

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
EXECUTIVE SUMMARY**

Applicant:	Catholic Healthcare West, (Obligated Group) (“CHW”) San Francisco, California San Francisco County	Amount Requested:	\$611,000,000
		Loan Terms:	30 years
		Date Requested:	August 25, 2005
		Resolution Number:	F-312 and F-313
Primary Project Sites:	Various		
Facility Types:	General acute/sub-acute and outpatient care, acute psychiatric, chemical dependency rehabilitation, outpatient surgery, and skilled nursing services.		
Uses of Bond Proceeds: CHW proposes to refinance outstanding existing California bonds in the amount of approximately \$106 million, of which \$59 million is Authority debt (insured bonds). This refinancing will result in an estimated net present value savings of \$9.9 million or 9% of the outstanding balance. In addition, CHW wishes to issue \$469 million in new money for various capital improvement projects and equipment purchases. Following this transaction, CHW will have a total of \$2.2 billion of Authority debt outstanding, an increase of approximately \$552 million. CHW will have approximately \$810 million of Authority bonds not enhanced by credit compared to \$710 million currently.			
Type of Issue:	Negotiated public offering, variable rate bonds and fixed rate bonds.		
Credit Enhancement:	Possibly MBIA, AMBAC, and/or FGIC.		
Expected Credit Rating (fixed):	With insurance: AAA (Standard and Poor’s) Without insurance: A-/A3/A- (S&P/Moody’s/Fitch)		
Expected Credit Rating (Var):	Long-term Bank of America AA+/Aa1/AA (S&P/Moody’s/Fitch) Short-term – A-1/P-1/F1+ (S&P/Moody’s/Fitch)		
Senior Underwriter:	Citigroup Global Markets, Inc.		
Bond Counsel:	Sidley Austin Brown & Wood		
Financial Overview: CHW’s income statement exhibits steady improvement over our review period. CHW has posted operating surpluses during fiscal years 2004 and 2003 compared to an operating deficit in 2002. The balance sheet exhibits significant financial resources and acceptable proforma debt service coverage. Due to improving operations, S&P, Moody’s and Fitch have all recently upgraded CHW’s credit rating.			
Estimated Sources of Revenue: (6/30/04) (in millions)			
		<i>Amount</i>	<i>Percent</i>
Medicare		\$1,834	34%
Contracted Rate Payor		2,050	38%
Medicaid		863	16%
Capitated		270	5%
Commercial insurance, self pay and other		<u>379</u>	<u>7%</u>
Total Revenues		<u>\$5,396</u>	<u>100%</u>
Sources of Funds (in millions):		Uses of Funds (in millions):	
Credit enhanced variable bonds	\$311	Refinance existing Authority bonds	\$59
Uninsured fixed rate bonds	100	Refinance existing non-Authority bonds	47
LOC variable rate demand bonds	<u>200</u>	New capital projects and equipment	469
		Financing costs	28
		Debt service reserve fund	<u>8</u>
Total Sources	<u>\$611</u>	Total Uses	<u>\$611</u>
Legal Review: CHW facilities are currently under investigation relating to violations in Medicare cost reporting. See Page 15 for additional information.			
Staff Recommendation: Staff recommends the Authority approve Resolutions in a total amount not to exceed \$611,000,000 for Catholic Healthcare West, subject to a bond rating of at least an “A Category” rating by a nationally recognized rating agency.			

**STAFF SUMMARY AND RECOMMENDATION
CATHOLIC HEALTHCAREWEST (OBLIGATED GROUP)**

August 25, 2005

Resolution Number: F-312 and F-313

I. PURPOSE OF FINANCING:

CHW has an opportunity to restructure a significant portion of its existing long-term debt payments and finance long-term capital needs. CHW seeks to issue up to \$1.226 billion in long-term debt in three states, with \$611 million in California, \$494 million in Arizona and \$121 million in Nevada. This proposal will result in approximately \$552 million additional Authority debt to CHW. The chart below summarized the characteristics of the bonds to be refunded and the Series 2005 bonds.

Refinance existing Authority bonds and non-Authority CA bonds..... \$106,000,000

CHW plans to refund bonds to reduce interest costs and to better match the system's planned capital expenditure and debt service payments. CHW expects several capital expenditures through 2008 and the refunding will result in an estimated \$105 million cash-flow relief through 2008, thus improving cash-flow. CHW expects an overall net present value savings of approximately \$9.9 million or 9.3% of the principal outstanding bonds.

New construction, expansion/renovation and equipment purchases469,000,000

Various new construction projects and expansion/renovation of existing facilities throughout California total \$269 million. Renovation projects include seismic retrofit improvements to meet SB 1953 standards.

New equipment includes a MRI, CATSCAN, nurse call equipment, ophthalmology, labor and delivery, and IT, plus various other equipment items to be purchased over the next 3 years. The equipment financing of approximately \$200 million will be supported by a letter of credit from Bank of America.

(See **Attachment D** for details of construction, renovation and equipment purchases).

Debt Service Reserve Fund 8,000,000

Financing costs are as follows 28,000,000

Bond insurance premium	\$22,000,000
Estimated issuance costs	6,000,000

Total Uses of Funds..... \$611,000,000

**Summary of
Series 2005 Bonds (in millions)**

Description	Total Amount of Bonds	Enhancement		Type	
		Credit Enhanced	Not Credit Enhanced	Fixed	Variable
Refinance bonds	\$106*	\$106	\$0	\$0	\$106
New money LOC Bank of America (variable rate demand bonds)	\$200	\$200	\$0	\$0	\$200
New money (variable auction rate securities)	\$205	\$205	\$0	\$0	\$205
New money (unenhanced fixed rate)	\$100	\$0	\$100	\$100	\$0
TOTALS	\$611	\$511	\$100	\$100	\$511

* Bonds consist of \$59 million Authority Debt (insured) and \$47 million of CSCDA Debt.

Financing Structure:

All Bonds:

- Joint and several obligation of the Catholic Healthcare West, Obligated Group (see Page 10 for a listing of Obligated Group members).
- Obligated group structure.

Resolution No. F312 - \$411 million

- Variable auction rate securities, fixed rate uninsured - \$411 million.
- Expected rating (with bond insurance) AAA (S&P).
- Expected rating (without bond insurance) A-/A3/A- (S&P/Moody's/Fitch).

Resolution No. F313 - \$200 million

- Variable rate demand bonds backed by LOC for equipment with a final maturity of 2035.
- LOC-backed revolving loan program to be used for equipment purchases with a revolving credit line feature.
- Bank of America letter of credit expected ratings A-1/P-1/F1+ (short-term) by S&P/Moody's/Fitch).

II. FINANCIAL STATEMENTS AND ANALYSIS:

The following pages provide the financial statements for Catholic Healthcare West. This transaction's *Obligated Group*, responsible for repaying the proposed bonds, accounts for about 99% of system revenue and approximately 97% of total net assets.

CATHOLIC HEALTHCARE WEST Consolidated Statements of Operations (000's)

	For the nine months ended	For the year ended June 30,		
	3/31/2005 (Reviewed & Unaudited)	2004 (Audited)	2003 (Audited)	2002 (Audited)
Unrestricted Revenues and other support:				
Net revenue	\$ 4,031,997	\$ 4,874,119	\$ 4,630,009	\$ 4,085,199
Premium revenue	372,254	502,840	346,816	407,464
Contributions	12,109	19,819	12,297	8,859
Total revenue	<u>4,416,360</u>	<u>5,396,778</u>	<u>4,989,122</u>	<u>4,501,522</u>
Operating Expenses:				
Salaries and benefits	2,226,570	2,737,117	2,537,579	2,245,387
Supplies	671,764	814,722	742,881	683,711
Provision for bad debts	334,779	397,403	306,201	242,186
Purchased services and other	765,663	955,923	982,049	981,007
Depreciation	174,605	229,781	249,009	252,888
Interest, net	73,608	98,261	105,784	115,185
Loss on early extinguishment of debt	-	16,760	-	-
Special charges	-	-	1,865	16,187
Total expenses	<u>4,246,989</u>	<u>5,249,967</u>	<u>4,925,368</u>	<u>4,536,551</u>
Operating income (loss)	169,371	146,811	63,754	(35,029)
Investment gains and (losses)	116,037	99,252	(13,086)	(15,562)
Unrealized gains and (losses)	18,466	96,212	92,206	(28,784)
Net assets released from restrictions	2,095	5,713	6,066	9,548
Income (expense) due to minimum pension liability	-	94,755	(152,342)	508
Gain (loss) from discontinued operations	(13,097)	(37,938)	(9,908)	(3,486)
Change in fair interest rate swaps	(7,923)	(3,607)	-	-
Income due to Daughters of Charity separation	-	-	-	110,539
Other	5,030	5,574	3,617	(2,730)
Increase (decrease) in unrestricted net assets	289,979	406,772	(9,693)	35,004
Increase (decrease) in temporarily restricted net assets	34,811	27,833	2,089	(8,260)
Increase (decrease) in permanently restricted net assets	1,898	6,982	551	2,198
Increase (decrease) in net assets	326,688	441,587	(7,053)	28,942
Net assets, beginning of year	2,345,223	1,903,636	1,910,689	2,305,622
Net assets transferred to Daughters of Charity	-	-	-	(423,875)
Net assets, end of year	<u>\$ 2,671,911</u>	<u>\$ 2,345,223</u>	<u>\$ 1,903,636</u>	<u>\$ 1,910,689</u>

CATHOLIC HEALTHCARE WEST
Consolidated Balance Sheet (000's)

	<u>Mar 31,</u>	<u>As of June 30,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets	(Reviewed & Unaudited)	(Audited)	(Audited)	(Audited)
Current Assets:				
Cash and cash equivalents	\$ 309,244	\$ 293,360	\$ 113,797	\$ 113,678
Short-term investments	140,651	127,623	66,221	62,422
Cash held for related corporations		-	-	-
Assets limited as to use	78,662	86,130	113,718	168,799
Receivables/dues from gov't. agencies	921,927	824,419	771,997	721,509
Other current assets	255,446	224,607	193,055	194,161
Total Current Assets	<u>1,705,930</u>	<u>1,556,139</u>	<u>1,258,788</u>	<u>1,260,569</u>
Net assets limited as to use	2,604,527	2,545,063	1,924,896	1,707,411
Property and equipment, net	2,083,446	2,017,419	2,010,142	2,055,173
Other long-term assets	353,597	293,024	239,390	259,591
Total Assets	<u><u>\$ 6,747,500</u></u>	<u><u>\$ 6,411,645</u></u>	<u><u>\$ 5,433,216</u></u>	<u><u>\$ 5,282,744</u></u>
Liabilities & Net Assets				
Liabilities:				
Current portion of long-term debt	\$ 55,402	\$ 52,212	\$ 80,028	\$ 126,853
Accounts payable/dues to gov't. agencies	246,564	232,916	226,429	249,759
Accrued liabilities	546,766	559,476	471,658	403,163
Total current liabilities	<u>848,732</u>	<u>844,604</u>	<u>778,115</u>	<u>779,775</u>
Long-term debt, net of current portion	2,557,662	2,610,305	2,116,184	2,140,248
Other non-current liabilities	669,195	611,513	635,281	452,032
Total Liabilities	<u>4,075,589</u>	<u>4,066,422</u>	<u>3,529,580</u>	<u>3,372,055</u>
Net Assets				
Unrestricted net assets	2,380,787	2,090,808	1,684,036	1,693,729
Temporarily restricted net assets	211,664	176,853	149,020	146,931
Permanently restricted net assets	79,460	77,562	70,580	70,029
Total Net Assets	<u>2,671,911</u>	<u>2,345,223</u>	<u>1,903,636</u>	<u>1,910,689</u>
Total Liabilities & Net Assets	<u><u>\$ 6,747,500</u></u>	<u><u>\$ 6,411,645</u></u>	<u><u>\$ 5,433,216</u></u>	<u><u>\$ 5,282,744</u></u>

Proforma (a)
6/30/2004

Debt Service Coverage (x)	4.07	4.88	1.82	1.63
Debt/Unrestricted Net Assets (x)	2.05	1.57	1.29	1.33
Operating Margin (%)		2.72%	(0.19%)	0.78%
Current Ratio (x)		1.74	1.80	1.57

(a) Recalculates 2004 audited results to include the impact of this proposed financing before the Authority, plus proposed CHW financings in other States (Nevada and Arizona).

Financial Discussion:

CHW's income statement exhibits steady improvement over our review period. During 2005, CHW's financial statements exhibit further improvement and recently received credit rating upgrades from S&P, Moody's and Fitch. CHW posted operating surpluses during fiscal years 2004 and 2003 compared to an operating deficit in 2002.

CHW's successfully implemented a strategic business plan (see below) during 2001 that has resulted in operating surpluses beginning in fiscal year 2002.

In 2005, during the unaudited interim period (first nine-months), CHW's operating results improved when compared to the first nine-months results for fiscal year 2004 (not presented in this report). CHW posted an operating surplus of \$169 million compared to \$129 million for the same period in the prior year. The nine-month period reflects additional operations of French Hospital Medical Center and Arroyo Grande Community Hospital, which were purchased in the fourth quarter of the prior fiscal year. Operating expenses were also higher during the interim period, led by increasing salaries and benefits, supplies, purchased services and uncollectible accounts.

In 2004, CHW posted operating income of \$146.8 million compared to \$63.8 million in fiscal 2003. The improvement in operations was primarily a result of revenue growth, which outpaced cost increases and volume growth. Revenues increased 8.2% in fiscal 2004 as compared to fiscal 2003. Fiscal 2004 revenues include \$35.5 million related to one-time gains on sales of 15 medical office buildings and a \$5.7 gain on the sale of an outpatient surgery center. Operating expenditures were led by higher salaries and benefits, which increased 7.8% in fiscal 2004 as compared to fiscal 2003. The increase was primarily due to wage and benefit pressures and increases in staffing levels in California to meet mandated nurse staffing regulations that went into effect on January 1, 2004. Supply expense increased 9.6% in fiscal 2004 compared to fiscal 2003. The increase was mainly due to the increased costs related to new technologies of drug eluting stents, defibrillators and other emerging implantable technologies.

In 2003, CHW posted operating income of \$63.8 million. This improvement was primarily a result of revenue growth due to higher patient volumes and from payment increases. Revenues increased 11% due to a 4% increase in adjusted patient days and a 7% increase in revenue per adjusted patient day. Higher operational expenses were incurred in 2003, with increases in salaries and benefits, which increased 8.5% on a volume adjusted basis, as a result of wage pressures and higher registry costs from staffing shortages in nursing and other technical areas. Supply expenses increased 4.4%, on a volume adjusted basis, mainly due to the cost of new technology, offset by lower expenses related to continued success of renegotiating contracts, consolidation of vendor selection and standardization of products.

In 2002, CHW posted a \$35 million operating loss, which was a significant improvement over 2001's \$119 million operating loss. The improvement was primarily due to management's ability to implement a revenue growth and cost containment plan. During 2002, net patient revenues declined 6.3% or \$305 million when seven hospitals and eight other subordinate entities were transferred to the Daughters of Charity Health System (DCHS). Management was able to reduce operational expenses by 8%, thus reducing CHW's operating loss.

In 2001, CHW posted a \$120 million operating loss. To improve future operations, CHW's management implemented a strategic business plan during 2001, which included the following strategies:

- Simplify and streamline both the management structure.
- Increase focus on hospital performance.
- Enhance revenue management.
- Develop a more cooperative relationship with both the CNA and the SEIU
- Improve care management.
- Control supplies expenses.
- Outsource to achieve cost savings by entering a multi-year information management outsourcing arrangement with Perot Systems.
- Establish project approval committee for all capital projects over \$500,000.

The balance sheet exhibits significant financial resources and acceptable proforma debt service coverage.

CHW has a solid balance sheet with significant financial resources. CHW has \$2 billion in unrestricted net assets as of June 30, 2004. CHW is somewhat leveraged with long-term debt to unrestricted net assets of 1.57x, which will increase to 2.05x with the proposed new money portions for all states. CHW's debt service coverage is very strong at 4.88x and with the proposed financings (including Nevada and Arizona debt restructuring) will remain strong at 4.07x, thus indicating that CHW should comfortably be able to manage the proposed debt service payments.

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II. UTILIZATION STATISTICS:

	<u>CHW – System</u>		
	<u>Year Ended June 30,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
<u>Inpatient Data (acute)</u>			
Beds in Service (available)	6,574	6,741	6,817
Occupancy percentage	65.99%	67.5%	62.4%
Admissions	344,807	352,880	341,793
Average length of stay (days)	4.60	4.7	4.7
<u>Skilled Nursing Beds</u>			
Beds in Service (licensed)	1,028	1,415	1,389
Occupancy percentage	68.19%	64.8%	60.2%
<u>Patient Data</u>			
Emergency visits	1,037,313	982,262	1,045,256
Outpatient visits	2,495,756	3,540,504	3,535,510
<u>Revenue from Operations</u>			
Inpatient	73%	73%	74%
Outpatient	27%	27%	26%

IV. BACKGROUND:

Catholic Healthcare West (“CHW”) is a California nonprofit public benefit corporation headquartered in San Francisco, California. CHW, together with its subsidiary corporations, comprise the Catholic Healthcare West System (“CHW System”), which is one of the largest not-for-profit acute healthcare delivery systems in the United States as measured by annual revenue. The CHW System operates 41 hospitals throughout major California markets and in the growing Phoenix, Arizona and Las Vegas, Nevada metropolitan markets. The CHW System’s facilities include approximately 8,000 licensed acute care beds and approximately 1,028 licensed skilled nursing beds. The CHW System maintains prominent market shares in many of its service areas. With a significant presence in Sacramento, San Francisco, Southern California, San Joaquin Valley, Central Coast, Central California, Northern California, and Santa Cruz, the CHW System’s California operations are well dispersed throughout the state.

The healthcare activities of the hospitals in the CHW System date back to 1856. The CHW System was founded in 1986, when two religious congregations brought together the 10 facilities they sponsored at the time. Since then, the CHW System has grown significantly in size, primarily through mergers and affiliations. Today, the CHW System includes many facilities that are community sponsored as well as those that are religiously sponsored.

Obligated Group:

The CHW System undertakes most of its borrowing activities under a Master Indenture. Under the Master Indenture, a group composed of CHW and certain other corporations in the CHW System (each a “Member” of the “Obligated Group”) have agreed to be jointly and severally obligated for debt incurred under the Master Indenture. Other entities affiliated with CHW are not Members of the Obligated Group (the “Non-Member Entities”). Only the corporations that are Members of the Obligated Group are jointly and severally obligated under the Master Indenture. None of the Non-Member Entities has assumed any financial obligation related to payment of or security for the Bonds. The Non-Member Entities in the CHW System represented approximately 1% of the consolidated revenue and 3% to 4% of consolidated unrestricted net assets of the CHW System for the fiscal years ended June 30, 2003 and 2004.

During 2001, a plan was developed and implemented to simplify and streamline both the management structure and the legal organization of the CHW System. Numerous corporations were merged, resulting in most CHW System hospitals now being owned and operated directly by CHW. During the time of the reorganization, seven hospitals sponsored by one of CHW’s Catholic sponsors separated from CHW as part of an asset purchase agreement transaction.

CHW has “membership” rights and powers exercised either directly or indirectly with respect to each of the other Obligated Group Members. Generally, these membership powers include the right of CHW to approve budgets, capital expenditures, liens and encumbrances, changes in corporate charter documents, certain asset acquisitions and sales, mergers and dissolution, among other things. Generally, CHW also has the right to approve the appointment of the CEO of each other Obligated Group Member, and generally the CEO is an employee of CHW.

In total, there are ten Obligated Group Members — CHW, which directly owns and operates twenty-seven (plus three hospitals leased to CHW until 2049) acute care hospitals, plus nine subsidiary corporations. Of the nine subsidiary corporations that are Obligated Group Members, seven operate hospitals. These seven subsidiary Obligated Group Members operate eleven licensed acute care hospitals. In total, in the Obligated Group, there are thirty-eight licensed acute care hospitals that are covered by thirty-four licenses, because in three situations, a single license covers two inpatient locations. The remaining Obligated Group Members are the CHW Medical Foundation, which operates an integrated multi-site medical clinic in the Sacramento and Woodland, California areas that employs approximately 220 physicians, and Mercy Senior Housing, Inc. which provides low-cost senior housing in a 118-unit facility in Sacramento, California.

LIST OF OBLIGATED GROUP MEMBERS AND HEALTHCARE FACILITIES

<u>Obligated Group Member/Facilities</u>	<u>Type of Facility</u>	<u>Location</u>	<u>Licensed Beds</u>
Catholic Healthcare West	N/A	San Francisco, CA	
Arroyo Grande Community Hospital	Acute Care	Arroyo Grande, CA	65
California Hospital Medical Center – Los Angeles.....	Acute Care	Los Angeles, CA	316
Chandler Regional Hospital	Acute Care	Chandler, AZ	209
Dominican Hospital.....	Acute Care	Santa Cruz, CA.....	379
French Hospital Medical Center.....	Acute Care	San Luis Obispo	112
Glendale Memorial Hospital and Health Center	Acute Care	Glendale, CA	334
Marian Medical Center (two locations).....	Acute Care	Santa Maria, CA	262
Mercy Hospital (two locations).....	Acute Care	Bakersfield, CA	269
Mercy Medical Center, Mt. Shasta.....	Acute Care	Mt. Shasta, CA	80
Mercy Medical Center Redding	Acute Care	Redding, CA.....	273
Methodist Hospital of Sacramento	Acute Care	Sacramento, CA.....	333
Northridge Hospital Medical Center–Roscoe Blvd. Campus	Acute Care	Northridge, CA.....	425
San Gabriel Valley Medical Center.....	Acute Care	San Gabriel, CA.....	273
St. Bernardine Medical Center	Acute Care	San Bernardino, CA.....	463
St. Elizabeth’s Community Hospital	Acute Care	Red Bluff, CA.....	76
St. John’s Pleasant Valley Hospital.....	Acute Care	Camarillo, CA.....	180
St. John’s Regional Medical Center	Acute Care	Oxnard, CA	265
St. Joseph’s Behavioral Health Center	Acute Psychiatric	Stockton, CA	35
St. Joseph’s Hospital and Medical Center	Acute Care	Phoenix, AZ.....	539
St. Joseph’s Medical Center of Stockton.....	Acute Care	Stockton, CA	294
St. Mary Medical Center	Acute Care	Long Beach, CA	539
St. Mary’s Medical Center	Acute Care	San Francisco, CA	403
St. Rose Dominican Hospital Rose de Lima Campus.....	Acute Care	Henderson, NV.....	138
St. Rose Dominican Hospital Siena Campus.....	Acute Care	Henderson, NV.....	214
Woodland Memorial Hospital.....	Acute Care	Woodland, CA.....	108
Bakersfield Memorial Hospital (two locations).....	Acute Care	Bakersfield, CA	367
Community Hospital of San Bernardino	Acute Care	San Bernardino, CA.....	321
Mater Misericordiae Hospital			
Mercy Medical Center Merced (two locations).....	Acute Care	Merced, CA	287
Mercy Healthcare Sacramento			
Mercy General Hospital	Acute Care	Sacramento, CA.....	399
Mercy Hospital of Folsom.....	Acute Care	Folsom, CA.....	85
Mercy San Juan Medical Center.....	Acute Care	Carmichael, CA	260
Mercy Senior Housing, Inc. ⁽¹⁾	N/A	Sacramento, CA.....	N/A
CHW Medical Foundation ⁽²⁾	N/A	Various	N/A
Saint Francis Memorial Hospital	Acute Care	San Francisco, CA	356
Sequoia Health Services	Acute Care	Redwood City, CA	421
Sierra Nevada Memorial-Miners Hospital	Acute Care	Grass Valley, CA.....	121

NOTE: A portion of the beds listed for certain acute care facilities consists of skilled nursing beds. The numbers above reflect the total number of beds that the healthcare facilities are permitted to operate under state law, but may not reflect the number of beds actually operated by each healthcare facility at the present time.

(1) Operates a residential care facility.

(2) Operates medical clinics pursuant to professional service agreements with physician groups.

Not included in the Obligated Group are two licensed acute care facilities: Mark Twain St. Joseph’s Healthcare Corporation, which owns and operates a 48-bed hospital and is a subsidiary of CHW but governed jointly with a public healthcare district, and Oak Valley Hospital, with 150 licensed beds, which is managed by CHW.

Licenses and Contracts

Each of the hospitals operated by an Obligated Group Member is appropriately licensed for the level of care it delivers and is certified to participate in the Medicare program and its state's Medicaid program, and each is accredited by the Joint Commission on Accreditation of Healthcare Organizations. Each skilled nursing facility unit operated by an Obligated Group Member is certified to participate in the Medicare and the Medicaid programs. The residential care facility for the elderly operated by Mercy Senior Housing, Inc. is certified by the California Department of Social Services.

Governance

Subject to the rights reserved to Sponsors and Corporate Members, CHW is currently governed by a fourteen-member Board of Directors. The Board of Directors has established "Hospital Community Boards" for the general acute care facilities that are directly owned and operated by CHW. The Hospital Community Boards are delegated certain local oversight responsibilities for quality of care and medical staff matters, and serve as advisory bodies to the CHW Board of Directors with respect to strategic business planning for local facilities, local operational issues and facility level implementation of community benefit programs. The CHW Board of Directors as well as the Board's Finance Committee must approve all material debt, borrowings, loans, guarantees, encumbrances or liens for the CHW System. The governance of the separately incorporated Obligated Group Members that are direct or indirect subsidiaries of CHW is described herein under THE OBLIGATED GROUP.

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Service Area and Competition*

Service Area

CHW Share

Major Competitor Share

North State

Mercy Redding	42.2%	HPA 30.5%
St. Elizabeth	52.8%	Enloe Medical 16.6%
Mt. Shasta	61.6%	HPA 10%

Sacramento

Mercy San Juan	21.8%	Kaiser 15.7%
Mercy General	11.8%	Sutter 17.5%
Methodist	15.5%	Kaiser 21.3%
Mercy Folsom	12.6%	Marshall 12.9%
Woodland	31.2%	Sutter 24.4%
Sierra Nevada	69.9%	Sutter 5.3%

San Joaquin

Mark Twain	42.8%	Adventist 11.3%
St. Joseph	38.9%	Dameron 24.4%
St. Joseph's BHC	1.9%	SJ General 19.7%

Merced

Mercy Merced campuses)	(both 61.3%	Sole provider in that service area
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San Francisco

St. Mary's SF	6.5%	CPMC (Sutter) 21%-23%
Saint Francis	4.9%	SF General 12%-14%
		UCSF 10%-12%
		Kaiser 10%

Monterey Bay

Dominican	52.3%	Watsonville 24.1%
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Redwood City

Sequoia	7.3%	Stanford and Lucille Packard 16.4%
		Sutter 15.2%
		Kaiser 9.8%

Kern

Mercy Bakersfield	18.9%	Kern Medical Center 19.6%
Bakersfield Memorial	29.5%	

<u>Service Area</u>	<u>CHW Share</u>	<u>Major Competitor Share</u>
<u>Central Los Angeles</u>		
California Hospital	7.6%	LAC / USC 8.9%
<u>Glendale</u>		
Glendale Memorial	10.2%	Adventist 9.9%
<u>Santa Maria</u>		
Marian Medical Center	80.1%	Cottage 7%
<u>Northridge – Roscoe</u>		
Northridge – Roscoe	11.1%	Providence 8.1%
<u>San Gabriel</u>		
San Gabriel Valley	8.5%	Tenet Methodist 9.9%
<u>Long Beach</u>		
St. Mary – Long Beach	11.7%	Long Beach Memorial 21.9%
<u>San Bernardino</u>		
St. Bernardine	11.2%	Arrohear Reg. 13%-19%
Comm. Hos. of San Bernardino	16.2%	

* As of calendar 2002, latest available data from the Office of Statewide Health Planning and Development.

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.

CHW 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".

A copy of CHW's certification is included as **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.

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

VIII. PREVIOUS AUTHORITY DEBT:

As of June 30, 2004, the outstanding debt issued through the Authority for CHW’s Obligated Group totaled \$1.593 billion and its current outstanding balance is approximately \$1.527 billion. Following this proposed financing, the outstanding debt issued through the Authority for CHW’s Obligated Group will total approximately \$2.2 billion, an increase of approximately \$552 million.

CHW Long-term debt (in thousands)			
<u>Long-Term Debt</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding as of 6/30/04*</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing Authority Bonds	N/A	\$1,592,925	\$1,592,866**
Other non-Authority Bonds	N/A	956,320	956,273***
Other notes/capital leases	N/A	113,272	113,272
New money bonds “other states”			615,000
<u>Proposed Authority Debt</u>			
<i>CHW 2005</i>	N/A	<hr/>	<u>\$611,000</u>
Total Debt		<u>\$2,662,517</u>	<u>\$3,888,411</u>

* Includes current portion of long-term debt.
 ** New bonds will include refinancing approximately \$59 million of existing Authority debt.
 *** New bonds will include refinancing approximately \$47 million of CSCDA debt (non-Authority debt).

IX. LEGAL REVIEW:

CHW has resolved several government claims of Medicare violations including improper cost reimbursement, improper claims for physicians' services, improper claims for hospital services and possible violations of the anti-kickback and anti-referral laws. Other CHW facilities are currently under investigation for similar violations in connection with Medicare cost reporting. State Treasurer's legal staff contacted the Office of the Inspector General of the U.S. Department of Health and Human Services, the agency that is conducting the current investigation. The attorney handling the matter could not comment on the status of the investigation. An investigation of this type and scope could potentially lead to administrative, civil and/or criminal charges and material penalties or settlements.

CHW has reorganized its operations since 2002 expanding its Compliance Department to prevent previous violations from reoccurring. Measures taken include adding staff to audit Medicare and Medi-Cal cost reports prior to submission, the hiring of a cost control expert formerly employed by Ernst & Young to insure ongoing compliance, and the hiring of a healthcare compliance officer that joined CHW's staff following the initial investigation.

The Authority staff and legal counsel have reviewed the financial information provided by CHW and have determined that the unresolved legal issue will not adversely affect the financial stability of the applicant. The Authority staff will continue to monitor any developments and/or resolutions of the current investigation.

X. STAFF RECOMMENDATION:

Staff recommends the Authority approve Resolutions in a total amount not to exceed \$611,000,000 for Catholic Healthcare West, subject to a bond rating of at least an "A Category" rating by a nationally recognized rating agency.