

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (CHFFA)

BOND FINANCING PROGRAM

EXECUTIVE SUMMARY

<p>Applicant: Adventist Health System/West (Obligated Group) (“AHS/W”) Roseville, California Placer County</p> <p>Project Sites: See attached Exhibit 1</p> <p>Facility Types: General acute/subacute and outpatient care</p>	<p>Amount Requested: \$187,000,000</p> <p>Date Requested: April 30, 2009</p> <p>Requested Loan Term: 30 years</p> <p>Resolution Number: 338</p>																												
<p>Background: AHS/W, headquartered in Roseville, California is a nonprofit organization whose mission is to improve the quality of health care in the communities they serve by emphasizing wellness and disease prevention. AHS/W operates and provides health care services in the States of California, Hawaii, Oregon, and Washington.</p>																													
<p>Use of Proceeds: Bond proceeds will be used to finance the acquisition, construction and improvement to nine locations owned and operated by AHS/W and its affiliates. Additionally, bond proceeds will be used to current refund all outstanding CHFFA Series 1991 A and B Bonds as well as all outstanding City of Glendale Series 1991 A, insured hospital revenue bonds.</p>																													
<p>Type of Issue: Negotiated public offering with fixed and variable rate bonds</p> <p>Expected Credit Rating & Credit Enhancement: Series 2009A AAA/AAA, if insured; A/A if uninsured (S&P/Fitch), <i>Assured Guaranty</i> Series 2009B A1/F1+ (S&P/Fitch), <i>U.S. Bank Letter of Credit</i> Series 2009C A1/F1 (S&P/Fitch), <i>J.P. Morgan Chase Bank Letter of Credit</i></p> <p>Senior Underwriter: Goldman Sachs & Co. (fixed rate) J.P. Morgan Securities, Inc. (variable rate)</p> <p>Bond Counsel: Orrick, Herrington & Sutcliffe LLP</p>																													
<p>Financial Overview: AHS/W’s income statement appears to exhibit solid operating results with positive net income over the review period, along with continued revenue growth. AHS/W’s balance sheet also appears solid with a strong debt service coverage ratio and growing net assets.</p>																													
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<p>Legal Review: Staff has reviewed the applicant’s responses to the questions contained in the Legal Status portion of the application. The disclosed information does not appear to question the financial viability or legal integrity of this applicant.</p>																													
<p>Staff Recommendation: Staff recommends the Authority approve a Resolution in an amount not to exceed \$187,000,000 for Adventist Health Systems/West subject to a bond rating of at least an “A” category rating by a nationally recognized rating agency.</p>																													

STAFF SUMMARY AND RECOMMENDATION

Adventist Health System/West (“AHS/W”)

April 30, 2009

Resolution Number: 338

I. PURPOSE OF FINANCING:

AHS/W seeks to invest approximately \$106 million in capital expenditures in hospitals located throughout California, including the construction of a new hospital located in Hanford. Proceeds will also be used towards the retrofitting of certain hospitals to meet seismic requirements, and the expansion of existing facilities. Bond proceeds will be used to construct, renovate and purchase equipment at campus locations owned and operated by AHS/W and its affiliates.

In addition, AHS/W plans to use approximately \$66 million in bond proceeds to current refund all outstanding previously issued CHFFA bonds and prior bonds financed through the City of Glendale. The refunding will release the bonds from the recently downgraded MBIA insurance and will be issued as fixed and variable rate bonds.

Projects \$105,550,000

Bond proceeds will be used to complete various capital expenditures projects. These projects include, (1) the remodel and upgrade of emergency rooms, (2) retrofitting to meet seismic requirements, (3) expansion, remodeling and equipping departments, (4) constructing new facilities and patient towers, (5) improving parking facilities and structures, (6) equipping new and existing facilities and (7) reimbursement for capital expenditures.

The projects will be completed at the following health facilities:

- Adventist Health Clearlake Hospital;
- Feather River Hospital;
- Glendale Adventist Medical Center;
- Hanford Community Hospital;
- St. Helena Hospital; and
- Simi Valley Hospital & Health Care Services.

Refunding..... 66,100,000

AHS/W seeks to current refund all outstanding CHFFA Series 1991 A and B insured fixed rate revenue bonds with rates ranging from 4.50% to 5.90%. Bond proceeds were originally used to finance and/or refinance capital expenditures and to refund prior obligations financed through CHFFA.

AHS/W intends to current refund all outstanding City of Glendale Series 1991 A insured hospital revenue bonds with rates ranging from 6.25% to 6.75%. Bond proceeds were originally used to finance construction and equipment at the Glendale Adventist Medical Center.

Refunding these prior obligations will provide a cost savings of approximately \$2.7 million over the life of the bonds. Additionally, the refunding will replace the recently downgraded MBIA insured bonds with a Letter of Credit from U.S. Bank and J.P. Morgan Chase Bank for the variable rate bonds. The fixed rate bonds may be insured by Assured Guaranty.

Debt Service Reserve Fund.....9,000,000

Bond Insurance.....3,300,000

Financing Costs2,000,000

Cost of Issuance.....\$1,125,000

Underwriters Discount.....\$875,000

Total Uses of Funds \$185,950,000

II. FINANCIAL STATEMENTS AND ANALYSIS:

Adventist Health System/West* Combined Income Statement of Operations and Changes in Net Assets (\$000's)

	For the year ended December 31,		
	2007	2006	2005
<u>Unrestricted Revenues, Gains and Support</u>			
Net patient service revenue	\$ 1,756,617	\$ 1,590,540	\$ 1,510,491
Premium revenue	29,425	36,761	34,769
Other revenues	130,737	119,617	95,656
Net assets released from restriction	6,764	8,938	5,124
Total revenues, gains and support	1,923,543	1,755,856	1,646,040
<u>Expenses</u>			
Employee compensation	994,160	912,740	855,873
Professional fees	161,742	139,937	126,185
Supplies	292,626	267,000	239,789
Purchased services and other	247,248	223,706	219,804
Interest	27,222	24,975	16,009
Depreciation	83,376	80,032	73,844
Purchased services and other	75,087	71,922	86,983
Total expenses	1,881,461	1,720,312	1,618,487
Excess of revenues over expenses	42,082	35,544	27,553
<u>Net Assets</u>			
Unrestricted net assets			
Change in net unrealized gains (losses)	7,478	(2,893)	(11,410)
Donated property and equipment	16	479	1,914
Net assets released from restriction	7,958	6,178	14,707
Increase in unrestricted net assets	57,534	39,308	32,764
Net gain (loss) from discontinued operations	(14,942)	(2,318)	5,128
Loss on disposal	(788)	(17,548)	(918)
Increase in unrestricted net assets	41,804	19,442	36,974
Temporarily restricted net assets			
Restricted gifts and grants	21,396	17,517	21,051
Net gains on investments	65	231	(34)
Change in value of split-interest agreements	786	978	(912)
Net assets released from restrictions	(15,238)	(16,095)	(19,831)
Increase in temporarily restricted assets	7,009	2,631	274
Increase in net assets	48,813	22,073	37,248
Net assets, beginning of year	900,178	878,105	840,857
Net assets, end of year	\$ 948,991	\$ 900,178	\$ 878,105

* The Obligated Group represents 97% of the total assets shown in the above statement.

Adventist Health System/West*
Combined Balance Sheets (in \$000's)

	December 31,		
	2007	2006	2005
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 144,345	\$ 165,655	\$ 112,228
Marketable securities	65,782	33,582	50,718
Assets whose use is limited	20,445	32,142	21,478
Patients accounts receivables, net	276,145	259,626	242,509
Receivables from third parties	1,244	6,882	806
Other receivables	36,689	32,753	24,578
Inventories	27,903	25,712	24,387
Prepaid expenses and other current assets	18,681	18,337	11,438
Assets held for sale	34,495	53,881	65,568
Total current assets	625,729	628,570	553,710
Other assets:			
Notes receivable	6,728	4,848	4,963
Marketable securities	297,991	337,604	262,442
Assets whose use is limited	380,202	298,830	473,496
Long-term investments	15,813	20,146	22,698
Deferred financing costs	8,368	5,198	5,844
Other long-term assets	12,886	12,401	15,571
Assets who use is limited, net of current portion	721,988	679,027	785,014
Property, plant and equipment, net	1,026,488	905,190	848,158
Total assets	\$ 2,374,205	\$ 2,212,787	\$ 2,186,882
<u>Liabilities & Net Assets</u>			
Current liabilities:			
Accounts payable	\$ 89,660	\$ 76,789	\$ 81,148
Accrued liabilities	105,600	113,087	106,615
Liabilities to third parties	32,595	38,901	37,084
Other current liabilities	28,819	36,850	31,036
Short-term financing	39,828	38,518	21,386
Current maturities of long-term debt	21,004	27,811	20,563
Total Current Liabilities	317,506	331,956	297,832
Long-term debt, net of current maturities	813,370	677,641	705,695
Other noncurrent liabilities	294,338	303,012	305,250
Total liabilities	1,425,214	1,312,609	1,308,777
Net assets:			
Unrestricted	889,520	847,716	828,274
Temporarily restricted	59,471	52,462	49,831
Total Net Assets	948,991	900,178	878,105
Total Liabilities & Net Assets	\$ 2,374,205	\$ 2,212,787	\$ 2,186,882

Financial Ratios:

	Proforma (a)			
	<u>FYE December 31, 2007</u>			
Debt Service Coverage (x)	2.49	3.17	2.66	3.21
Debt/Unrestricted Net Assets (x)	0.94	0.94	0.83	0.88
Margin (%)		2.19	2.02	1.67
Current Ratio (x)		1.97	1.89	1.86

(a) Recalculates FY 2007 audited results to include the impact of this proposed financing.

* The Obligated Group represents 97% of the total assets shown in the above statement.

Financial Discussion:

AHS/W's income statement appears to exhibit solid operating results with positive net income over the review period along with continued revenue growth.

Revenue from continued operations during fiscal year 2007 exceeded expenses by nearly \$42.1 million compared to \$35.5 million in fiscal year 2006. These results reflect an increase in total unrestricted net revenue, gains and support of approximately 10% compared to fiscal year 2006. AHS/W believes this increase is a result of increased patient volume at the newly renovated facilities and continual growth initiatives. Patient discharges rose from 98,996 in fiscal year 2006 compared to 102,246 in fiscal year 2007 which illustrates an increase in demand for services.

Simi Valley Hospital ("SVH"), owned and operated by AHS/W, experienced two significant losses in fiscal year 2006 and 2007. SVH reported a loss of \$6.5 million in fiscal year 2006 and \$7.1 million in fiscal year 2007. Patient volume was largely impacted by the construction of the new patient tower. The tower project was completed in the middle of 2008. According to management, the last four months of 2008 and the early part of 2009 show consistent growth in operations since the completion of the tower project.

AHS/W expenses increased an average approximately 8% during the past three fiscal years. This increase is a direct result from a boost in patient volume and the newly constructed patient tower aforementioned. In fiscal year 2007, AHS/W experienced an excess of \$42.1 million of revenues over expenses.

AHS/W's balance sheet also appears solid with a strong debt service coverage ratio and growing net assets.

AHS/W's balance sheet appears to continue growing with total net assets increasing from \$878 million in fiscal year 2005 to \$949 million in fiscal year 2007, an increase of nearly 8%. AHS/W attributes the increase primarily to profitable operations. The increase in property, plant and equipment is due to the capitalization of construction costs in progress and the acquisition of equipment and building improvements as AHS/W continues with capital improvement projects. In fiscal year 2007, AHS/W added a significant 13% increase in property, plant and equipment compared to 7% in fiscal year 2006. The debt service coverage ratio is a solid 3.16x and with the proposed financing, the proforma debt service coverage ratio appears to be 2.48x, indicating that AHS/W can likely manage additional debt.

III. BACKGROUND:

The health care system led by Adventist Health System/West (“AHS/W”), doing business as Adventist Health, has a rich history with a commitment to delivering quality health care. This commitment stems back to 1866 with dedicated health care pioneers who promoted proper nutrition, exercise, and proper sanitation.

AHS/W, headquartered in Roseville, California is a nonprofit corporation created in 1980 when two smaller health systems, Adventist Health Services, Inc. and Northwest Medical Foundation, merged. AHS/W was formed to coordinate the management of health care facilities in the Western United States (Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon Utah and Washington). AHS/W (both Obligated Group and non-obligated members) collectively control or manage 18 nonprofit corporations that own or operate acute care facilities. These facilities range in size from 32 to 448 licensed acute care beds, plus other bed categories such as skilled nursing, ambulatory residential and retirement. AHS/W includes more than 2,600 beds, 18,000 employees, numerous clinics and outpatient facilities, 16 home care agencies and three joint venture retirement centers.

Obligated Group

The Obligated Group consists of 16 nonprofit hospital corporations, including 14 in California, Hawaii, Oregon and Washington and one which operates a leased hospital facility in Oregon. One of the controlled corporations, San Joaquin Community Hospital, is a Limited Member of the Obligated Group and does not make payments on the debt attributed to its acquisition by AHS/W. The members of the Obligated Group are jointly and severally liable for substantially all of AHS/W’s debt under the terms of a Master Indenture.

Two Members of the Obligated Group, Paradise Valley Hospital and South Coast Medical Center, are treated as discontinued operations for accounting purposes. Paradise Valley Hospital sold substantially all its assets on February 28, 2007. Paradise Valley Hospital continues as a Member of the Obligated Group, but has no active operations.

AHS/W has entered into an agreement for the sale of the assets of South Coast Medical Center, and it is also treated as a discontinued operation for accounting purposes. However, South Coast Medical Center remains a Member of the Obligated Group and continues to operate its hospital facility.

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Adventist Health System/West

<u>Obligated Group Member</u>	<u>Location</u>
Central Valley General Hospital.....	Hanford, CA
Feather River Hospital.....	Paradise, CA
Glendale Adventist Medical Center.....	Glendale, CA
Hanford Community Medical Center.....	Hanford, CA
Paradise Valley Hospital*.....	National City, CA
San Joaquin Community Hospital.....	Bakersfield, CA
Simi Valley Hospital.....	Simi Valley, CA
Sonora Community Medical Center.....	Sonora, CA
South Coast Medical Center**.....	Laguna Beach, CA
St. Helena Hospital.....	Deer Park, CA
Ukiah Valley Medical Center.....	Ukiah, CA
White Memorial Hospital.....	Los Angeles, CA
Castle Medical Center.....	Kailua, HI
Adventist Medical Center.....	Portland, OR
Tillamook County General Hospital.....	Tillamook, OR
Walla Walla General Hospital.....	Walla Walla, WA

* No active operations. Treated as discontinued operation for accounting purposes.

**Treated as discontinued operation for accounting purposes.

Licenses and Contracts

Each of AHS/W's California facilities is appropriately licensed by the Department of Health Services and is certified to participate in the Medicare and Medi-Cal programs.

Governance

The articles of incorporation and bylaws of the Corporation provide that its business and affairs shall be managed by its Board of Directors (the "Board"). Members of the Board are elected by the Membership. The Membership currently consists of 39 members who are drawn from the following: (i) educational institutions; (ii) health care institutions; (iii) representatives of management; (iv) representatives selected from the presidents of the hospital; (v) physicians; and (vi) representatives who meet the qualifications for membership set forth in the bylaws.

Each member's term is for five years or until a successor is elected. A member can be elected for successive terms. Under the current bylaws, the Board will be composed of no more than 13 members, all of which are voting members.

IV. UTILIZATION STATISTICS:

The following table presents selected operating statistics for the Obligated Group for the three years ended December 31, 2005, 2006 and 2007, but excludes Paradise Valley Hospital and South Coast Medical Center as the facilities were treated as discontinued operations for accounting purposes.

	Year Ended December 31,		
	2005	2006	2007
Number of Licensed Beds	2,484	2,626	2,612
Discharges	96,553	98,996	102,246
Patient Days	530,584	531,056	528,483
Average Length of Stay	5.5	5.4	5.2
Outpatient Revenue as a % of Gross Patient Revenue	36%	37%	38%

V. OUTSTANDING DEBT:

As of fiscal year ending December 31, 2007, AHS/W has approximately \$813 million in outstanding long-term debt of which \$414 million is Authority debt. With this bond financing, AHS/W outstanding debt will increase approximately \$104 million for a total of \$917 million in outstanding long-term debt.

VI. DUE DILIGENCE:

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

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

EXHIBIT 1

The following project sites are relevant to this transaction:

- Adventist Health Clearlake Hospital, Inc. dba St. Helena Hospital Clearlake
15630 18th Avenue & Highway 53, Clearlake, California;
- Feather River Hospital
5974 Pentz Road and 5734 Canyon View Drive, Paradise, California;
- Glendale Adventist Medical Center
1509 Wilson Terrace, Glendale, California;
- Hanford Community Hospital dba Hanford Community Medical Center
450 North Greenfield and 115 Mall Drive, Hanford, California;
- St. Helena Hospital
10 Woodland Road, St. Helena, California and 18990 Coyote Valley Road, Suites 5,
6, 7 & 8, Hidden Valley, California; and
- Simi Valley Hospital & Health Care Services dba Simi Valley Hospital
2975 North Sycamore Drive, Simi Valley, California.