average charges/costs.

It should be noted that the OSHPD website reflects a disclaimer as follows: “Attention Data Users: Please exercise caution when interpreting OSHPD data. The use of improper assumptions and analytical methods may result in erroneous or misleading conclusions. Conclusions drawn from OSHPD data are the sole responsibility of the user. Users should be aware that financial and utilization data products are based on a dynamic database that is constantly being updated. As a result, the same data item for a facility may change over time or be different between products.”

Authority staff cannot explain the discrepancies between the CNA representations for the Medical Center’s net income and the financial statements presented in the original staff report. However, Authority staff utilizes audited financial statements as prepared and certified by an independent auditor, in this case, Ernst & Young. The financial statements for the Medical Center in the staff report are identical to the audited financial statements provided in the application.

SUMMARY: Based on the State Attorney General’s Office legal opinion confirming that Cedars-Sinai Medical Center is an eligible borrower, staff again recommends approval of Resolution No. F-311 in an amount not to exceed \$556 million, subject to a minimum “A”

category rating and a policy exception permitting the minimum debt service coverage ratio at 1.10x, in accordance with the Master Trust Indenture.

RESOLUTION NO. F-311

**RESOLUTION OF THE
CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
RELATING TO THE ISSUANCE OF REFUNDING REVENUE BONDS
FOR CEDARS-SINAI MEDICAL CENTER**

WHEREAS, the California Health Facilities Financing Authority (the “Authority”), a public instrumentality of the State of California, is authorized and empowered by the provisions of the California Health Facilities Financing Authority Act (the “Act”) to issue revenue bonds to finance construction, expansion, remodeling, renovation, furnishing, equipping and acquisition of health facilities operated by participating health institutions (including by reimbursing expenditures made or refinancing indebtedness incurred for such purpose); and

WHEREAS, Cedars-Sinai Medical Center, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the “Corporation”), has applied to the Authority for the issuance of its refunding revenue bonds on behalf of the Corporation, in one or more series or subseries, in an aggregate principal amount not to exceed five hundred fifty-six million dollars (\$556,000,000) for the purposes of (1) refunding all (if the Corporation determines it is in its economic interest to do so at the time of sale of the Bonds (defined below)) or certain of the Authority’s Revenue Bonds (Cedars-Sinai Medical Center), Series 1999 (the “1999 Bonds”), previously issued for the benefit of the Corporation and the Cedars-Sinai Medical Care Foundation; (2) prepaying all (if the Corporation determines it is in its economic interest to do so at the time of sale of the Bonds) or certain of the Certificates of Participation, delivered by the California Statewide Communities Development Authority for the benefit of the Corporation (the “1993 Certificates” and together with the 1999 Bonds, the “Prior Obligations”); and (3) paying costs of issuance for the Bonds;

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

Section 1. The Corporation’s application for financial assistance is hereby approved. Pursuant to the Act, revenue bonds of the Authority designated as the “California Health Facilities Financing Authority Refunding Revenue Bonds (Cedars-Sinai Medical Center), Series 2005 (the “Bonds”) in an aggregate principal amount of not to exceed five hundred fifty-six million dollars (\$556,000,000) are authorized to be issued from time to time in one or more series or subseries, with such other name or names of the Bonds as designated in the Indenture hereinafter mentioned in Section 4.

Section 2. The Treasurer of the State of California (the “Treasurer”) is hereby authorized to sell the Bonds on one or more sale dates, at any time within six months of the adoption of this Resolution, at public or private sale, in such aggregate amount and at such price and at such interest rate or rates as the Treasurer, with the consent of the Corporation, may determine, and upon such terms and conditions as the Treasurer, with the consent of the Corporation, may determine. The Bonds bearing interest at a fixed rate shall be rated at a

minimum of “A3” or equivalent by a nationally recognized active rating agency. The Bonds may, at the option of the Corporation, be secured by bond insurance and/or a liquidity facility.

Section 3. The proposed form of Loan Agreement relating to the Bonds (the “Loan Agreement”), between the Authority and the Corporation, as presented to this meeting, is hereby approved. The Authority hereby specifically finds and declares that the findings of the Authority set forth in the Loan Agreement are true and correct. The Chairman or any Deputy to the Chairman, together with the Executive Director or the Deputy Executive Director (each, an “Authorized Officer” and, collectively, the “Authorized Officers”), are hereby authorized and directed, for and on behalf of the Authority, to execute and deliver to the Corporation the Loan Agreement, in substantially the form presented to this meeting, with such insertions and changes therein consistent with the stated terms of this Resolution as such Authorized Officers, with the advice of the Attorney General of the State of California or such other counsel as the Authority shall select (the “Authority Counsel”), may require or approve, such approval to be conclusively evidenced by execution and delivery thereof.

Section 4. The proposed form of Bond Indenture relating to the Bonds (the “Indenture”), between the Authority and The Bank of New York, as Bond Trustee (herein the “Trustee”), as presented to this meeting, is hereby approved. The Authorized Officers are hereby authorized and directed, for and on behalf of the Authority, to execute and deliver to said Trustee the Indenture, in substantially the form presented to this meeting, with such insertions and changes therein consistent with the stated terms of this Resolution as such Authorized Officers, with the advice of the Authority Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof. The dates, maturity dates, interest rates, interest payment dates, denominations, forms, registration privileges or requirements, place or places of payment, terms of redemption and other terms of the Bonds shall be as provided in the Indenture, as finally executed.

Section 5. The proposed form of Bond Purchase Contract, among UBS Financial Services, Inc., as representative of the underwriters named therein (the “Representative”), the Treasurer and the Authority, as approved by the Corporation, as presented to this meeting, is hereby approved. Any Authorized Officer is hereby authorized and directed, for and on behalf of the Authority, to execute the Bond Purchase Contract, in substantially the form presented at this meeting, with such insertions and changes therein consistent with the stated terms of this Resolution as such Authorized Officer, with the advice of the Authority Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 6. The proposed form of the preliminary official statement relating to the Bonds presented to this meeting is hereby approved. The Representative is hereby authorized to distribute the preliminary official statement to persons who may be interested in the purchase of the Bonds. Any Authorized Officer is hereby authorized, for and in the name and on behalf of the Authority: (i) to execute and deliver to the Representative a certificate, in a form acceptable to the Authority Counsel, to the effect that the portion of the preliminary official statement under the captions “THE AUTHORITY” and “LEGAL MATTERS” (solely as it relates to the Authority) is deemed final as of its date for purposes of Rule 15c2-12 of the Securities Exchange

Act of 1934; and (ii) to execute a final official statement (the "Official Statement") in substantially the form of said preliminary official statement, with such insertions and changes therein consistent with the stated terms of this Resolution as such Authorized Officer, with the advice of the Authority Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof. The Representative is hereby directed to deliver a copy of the Official Statement to all actual purchasers of the Bonds.

Section 7. The Bonds shall be executed by the manual or facsimile signature of the Chairman or any Deputy to the Chairman and the seal of the Authority shall be affixed thereon (or a facsimile reproduced thereon), in the form set forth in and otherwise in accordance with the Indenture.

Section 8. The Bonds, when so executed, shall be delivered to the Trustee for authentication by the Trustee. The Trustee is hereby requested and directed to authenticate the Bonds by executing the Trustee's Certificate of Authentication appearing thereon, and to deliver the Bonds, when duly executed and authenticated, to the purchaser or purchasers thereof in accordance with written instructions executed on behalf of the Authority by an Authorized Officer, which instructions said officer is hereby authorized and directed, for and on behalf of the Authority, to execute and deliver to the Trustee. Said instructions shall provide for the delivery of the Bonds to the Representative, as determined and confirmed by the Treasurer, upon payment of the purchase price thereof.

Section 9. The Executive Director or the Deputy Executive Director is hereby authorized and directed to attest the signature of the Chairman or any Deputy to the Chairman and to affix (either manually or by facsimile) and attest the seal of the Authority as may be required in connection with the execution and delivery of any of the documents approved or authorized in accordance with this Resolution; provided, however, that the attestation of the signature of the Chairman or any Deputy to the Chairman on the Bonds shall not be required.

Section 10. Each of the Authorized Officers is hereby authorized and directed, jointly and severally, to perform any ministerial acts, and to execute and deliver the following, in each case, with the advice of Authority Counsel, which they may deem necessary or advisable in order to consummate the issuance, sale, and delivery of the Bonds and otherwise to effectuate the purposes of this Resolution and the Indenture, the Loan Agreement, the Purchase Contract and the Official Statement: (a) certifications, including, a tax certificate; (b) a certificate to the Trustee directing it to enter into an escrow agreement for the 1999 Bonds; and (c) any agreement or commitment letter with respect to the provisions of bond insurance, a surety bond and/or a liquidity facility for the Bonds.

Section 11. Each of the Authorized Officers, acting alone, is hereby authorized to execute and deliver any future amendments to the documents authorized to be executed and delivered pursuant to this Resolution, for the purpose of adding to the covenants and agreements of the Authority; to pledge or assign additional security for any of the Bonds; to surrender any right or power reserved to the Authority; to cure any ambiguity, inconsistency or omission or cure or correct any defective provision; to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect; or to

provide any additional procedures, covenants or agreements to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds; provided such amendments are (1) made pursuant to the terms of such documents, (2) are consistent with such documents, (3) do not require Bondholder consent, and do not provide for any additional duties or costs to the Authority.

Section 12. This Resolution and the issuance of the Bonds are conditioned upon the approval of the issuance of the Bonds by the Treasurer, the Governor or the Lieutenant Governor of the State of California pursuant to Section 147(f)(2)(i) of the Internal Revenue Code of 1986, as amended, and Section 12332 of the Government Code of the State of California.

Section 13. The Authority hereby approves and ratifies each and every action taken by its officers, agents and employees prior to the date hereof in furtherance of the purposes of this Resolution.

Section 14. This Resolution shall take effect from and after the date of adoption.

Date of Adoption: _____