CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
EXECUTIVE SUMMARY

Applicant:	Sisters of Charity of Leavenworth Health Systems, Inc. ("SCLHS")	**Amount Requested:**	$50,000,000
		Loan Term:	20 years
Location:	Lenexa, Kansas (Johnson County)	**Date Requested:**	October 30, 2003
		Resolution Number:	F-302

Project Sites: Saint John's Hospital Health Center, Santa Monica, CA (Los Angeles County)
Facility Types: Acute Care Hospital System

Uses of Bond Proceeds: Bond proceeds will be used to current refund bonds issued by California Statewide Community Development Authority (CSCDA), Series 1994. The proposed bond refunding will result in an estimated present value savings of $4.7 million, or 9.4% of the new par amount.

Type of Issue:	Variable interest rate, public offering
Credit Enhancement:	None
Expected Credit Rating:	AA (S&P) and Aa2 (Moody's).
Senior Underwriter:	JP Morgan Securities Inc.
Bond Counsel:	Jones Day

Financial Overview: SCLHS's income statement consistently exhibits surpluses over the past three fiscal years. These operating surpluses exhibit solid margins ranging from 6% to 7%. The balance sheet remains strong with good liquidity, increasing unrestricted net assets, and minimal long-term debt relative to unrestricted net assets.

Sources of Revenue (Health System) (FY ending 5-31-03)	**Percent**
Medicare	36%
Medicaid	5%
Commercial Insurance	12%
Self Pay	4%
Other (Managed Care)	43%
Total	100%

Sources of Funds:		**Uses of Funds:**	
Bond proceeds	$50,000,000	Current refund existing bonds	$49,680,000
		Financing costs	320,000
Total Sources	$50,000,000	Total Uses	$50,000,000

Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.

Staff Recommendation: Staff recommends the Authority approve a resolution for SCLHS in an amount not to exceed $50,000,000 subject to a bond rating of at least an "A" category by a nationally recognized rating agency and the standard bond issuance guidelines.

(RA)

Sisters of Charity of Leavenworth Health Systems, Inc. (SCLHS)

STAFF SUMMARY AND RECOMMENDATION

October 30, 2003
Resolution Number: F-302

I. PURPOSE OF FINANCING: SCLHS proposes to current refund Series 1994 bonds issued by California Statewide Community Development Authority (CSCDA). The objective of this refunding is to obtain a lower interest rate on bonds and improve operating cash flow. The proposed refinancing is expected to generate an overall net present value savings of approximately $4.7 million

Current Refund Series 1994 CSCDA bonds ***$49,680,000***

The series 1994 bonds were issued in the amount of $60 million (California's portion only, total multi-State amount was $207.595 M) for the construction and renovation of Saint John's Hospital and Health Center in Santa Monica. The existing bonds are fixed rate bonds with an average coupon rate of 5.0% and a final maturity of 2023. The proposed bonds will also mature in 2023 and will be variable rate with either a daily or weekly reset and will closely match the amortization of the bonds being refunded.

Financing Costs ***320,000***

Cost of Issuance	253,000
Underwriters Discount	67,000

Total Uses of Funds.. ***$50,000,000***

Financing Structure:

- Negotiated public offering.
- Variable interest rates.
- 20-year loan with final maturity date of December 1, 2023.
- Credit enhancement – None.
- Expected Credit Rating: AA (S&P) and Aa2 (Moody's)
- General obligation and gross revenue pledge.
- Financial covenants acceptable to the Authority in accordance with guidelines for "A" (S&P) rated financing.
- Obligated group structure

Note: SCLHS proposes to issue a total of approximately $192 million in bonds for its entire health system in four states, Colorado, Montana, Kansas and California, of which $50 million is in California. SCLHS management has indicated that approximately $162 million of the $192 million is for refunding existing bonds, while $30 million is new money. All bonds are proposed to be issued concurrently with one Official Statement, however they will be issued individually through the appropriate "State" Authority where each project is located.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Sisters of Charity of Leavenworth Health System, Inc.
Consolidated Statement of Activities
Unrestricted (Millions)

	3 months ended August 31,	For the Year Ended May 31,		
	2003	2003	2002	2001
	(Unaudited)			
Patient services				
Operating revenue:				
Net patient service revenue	$ 325.2	$ 1,283.9	$ 1,204.3	$ 1,109.5
Other	14.0	67.6	64.3	73.9
Total operating revenue	339.2	1,351.5	1,268.6	1,183.4
Operating expenses:				
Salaries and wages	139.1	550.2	521.4	481.6
Employee benefits	32.1	115.0	102.0	93.5
Other operating expenses	115.9	437.5	416.1	380.7
Provision for bad debts	16.3	73.2	72.5	61.4
Depreciation and amortization	21.3	82.5	78.5	84.8
Total operating expense	324.7	1,258.4	1,190.5	1,102.0
Income from recurring patient services	14.5	93.1	78.1	81.4
Restructuring and other non-recurring expenses	-	-	(1.2)	(22.6)
Income from operations	14.5	93.1	76.9	58.8
Non-operating gains (losses):	18.8	(27.2)	(14.1)	4.1
Other changes in unrestricted net assets:	1.5	50.7	(7.2)	17.9
Increase in unrestricted net assets	**34.8**	**116.6**	**55.6**	**80.8**
Unrestricted net assets, beginning of year	1,525.2	1,408.6	1,353.0	1,272.2
Unrestricted net assets, end of year	$ 1,560.0	$ 1,525.2	$ 1,408.6	$ 1,353.0

Sisters of Charity of Leavenworth Health System, Inc.

Balance Sheet
(in millions)

	As August 31, 2003 (Unaudited)	As of May 31, 2003	As of May 31, 2002	As of May 31, 2001
Assets				
Current assets:				
Cash and cash equivalent	$ 40.6	$ 24.5	$ 104.2	$ 105.2
Current portion of investments	72.9	26.9	26.6	27.6
Patient accounts receivable	187.7	178.4	177.1	186.3
Pledges receviable	39.8	42.9	39.5	42.9
Other assets	51.0	52.3	46.8	37.7
Total current assets	392.0	325.0	394.2	399.7
Investment, net of current portion	1,128.6	1,181.4	1,071.5	1,060.1
Assets limited to use	107.8	109.8	135.2	114.5
Land, building and equipment, net	750.4	741.8	664.4	580.7
Other assets	131.6	124.9	91.7	89.6
Total assets	**$ 2,510.4**	**$ 2,482.9**	**$ 2,357.0**	**$ 2,244.6**
Liabilities				
Current liabilities:				
Current maturities of long-term obligations	$ 13.4	$ 13.2	$ 12.6	$ 12.4
Accrued interest payable	6.8	13.7	14.0	15.2
Accounts payable	60.1	58.5	63.2	55.6
Accrued salaries, wages and benefits	50.9	48.6	43.7	46.2
Other accrued expenses	22.7	23.2	22.4	18.2
Estimated payable to contractual agencies	14.1	14.2	11.9	18.7
Total current liabilities	168.0	171.4	167.8	166.3
Other noncurrent liabilities	72.8	75.6	63.6	47.6
Bonds payable	597.9	600.6	612.3	547.6
Other notes and capital leases payable	1.5	0.8	0.7	37.4
	599.4	601.4	613.0	585.0
Less current maturities	(13.4)	(13.2)	(12.6)	(12.4)
	586.0	588.2	600.4	572.6
Total liabilities	826.8	835.2	831.8	786.5
Net assets:				
Unrestricted	1,560.0	1,525.2	1,408.6	1,353.0
Temporarily restricted	101.6	101.6	96.6	85.0
Permanently restricted	22.0	20.9	20.0	20.1
Total net assets	1,683.6	1,647.7	1,525.2	1,458.1
Total liabilities and net assets	**$ 2,510.4**	**$ 2,482.9**	**$ 2,357.0**	**$ 2,244.6**

Financial Ratios:

	Proforma (1) FYE 2003	2003	2002	2001
Debt Service Coverage (x)	5.2	5.36	3.88	4.31
Debt/Unrestricted Net Assets (x)	0.41	0.39	0.44	0.43
Margin (%)		6.89%	6.88%	6.16%
Current Ratio (x)		1.90	2.35	2.40

(1) Recalculates May 31, 2003 audited results to include the impact of the entire $192 M proposed health system financing.

Financial Discussion:

SCLHS income statement consistently exhibits surpluses over the past three fiscal years. These operating surpluses exhibit solid margins ranging from 6% to 7%.

The Obligated Group consists of 9 hospitals and health care facilities shown on page 7 of the staff write-up. The consolidated financial statements include the 9 hospitals and health care facilities plus the "Affiliates" which include clinics and foundations. The Obligated Group's revenues and expenses derive approximately 95% of the totals shown on the Consolidated Financials Statements.

SCLHS revenue has grown over the past three fiscal years while controlling operational expenses with its best performance coming during its most recent fiscal year in which its operating surplus was an impressive $93 million and a 7% operating margin. Net patient revenue continued its upward trend during fiscal year 2003 supported by higher inpatient occupancy numbers and admissions in the Acute Care area and significantly higher numbers of patients in the Home Health services. In addition, lower margin outpatient revenue visits have declined modestly, thus improving revenue mix.

While SCLHS has consistently increased net patient revenues, it has also effectively controlled operational expenses, which have improved the operating margins during our review period.

The balance sheet remains strong with good liquidity, increasing unrestricted net assets, and minimal long-term debt relative to unrestricted net assets.

SCLHS's balance sheet is impressive with good liquidity as shown by its current ratio for the most recent fiscal year 2003 of 1.9x. In addition, it maintains significant levels of long-term investments, which have grown to almost $1.2 billion. Most impressively, due to its successful operating history, SCLHS's unrestricted net assets exceed $1.5 billion.

SCLHS maintains a relatively low level of long-term debt compared to unrestricted net assets. SCLHS has $601 million in long-term debt compared to $1.525 billion in unrestricted net assets, lending to a modest leveraged position of .39x. SCLHS's debt service coverage is currently 5.36x and with the proposed health system wide bond issuance of $192 million, of which $30 million is new money, debt service coverage will be 5.22x. This indicates that SCLHS should comfortably handle the debt service payments related to the $50 million refunding in California as well as the $142 million to be issued outside the State.

III. UTILIZATION STATISTICS:

SAINT JOHN'S HEALTH CENTER

	Year Ended May 31		
	2003	2002	2001
Inpatient Data (acute)			
Beds in Service (licensed)	234	234	234
Occupancy percentage	81.20%	80.80%	75.10%
Admissions	12,451	12,370	11,634
Average length of stay (days)	5.60	5.60	5.50
Outpatient Data			
Emergency visits	26,630	27,000	25,587
Outpatient visits	221,809	232,685	201,887
Outpatient Surgery visits	7,343	7,898	6,906
Home Health	33,164	25,565	20,687
Total	288,946	293,148	255,067
Revenue from Operations (%)			
Inpatient	71.3%	71.9%	72.8%
Outpatient			
Emergency Visits	8.9%	7.0%	7.5%
Outpatient Visits	64.1%	66.0%	65.5%
Outpatient Surgery Visits	23.9%	24.5%	24.5%
Home Health	3.1%	2.5%	2.5%
Total Outpatient	100.0%	100.0%	100.0%

IV. BACKGROUND

Sister of Leavenworth was founded in 1858 and has provided over 140 year of service to enhancing spiritual health care, educational, and social well being of all persons. In 1857, a small congregation of Sisters from Nashville, Tennessee settled into the then Indian territory of Kansas. Over the years, these women established schools, orphanages and hospitals throughout the western territories as the populations grew.

The Corporation owns all of the real property and certain fixed assets of nine hospitals. Eight of the Hospital Facilities are operated by a separate nonprofit corporation incorporated in the state in which that Hospital Facility is located. One of the Hospital Facilities is operated by a third-party, Saint Joseph Hospital, Inc. in Denver Colorado. All nine of these corporations are currently the "Restricted Affiliates" under the Master Indenture.

The Corporation provides managerial and financial services to the Restricted Affiliates and borrows moneys, the proceeds of which have been predominately used at the Hospital Facilities.

SCLHS is a Catholic health system composed of nine hospitals, four stand alone clinics for the uninsured in four states, California, Montana, Kansas, and Colorado. SCLHS has 11,000 employees, 1,900 staffed beds, with over 96,000 total admissions and extensive outpatient services. The health system components are exhibited below:

Montana Region:

Holy Rosary Healthcare, Miles City *
St. James Healthcare, Butte *
St. Vincent Healthcare, Billings *

Kansas Region:

Providence Medical Center, Kansas City *
Saint John Hospital, Leavenworth *
St. Francis Health Center, Topeka *

Colorado Region:

Exempla Saint Joseph Hospital, Denver *
St. Mary's Hospital and Medical Center, Grand Junction (Denver area) *

California Region:

Saint John's Hospital and Health Center, Santa Monica *

Other Affiliates:

Providence/Saint John Foundation, Inc., Kansas City, Kansas
St. Francis Hospital Foundation, Topeka, Kansas
Caritas Clinics, Inc., Leavenworth and Kansas City, Kansas
Marian Clinic, Inc., Topeka Kansas
Saint Joseph Hospital Foundation, Denver, Colorado
St. Mary's Hospital & Medical Center Development Foundation, Grand Junction, Colorado
Marillac Clinic, Inc., Grand Junction Colorado
Saint Vincent Foundation, Inc., Billings Montana
Saint John's Hospital and Health Center Foundation, Santa Monica, CA
Leaven Insurance Company, Ltd, Georgetown, Grand Cayman, BWI

* Obligated Group Member and a Restricted Affiliate.

Governance

The Corporation is governed by a Board of Directors consisting of not less than seven nor more than 15 Directors. The Board of Directors currently consists of 14 Directors. The Directors of the Corporation are appointed by the Corporation's Members, who consist of the Community Director of SCLHS and those persons who are Members of the Community Council of SCLHS. SCLHS is governed by a 17-member Board of Directors. There are currently 6 vacancies on the Board. Board members are initially elected to three-year terms and may serve one additional three-year term.

Licensing and Contracts:

All members of the Obligated Group that operate acute care hospitals provide Medicare services. Saint John's Health Center ("Saint John's") does not have a Medi-Cal contract, however it does provide Medicare/Medi-Cal services on an as needed basis. All of the other members of the Obligated Group have contracts to provide Medicaid services. Sources of patient revenue for 2003 are as follows: 36% from Medicare, 5% from Medicaid/Med-Cal, 43% from managed care, and 16% private pay/other.

California Service Area, Competition, and Market Share for Saint John's Health Center

The primary competitors of Saint John's include Cedar Sinai Medical Center, UCLA Medical Center and Santa Monica/UCLA Medical Center. Other lesser but yet key competitors include Century City Hospital and Little Company of Mary Hospital.

Saint John's is a 234-bed hospital which serves a wide-range geographic area. Despite fierce competition, the hospital maintains a strong reputation in the Los Angeles area. Saint John's Primary Service Area (PSA) is bounded to the west by the Pacific Ocean, to the north by the Mulholland Pass, to the south by the 105 Freeway, and to the east by Beverly Hills. There are approximately 620,000 residents within the PSA. Combined with its secondary service area, Saint John's defined service area encompasses a population of 1.5 million.

Current inpatient market share is not available for Saint John's. However, market share is available for the hospital's top service lines. The most recent data available is shown below:

Hospital	**Cardiology**	**Onocology**	**Orthopedics**	**Women's Health**
Saint John's Health Ctr.	**16.6%**	**16.5%**	**18.7%**	**14.5%**
Cedars Sinai	19.7%	19.3%	18.5%	26.8%
UCLA Med Center	13.5%	17.1%	11.4%	15.4%
Santa Monica/UCLA	12.0%	9.1%	13.2%	17.7%
Daniel Freeman	6.0%	3.6%	6.1%	0.5%
Century City Hospital	3.2%	1.6%	3.8%	0.4%
Little Company of Mary	0.3%	0.1%	0.5%	0.9%
All Other	28.5%	32.7%	27.8%	23.7%

V. SECTION 15438.5 OF THE ACT (Savings Pass Through).

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.

SCLHS has provided a description of its savings pass through in **Attachment A.**

VI. SECTION 15459.1 (b) OF THE ACT (Community Service Requirement).

As a condition of the issuance of revenue bonds, whether by the Authority or any local agency, 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. As part of this assurance, borrowers shall agree to a number of actions, including (a) To advise each person seeking services at the borrower's facility as to the person's potential eligibility for Medi-Cal and Medicare benefits or benefits from other governmental third-party payers, (b) To make available to the authority and to any interested person a list of physicians with staff privileges at the borrower's facility, and (c) To post notices in appropriate areas within the facility regarding services being available to all in the service area. This agreement is a standard "Certification and Agreement Regarding Community Service Obligation".

SCLHS has executed this certification and submitted its current list of physicians, specialties, telephone numbers and whether Medi-Cal and Medicare patients are accepted. SCLHS shall provide a list of all physicians "language spoken" prior to closing.

A copy of this certification is provided in **Attachment B**.

VII. COMPLIANCE WITH SB 1953 SEISMIC RETROFIT REQUIREMENTS

SB 1953 (Chapter 740, 1994) requires that all acute care hospitals in California meet specific seismic safety standards by 2008 and 2030.

SCLHS has provided a description of its seismic requirements. **See Attachment C.**

VIII. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 5/31/03 (a) (audited)	Estimated Amount Outstanding After Proposed Financing
Existing:			
Bonds, Series 1992 (1)	$32,720,000	$7,050,000	$0
Bonds, Series 1994 (2)	207,595,000	159,815,000	0
Bonds, Series 1998 (3)	341,600,000	331,540,000	331,540,000
Bonds, Series 2000 (4)	35,855,000	34,735,000	34,735,000
Bonds, Series 2002 (5)	75,800,000	75,800,000	75,800,000
Aggregate Orig. Issue Discount on all bonds		(7,540,000)	
Proposed:			
CHFFA, Bond Series 2003			50,000,000
Other, Bond Series 2003			142,000,000
TOTAL DEBT		**$601,400,000**	**$634,075,000**

(a) Includes current portion.

(1) Issued by State of Colorado Authority for bond projects located in State of Colorado and Kansas
(2) Issued by State of Kansas Authority
(3) Issued by State of Colorado, Montana, and Kansas
(4) Issued by State of Colorado, Montana, Kansas, and CSCDA
(5) Issued by the City of Kansas City

IX. LEGAL REVIEW:

Staff has reviewed the Applicant’s responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

X. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for SCLHS in an amount not to exceed $50,000,000 subject to a bond rating of at least an “A” category by a nationally recognized rating agency and to the standard bond issuance guidelines.