

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (CHFFA)**  
**BOND FINANCING PROGRAM**  
**EXECUTIVE SUMMARY**

<b>Applicant:</b>	Cedars-Sinai Medical Center (“CSMC”) 8700 Beverly Blvd. Los Angeles, California Los Angeles County	<b>Amount Requested:</b>	\$600,000,000
		<b>Date Requested:</b>	June 25, 2009
		<b>Requested Loan Term:</b>	31 years
		<b>Resolution Number:</b>	344
<b>Project Site:</b> Cedars-Sinai Medical Center, Los Angeles, California			
<b>Facility Type:</b> General Acute Care Hospital - Tertiary Care Teaching Hospital			
<b>Background:</b> Cedars-Sinai Medical Center (“CSMC”), a California nonprofit public benefit corporation, incorporated in 1961, owns and operates a major tertiary medical center in Los Angeles, California. CSMC is situated on an approximately 26-acre site and includes a 1.7 million square foot main medical center complex supported by an additional 891,000 square feet in adjacent research and ancillary facilities. In addition, CSMC owns an adjacent outpatient Surgery Center of approximately 44,000 square feet of space. As a teaching hospital, CSMC serves as a regional resource with a full complement of primary care, specialty and subspecialty services.			
<b>Use of Proceeds:</b> Bond proceeds will be used to make various facility improvements and upgrades, to design, build, and implement Epic Clinical Systems and an Epic electronic medical record system (EMR), and to construct a 390,000 square foot Advanced Health Sciences Pavilion. Additionally, bond proceeds will finance the reimbursement of prior routine capital expenditures, including \$121 million in information systems spending, including the opening of a new data center.			
<b>Type of Issue:</b>	Negotiated public offering with fixed rate bonds		
<b>Credit Enhancement:</b>	None		
<b>Underlying Credit Rating:</b>	A2 (Moody’s)		
<b>Senior Underwriter:</b>	Merrill Lynch & Co., Inc.		
<b>Bond Counsel:</b>	Orrick, Herrington & Sutcliffe LLP		
<b>Financial Overview:</b> CSMC’s income statement appears to demonstrate increased revenues over the last three fiscal years. CSMC appears to exhibit a strong balance sheet with adequate liquidity.			
<b><u>Estimated Sources of Funds (000’s):</u></b>		<b><u>Estimated Uses of Funds (000’s):</u></b>	
Par amount of bonds	\$600,000	Projects	\$1,395,000
Borrower’s funds	<u>812,880</u>	Financing costs	<u>17,880</u>
Total Sources	<u>\$1,412,880</u>	Total Uses	<u>\$1,412,880</u> <sup>1</sup>
<sup>1</sup> Fund Debt Service Reserve, if market conditions warrant.			
<b>Legal Review:</b> Staff has reviewed the applicant’s responses to the questions contained in the Legal Status portion of the application. The information disclosed does not appear to question the financial viability or legal integrity of this applicant.			
<b>Staff Recommendation:</b> Staff recommends the Authority approve a Resolution in an amount not to exceed \$600,000,000 for Cedars-Sinai Medical Center, subject to a bond rating of at least an “A” category rating by a nationally recognized rating agency.			

**STAFF SUMMARY AND RECOMMENDATION  
Cedars-Sinai Medical Center (CSMC)**

June 25, 2009

Resolution Number: 344

**I. PURPOSE OF FINANCING:**

CSMC seeks to invest approximately \$1.4 billion for various capital improvement projects. These projects will enable CSMC to meet the needs of its patients. The capital needs of CSMC will far exceed the bond proceeds. However, CSMC will be able to fund the remaining balance with internal funds and fund raising proceeds.

***Construction* ..... \$1,395,000,000**

*Advanced Health Science Pavilion*

The Advanced Health Science Pavilion will include an outpatient procedures and research center that will provide space for certain of its research activities and its Centers of Excellence. The space will encompass approximately 390,000 square feet for programs plus approximately 367,000 square feet of parking.

*Facility Improvements and Upgrades*

Improvements and upgrades will be made to nursing units, the emergency department, patient room remodels, research wet lab, imaging, pathology and other renovations that recur over time. These improvements and upgrades will continue beyond 2012, but bond proceeds will be available for the projects only during the next three years.

*Information Systems*

Proceeds will be used for the design, build, and implementation of the Epic Clinical Systems and the Epic electronic medical record system (EMR). Work on this system is expected to be substantially completed by 2012.

*Routine Capital Expenditures*

CSMC anticipates making approximately \$170 million of routine capital expenditures, primarily for equipment over the next three years and will make expenditures in excess of \$20 million per year thereafter.

***Financing Costs* ..... 17,880,000**

*Original Issue Discount* ..... 11,880,000

*Cost of Issuance* ..... 6,000,000

***Total Uses of Funds* ..... \$1,412,880,000<sup>2</sup>**

<sup>2</sup> Depending on market conditions, a portion of the proceeds may be allocated to a Debt Service Reserve.

## II. FINANCIAL STATEMENTS AND ANALYSIS:

### Cedars-Sinai Medical Center Statement of Activities (\$000)

	Unrestricted		
	For the Year Ended June 30,		
	2008	2007	2006
<b>Unrestricted net assets activity</b>			
Unrestricted revenues, gains and other support:			
Net patient service revenues	\$ 1,782,288	\$ 1,615,383	\$1,496,687
Premium revenues	55,007	51,224	50,153
Other operating revenues	99,679	77,681	71,900
Investment results used for operations	(3,418)	10,647	5,639
Net assets released from restrictions	108,452	84,789	74,196
Total revenue and support	<u>2,042,008</u>	<u>1,839,724</u>	<u>1,698,575</u>
<b>Expenses:</b>			
Salaries and related costs	909,562	844,996	761,018
Professional fees	70,400	63,178	60,404
Materials, supplies and other	662,630	586,620	596,477
Interest	33,096	33,994	32,637
Depreciation and amortization	77,856	84,411	83,925
Provision for uncollectible accounts	134,707	126,304	112,352
Total expenses	<u>1,888,251</u>	<u>1,739,503</u>	<u>1,646,813</u>
Operating income	157,757	100,221	51,762
Investment results retained for future operating and capital needs	6,769	79,734	44,878
	<u>164,526</u>	<u>179,955</u>	<u>96,640</u>
Net assets released from restrictions used for the purchase of property and equipment	9,655	1,040	1,005
Reduction of minimum pension liability	-	-	22,431
Effect of adoption of measurement provisions of FASB Statement No. 158	(2,411)	-	(23,703)
Amortization of prior service costs	3,835	2,964	-
<b>Change in unrestricted net assets</b>	<b><u>175,605</u></b>	<b><u>183,959</u></b>	<b><u>96,373</u></b>
Unrestricted net assets, beginning of year	1,295,605	1,040,006	920,303
Unrestricted net assets, end of year	<u>\$ 1,483,520</u>	<u>\$ 1,295,605</u>	<u>\$ 1,040,006</u>

**Cedars-Sinai Medical Center**  
**Financial Position (\$000)**

	As of June 30,		
	2008	2007	2006
<b>Assets:</b>			
Cash and cash equivalents	\$ 146,734	\$ 291,821	\$ 160,170
Investments	346,001	105,081	147,084
Board designated assets	299,277	249,884	211,939
Current portion of assets limited as to use	9,808	9,415	9,300
Patient accounts receivable	344,674	352,760	329,162
Inventory	13,022	12,565	13,960
Prepaid expenses and other assets	41,207	43,830	40,345
Total current assets	<u>1,200,723</u>	<u>1,065,356</u>	<u>911,960</u>
Assets limited as to use, less current portion	5,233	9,284	4,629
Property and equipment, net	928,693	871,184	842,656
Investments	135,484	129,805	109,756
Assets restricted for acquisition of property & equip	3,676	8,158	6,995
Pledges receivable	97,106	88,917	56,797
Permanently restricted assets	185,665	171,715	154,990
Other assets	43,919	41,356	41,451
Total assets	<u>\$ 2,600,499</u>	<u>\$ 2,385,775</u>	<u>\$ 2,129,234</u>
<b>Liabilities and net assets:</b>			
Current liabilities:			
Accounts payable and other accrued liabilities	\$ 149,273	\$ 131,715	\$ 136,521
Due to third-party payers	12,996	6,341	4,126
Accrued payroll and related liabilities	146,429	135,983	117,967
Current maturities of long-term debt	12,995	12,305	11,870
Total current liabilities	<u>321,693</u>	<u>286,344</u>	<u>270,484</u>
Long-term debt, less current maturities	711,889	725,844	739,111
Accrued workers' compensation and malpractice insurance claims, less current portion	48,375	45,757	36,677
Other liabilities	35,022	32,225	42,956
Net assets:			
Unrestricted	1,057,970	886,365	702,406
Temporarily restricted	239,885	237,525	182,610
Permanently restricted	185,665	171,715	154,990
Total net assets	<u>1,483,520</u>	<u>1,295,605</u>	<u>1,040,006</u>
Total liabilities and net assets	<u>\$ 2,600,499</u>	<u>\$ 2,385,775</u>	<u>\$ 2,129,234</u>

**Financial Ratios:**

**Proforma (a)**  
**FYE June, 2008**

Debt service coverage (x)	3.37	6.31	6.59	4.04
Debt/Unrestricted Net Assets (x)	0.41	0.01	0.37	0.41
Margin (%)		7.53	5.45	3.05
Current Ratio (x)		3.73	3.72	3.37

(a) Recalculates 2008 audited results to include the impact of this proposed financing.

## **Financial Discussion:**

**CSMC's income statement appears to demonstrate increased revenues over the last three fiscal years.**

Total revenue has increased 17% from approximately \$1.7 billion in FY 2006 to \$2 billion in FY 2008. This primarily appears to be a result of increased utilization for outpatient services with outpatient visits increasing by an annual compound growth rate of approximately 5% to 350,405 visits in FY 2008 from 319,425 visits during FY 2006. Also, patient days have declined by an annual growth rate of 1% to 273,128 during FY 2008 from 277,539 during FY 2006. This decline was intended as CSMC focused on reducing the average length of stay over this period. Net patient service revenue, however, also increased from \$1.5 billion in FY 2006 to \$1.8 billion in FY 2008. The increase appears to be attributed to an increase in rates, admissions, and outpatient surgery volumes.

Sources of net patient services revenue remained steady during the last three fiscal years with HMO/PPO providing the largest portion of payments. Medicare was the second largest source of revenue averaging about 26% over this three-year period. Reflecting the continuing trend away from indemnity plans, commercial insurance contributed approximately 8% of net patient services revenue during FY 2008. Medi-Cal payments averaged about 4% of net patient services revenues during the last three fiscal years.

During the review period, total expenses have increased by \$241 million or 15%, seeming to keep in line with the growth in revenues. Salaries and related costs increased by 16% from \$761 million in FY 2006 to \$909 million in FY 2008. CSMC reports the increase in salaries is due to the expected annual wage increase/market adjustment, full-time equivalent increases due to nurse staffing regulations, and program growth. CSMC generated investment income losses of \$110 million in FY 2006 and \$50.1 million in FY 2008. The changes in investment income reflected fluctuations in market conditions between fiscal periods.

**CSMC appears to exhibit a strong balance sheet with adequate liquidity.**

CSMC's balance sheet appears to continue growing with total net assets increasing from \$1 billion in FY 2006 to \$1.48 billion in FY 2008, an increase of 43%. CSMC experienced an increase in unrestricted net assets from \$702 million in FY 2006 to \$1 billion in FY 2008 due to an increase in cash and investments. Patient accounts receivables increased from \$329 million in FY 2006 to \$345 million in FY 2008 as a result of higher volumes and utilization. The debt service coverage is a solid 6.31x and with the proposed financing, the proforma debt service coverage ratio appears to remain solid at 3.37x, indicating CSMC can likely manage additional debt.

### **III. BACKGROUND:**

Cedars-Sinai Medical Center (“CSMC”), a California nonprofit public benefit corporation, incorporated in 1961, owns and operates a major tertiary medical center in Los Angeles, California. CSMC is situated on an approximately 26-acre site and includes a 1.7 million square foot main medical center complex supported by an additional 891,000 square feet in adjacent research and ancillary facilities. In addition, CSMC owns an adjacent outpatient Surgery Center and the Mark Goodson Building, an offsite ambulatory care facility of approximately 269,000 square feet of space, including parking. As a teaching hospital, CSMC serves as a regional resource with a full complement of primary care, specialty and subspecialty services.

As one of the largest nonprofit hospitals in the western United States, CSMC has combined expertise in technology, research and the provision of patient care to create a standard of excellence in healthcare. The campus is comprised of multiple patient care buildings totaling over 2.3 million square feet of available space for inpatient and outpatient services. CSMC is currently licensed for 952 beds, of which 909 were available for use as of January 31, 2009. CSMC’s facilities are in compliance with the California seismic safety requirements and will not require any construction, retrofitting or relocation of core services and facilities in order to fully comply with such requirements until 2030.

CSMC provides comprehensive health services to a diverse population of approximately 3.8 million people who reside in the central, western and southern portions of metropolitan Los Angeles and the southern San Fernando Valley.

#### **Cedars-Sinai Medical Care Foundation (“The Foundation”)**

Formed as a California nonprofit public benefit corporation in December 1993, the Foundation operates and maintains multispecialty clinics, holds payor contracts and the assets of acquired physician and physician group practices, and contracts for physician services pursuant to professional services agreements. The Foundation is affiliated with approximately 660 physicians with practices situated on the west side of Los Angeles and manages approximately 58,000 commercial and senior managed care capitated lives. The Corporation is the sole corporate member of the Foundation.

#### **Licenses and Contracts**

CSMC is licensed by the State of California Department of Health Services. CSMC is accredited by the Joint Commission. CSMC has received several certifications, including: American Heart Association First Hour Designation, Emergency Department Approved for Pediatrics, Commission on Cancer Certificate of Approval, and American Diabetes Association Certificate of Recognition. CSMC holds memberships in the American Hospital Association, the California Hospital Association, the Hospital Council of Southern California, the Association of Western Hospitals, the Voluntary Hospitals of America, and the Council of Teaching Hospitals of the Association of American Medical Colleges.

## Governance

CSMC is governed by its Board of Directors, which shall consist of not less than 15 nor more than 42 members. Each member of the Board of Directors is elected initially to a one- or two-year term at the December Board of Directors meeting and is subject to reelection for an unlimited number of subsequent one- or two-year terms in accordance with CSMC's bylaws.

## IV. UTILIZATION STATISTICS:

### Cedars-Sinai Medical Center

	<b>Fiscal Year Ended June 30</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Occupancy (as % of Available Beds)	81.9%	82.8%	88.6%
Admissions <sup>1</sup>	48,269	48,735	47,444
Patient Days <sup>1</sup>	273,128	280,079	277,539
Average Length of Stay (days) <sup>1</sup>	5.7	5.7	5.8
Emergency Room Visits	77,964	76,661	77,038
Outpatient Visits	350,405	339,452	319,425

<sup>1</sup> Average length of stay is defined as patient days divided by admissions.

## V. OUTSTANDING DEBT:

As of fiscal year ending June 30, 2008, CSMC had approximately \$712 million in outstanding long-term debt of which \$679 million is Authority debt. With this bond financing, CSMC's outstanding debt will increase approximately \$600 million for a total of \$1.3 billion 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):** CSMC 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):** CSMC properly completed and submitted this certification and indicated that Medi-Cal and Medicare patients are accepted.
- **Compliance with Seismic Regulations:** CSMC properly completed and submitted a description of its seismic requirements.
- **Compliance with Section 15455(b) of the Act (California Environmental Quality Act):** CSMC 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.**