

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

<p>Applicant: Catholic Healthcare West (Obligated Group) (“CHW”) San Francisco, California San Francisco County</p> <p>Obligated Group: See page 11</p> <p>Project Sites: Various</p> <p>Facility Types: General acute/sub acute and outpatient care, acute psychiatric, chemical dependency rehabilitation, outpatient surgery, and skilled nursing services</p>	<p>Amount Requested: \$90,000,000</p> <p>Date Requested: Oct. 8, 2009</p> <p>Requested Loan Term: 30 years</p> <p>Resolution Number: 348</p>																
<p>Background: 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”). The CHW System operates 41 hospitals throughout California, Arizona and Nevada.</p>																	
<p>Use of Proceeds: CHW will utilize proceeds for the exchange process on the CHFFA Variable Rate Health Facility Revenue Bonds (Catholic Healthcare West Loan Program) 2004 Series J.</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 information that was disclosed 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 \$90,000,000 for Catholic Healthcare West subject to a bond rating of at least an “A” category rating by a nationally recognized rating agency.</p>																	

STAFF SUMMARY AND RECOMMENDATION
Catholic Healthcare West (“CHW”)

October 8, 2009

Resolution Number: 348

I. POLICY ISSUES:

The Authority adopted bond issuance guidelines in September 2000 including a minimum debt service coverage ratio of 1.25x. The Authority then acknowledged that exceptions to the guidelines may be considered if the applicant demonstrates such exception is a necessary part of a cost-effective and prudent borrowing strategy. CHW’s 1986 Master Indenture requires maintenance of a minimum debt service coverage of 1.10x and also requires that certain non-cash items, including unrealized investment losses, be included in the calculation of income available for debt service when determining debt service coverage. CHW is currently seeking to amend its Master Indenture to exclude non-cash items from the calculation of income available for debt service when determining debt service coverage. Such a methodology is consistent with the methodology used by many other health care system providers that operate under more modern master indenture documents. Employing this more modern methodology would then require CHW to maintain minimum debt service coverage in excess of 1.25x for FY 2009. In consideration of the historical and current financial strength of CHW (its current proforma debt service coverage as of FY 2009 is a negative 0.72x however, based on operational-only results proforma debt service coverage is a solid 3.10x) and the extraordinary financial market conditions over the last year, staff recommends that the debt service coverage requirement of 1.25x be waived and the master indenture requirement of a minimum debt service coverage of 1.10x be permitted.

II. PURPOSE OF FINANCING: CHW has an opportunity to restructure a portion of its pooled equipment bonds, which will allow CHW to diversify its exposure to liquidity and credit providers by replacing a Bank of America, N.A., letter of credit with a Citibank, N.A., letter of credit.

Exchange bonds 90,000,000

CHW plans to utilize the exchange process for the CHFFA 2004 Series J Bonds. This process will enable CHW to replace the current letter of credit, issued by Bank of America, N.A., with a letter of credit issued by Citibank. Because the Citibank, N.A., letter of credit is being issued through a unique program that requires the letter of credit to support newly issued bonds, a simple substitution cannot be done. The original bonds were used to finance, refinance and/or reimburse CHW and certain related corporations of CHW for amounts expended in connection with capital acquisitions, capital improvements or equipment acquisitions.

Costs of Issuance..... 1,800,000

***Total Uses of Funds* \$91,800,000**

III. FINANCIAL STATEMENTS AND ANALYSIS:

CATHOLIC HEALTHCARE WEST - SYSTEM*

Financial Position

(continued)

	As of June 30,		
	2009	2008	2007
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 868,964	\$ 611,110	\$ 496,312
Short-term investments	397,011	537,405	468,444
Collateral held under securities lending program	298,091	386,851	424,796
Assets limited as to use	1,067,718	1,364,830	528,814
Patient accounts receivable, net	1,243,837	1,197,384	1,079,495
Other current assets	433,339	321,335	340,853
Total current assets	<u>4,308,960</u>	<u>4,418,915</u>	<u>3,338,714</u>
Assets limited as to use:			
Board-designated assets for:			
Capital projects	2,141,324	2,259,275	2,276,567
Workers' compensation	296,054	285,223	305,960
Hospital professional and general liability	172,426	203,482	232,570
Under bond indenture agreements for:			
Capital projects	353,940	511,094	855,357
Debt service	111,862	142,818	53,182
Bond reserves	26,539	45,093	46,256
Donor-restricted	381,580	431,899	393,707
Other	59,295	59,806	61,659
Less: amount required to meet current obligations	<u>(1,067,718)</u>	<u>(1,364,830)</u>	<u>(528,814)</u>
Net assets limited as to use	<u>2,475,302</u>	<u>2,573,860</u>	<u>3,696,444</u>
Property and equipment, net	3,782,449	3,404,351	2,945,174
Ownership interests in health-related activities	311,996	324,091	308,230
Assets held for sale	-	-	24,825
Other long-term assets, net	197,349	160,857	206,890
Total assets	<u>\$ 11,076,056</u>	<u>\$ 10,882,074</u>	<u>\$ 10,520,277</u>

(Continued)

*The Obligated Group consists of 96% of the consolidated unrestricted net assets of the CHW System.

CATHOLIC HEALTHCARE WEST - SYSTEM*

Financial Position

(continued)

	As of June 30,		
	2009	2008	2007
LIABILITIES AND NET ASSETS			
Current liabilities:			
Current portion long-term debt	\$ 61,581	\$ 106,591	\$ 25,745
Demand bonds subject to short-term liquidity arrangements	880,275	1,129,900	384,000
Accounts payable	370,852	329,664	323,380
Payable under securities lending program	304,781	386,851	424,796
Due to government agencies	18,756	24,334	23,632
Accrued salaries and benefits	454,286	403,914	363,515
Accrued workers' compensation	40,255	41,584	41,380
Accrued hospital professional and general liability	34,608	45,485	45,585
Pension and other post-retirement liabilities	210,766	156,949	209,728
Other accrued liabilities	543,728	365,237	231,504
Total current liabilities	<u>2,919,888</u>	<u>2,990,509</u>	<u>2,073,265</u>
Other liabilities:			
Worker's compensation	209,321	198,311	192,465
Hospital professional and general liability	127,725	150,838	180,640
Pension and other postretirement liabilities	723,110	176,760	385,150
Other	205,029	161,828	144,406
Total other liabilities	<u>1,265,185</u>	<u>687,737</u>	<u>902,661</u>
Long-term debt, net of current portion	<u>3,359,251</u>	<u>2,872,965</u>	<u>3,665,644</u>
Total Liabilities	<u>7,544,324</u>	<u>6,551,211</u>	<u>6,641,570</u>
Net assets:			
Unrestricted	3,155,600	3,905,187	3,492,519
Temporarily restricted	285,870	337,170	300,562
Permanently restricted	90,262	88,506	85,626
Total net assets	<u>3,531,732</u>	<u>4,330,863</u>	<u>3,878,707</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 11,076,056</u></u>	<u><u>\$ 10,882,074</u></u>	<u><u>\$ 10,520,277</u></u>

Financial Ratios:

**Proforma (a)
FYE June, 2009**

	(0.72) (a)(b)	(0.72) (c)	2.98	5.19
Debt service coverage (x)				
Debt/Unrestricted Net Assets (x)	1.37	1.36	1.05	1.17
Margin (%)		2.92	1.90	4.01
Current Ratio (x)		1.48	1.48	1.61

(a) Recalculates FY 2009 audited results to include the impact of this proposed financing.

(b) Calculating the proforma debt service coverage ratio using only operating results will remain 3.10x

(c) Calculating the FY 2009 debt service coverage ratio using only operating results equals 3.10x

*The Obligated Group consists of 96% of the consolidated unrestricted net assets of the CHW System.

CATHOLIC HEALTHCARE WEST - SYSTEM*

Statement of Activities

(Unrestricted)

(Continued)

	As of June 30,		
	2009	2008	2007
Revenues and other support:			
Net patient revenue	\$ 8,234,194	\$ 7,596,186	\$ 6,723,481
Premium revenue	485,255	505,759	418,021
Revenue from health-related activities, net	12,241	66,824	104,314
Contributions	22,018	24,346	28,387
Other operating revenue	204,196	208,380	202,741
Total revenues & support	<u>8,957,904</u>	<u>8,401,495</u>	<u>7,476,944</u>
Expenses:			
Salaries and benefits	4,511,516	4,175,946	3,739,427
Supplies	1,307,267	1,217,708	1,098,499
Provision for bad debts	680,585	649,276	551,045
Purchased services and other	1,636,322	1,582,153	1,319,204
Depreciation	386,643	345,207	298,723
Interest, net	171,601	181,532	153,602
Loss on early extinguishment of debt	2,844	68,213	16,779
Special charges	-	21,424	-
Total expenses	<u>8,696,778</u>	<u>8,241,459</u>	<u>7,177,279</u>
Operating income	261,126	160,036	299,665
Other income:			
Investment income, net	<u>(387,471)</u>	<u>9,922</u>	<u>591,593</u>
Excess of revenues over expenses	<u>(126,345)</u>	<u>169,958</u>	<u>891,258</u>
Unrestricted net assets:			
Excess of revenues over expenses	(126,345)	\$ 169,958	\$ 891,258
Effect of changes in accounting principles	(37,648)	-	(381,745)
Net assets acquired in merger	-	-	154,128
Net unrealized gains (losses) on investments	(3,045)	-	(194,369)
Net assets released from restrictions	15,005	18,470	19,362
Funded status: pension/ ther post-retirement benefit plans	(557,321)	197,072	51,739
Gain (loss) from discontinued operations	437	34,461	820
Change in fair value of interes rate swaps	(56,871)	(42,658)	13,052
Donated property and equipment	16,712	30,016	14,372
Other	<u>(511)</u>	<u>5,349</u>	<u>(1,556)</u>
Increase in unrestricted net assets	<u>(749,587)</u>	<u>412,668</u>	<u>567,061</u>

(Continued)

*The Obligated Group consists of 96% of the consolidated unrestricted net assets of the CHW System

CATHOLIC HEALTHCARE WEST - SYSTEM*

Statement of Activities

(Unrestricted)

(Continued)

As of June 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Temporarily restricted net assets:			
Contributions	39,114	99,620	40,380
Net assets acquired in merger	-	-	10,551
Net realized/unrealized gains (losses) on investments	(5,173)	(2,693)	7,182
Net assets released from restrictions	(46,220)	(53,257)	(44,260)
Interest in net assets of unconsolidated foundations	(40,016)	(7,407)	27,998
Other	995	345	(1,875)
Increase in temporarily restricted net assets	<u>(51,300)</u>	<u>36,608</u>	<u>39,976</u>
Permanently restricted net assets:			
Contributions	546	1,477	716
Net assets acquired in merger	-	-	3,810
Net realized/unrealized gains on investments	122	96	61
Interest in net assets of unconsolidated foundations	1,089	1,359	717
Other	(1)	(52)	(5,027)
Increase in permanently restricted net assets	<u>1,756</u>	<u>2,880</u>	<u>277</u>
Increase in net assets	(799,131)	452,156	607,314
Net assets, beginning of year	<u>4,330,863</u>	<u>3,878,707</u>	<u>3,271,393</u>
Net assets, end of year	<u><u>3,531,732</u></u>	<u><u>4,330,863</u></u>	<u><u>3,878,707</u></u>

*The Obligated Group consists of 96% of the consolidated unrestricted net assets of the CHW System

Financial Discussion:

CHW's income statement appears to exhibit positive operating results - over the review period along with increasing revenue.

Important Facts to Note:

- The CHW System reported consolidated operating income of \$261 million for fiscal year 2009 compared to a consolidated operating income of \$160 million for fiscal year 2008. In fiscal year 2009, revenues increased 6.6% as compared to fiscal year 2008. Adjusted patient days increased 1% in fiscal year 2009 compared to fiscal year 2008 and adjusted admissions increased 2.1% over the same period. Net patient and premium revenue per adjusted patient day increased 7.6% in fiscal year 2009 compared to fiscal year 2008, primarily as a result of managed care contract renewals and renegotiations and improvements in upfront collection processes. Income from health-related activities, net, included \$6.7 million of non-cash loss related to CHW's interest in the change in unrestricted net assets of Scripps Health compared to \$22.9 million of income in fiscal year 2008.
- Salaries and benefits expense increased 8% in fiscal year 2009 as compared to fiscal year 2008, or 8% per adjusted patient day. The increase was due to staffing level increases and increased wage and benefit costs.
- Supply expense increased 7.4% in fiscal year 2009 as compared to fiscal year 2008, or 7.3% per adjusted patient day. Increased costs related primarily to prosthetics and spine implants due to new technology. Laboratory supply cost increased due to increased screening tests for drug resistant bacteria. Pharmaceuticals and blood products account for the balance of the increase.
- Provision for bad debts, as a percentage of net patient and premium revenues, decreased to 7.8% in fiscal year 2009 from 8.0% in fiscal year 2008 primarily as a result of improvements in billing and collections and technology to collect at the point of service and improved collaboration with payors.
- Purchased services increased 3.4% in fiscal year 2009 compared to fiscal year 2008. Cost increases in fiscal year 2009 were minimized as a result of cost containment efforts across many expense categories and also the change in arrangement for information technology management services so that more is provided by employees and less by an outside vendor.
- Depreciation expense was \$386.6 million in fiscal year 2009 compared to \$345.2 million in fiscal year 2008. The increase was associated with capital expenditures.
- Interest expense, net, decreased to \$171.6 million in fiscal year 2009 from \$181.5 million in fiscal year 2008. Within interest expense, market adjustments on swaps was a \$8.7 million non-cash loss during fiscal year 2009, compared to a \$17.9 million non-cash loss during fiscal year 2008. Excluding the effect of market adjustments on swaps, interest expense was comparable between years.

- Losses on early extinguishment of debt of \$2.8 million and \$68.2 million for fiscal year 2009 and 2008, respectively, were recorded related to restructuring of certain variable rate demand bonds in fiscal year 2009 and auction rate securities in fiscal year 2008.
- Fiscal year 2008 operating results included the planned closure of one facility for 10 days for mold remediation. This resulted in \$21.4 million of special charges related to costs for shutting down the facility, performing the remediation, then reopening the facility and ramping up activity, and lost net patient revenues estimated at approximately \$13 million, resulting in total estimated closure related costs of approximately \$34.4 million during fiscal year 2008.
- Net investment results were a loss of \$387.5 million in fiscal year 2009 compared to \$9.9 million in fiscal year 2008. The losses in fiscal year 2009 were due to the drop in global financial markets, which began in fiscal year 2008. Investment results included unrealized losses of \$369.5 million in fiscal year 2009 and \$194.2 million in fiscal year 2008.
- The consolidated excess (deficit) of revenues over expenses, which is the sum of operating income and investment results, was a loss of \$126.3 million in fiscal year 2009 compared to a gain of \$170 million in fiscal year 2008.

CHW's balance sheet also appears solid with a strong operating debt service coverage ratio and steady net assets.

Important Facts to Note:

- CHW's balance sheet remains steady with total net assets ranging from \$3.9 billion in fiscal year 2007 down to \$3.5 billion in fiscal year 2009. Capital resources, consisting of cash and cash equivalents, short-term investments and Board-designated assets for capital projects, amounted to \$3.4 billion for both fiscal years 2009 and 2008. The investment losses were offset by favorable operating cash flow and reduced capital spending in fiscal year 2009.
- Since this bond transaction is a refunding/exchange, the proforma debt service coverage ratio remains unchanged at negative 0.72x for fiscal year 2009. Investment losses impact the calculation of the debt service coverage ratio. However, these investment losses are non-cash charges and are not due to operations. Taking this into account, when the debt service coverage ratio is calculated using only operational results, the fiscal year 2009 operating debt service coverage ratio improves to a solid 3.10x and again, since this is a refunding/exchange, the proforma operating debt service coverage ratio remains 3.10x.

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 Arizona and Nevada metropolitan markets. The CHW System’s facilities currently include approximately 8,800 licensed acute care beds and approximately 900 licensed skilled nursing beds. The CHW System maintains prominent market shares in many of its service areas, and many of its hospitals rank among the finest in the nation. 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 CHW System operates under a single operating company model utilizing a variety of common corporate services. The CHW System also utilizes a common accounting system, common accounting practices and a single internal audit firm, Catholic Healthcare Audit Network, LLC. A single corporate financial planning model, budget process and capital allocation process is in place. CHW utilizes centralized debt compliance monitoring and unified debt management on behalf of the CHW System. Daily cash management is also under common administration, as is pooled investment management.

The hospital activities of the sponsors of 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, through mergers, affiliations and development of expanded markets. 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. Please see page 12 for a chart of the Members of the Obligated Group. 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 have assumed any financial obligation related to payment of or security for the Bonds or any other obligations incurred under the Master Indenture. The Non-Member Entities in the CHW System represented approximately 1% of the consolidated revenue and 4-5% of consolidated unrestricted net assets of the CHW System for the fiscal years ended June 30, 2009, 2008 and 2007, as shown in the audited financial statements for those years.

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, and mergers and dissolutions, 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 seven Obligated Group Members: CHW, which directly owns and operates 35 acute care hospitals, of which two hospital facilities are leased to CHW until 2049, one hospital facility is leased to CHW until 2033 and one is leased until 2056, plus six subsidiary corporations. Of the six subsidiary corporations that are Obligated Group Members, four operate hospitals. These four subsidiary Obligated Group Members operate four acute care hospitals. In total, in the Obligated Group, there are 39 licensed acute care hospitals that are covered by 36 licenses (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, Woodland, Stockton, Grass Valley, Santa Cruz and Redwood City, California areas and has professional services agreements with professional corporations that employ approximately 370 physicians and extenders, and Mercy Senior Housing, Inc., which provides assisted living 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>Service Areas</u>
Catholic Healthcare West	N/A	San Francisco, CA	
Arroyo Grande Community Hospital	Acute Care	Arroyo Grande, CA	Central Coast
California Hospital Medical Center – Los Angeles	Acute Care	Los Angeles, CA	Greater Los Angeles
Chandler Regional Medical Center	Acute Care	Chandler, AZ	Arizona
Dominican Hospital	Acute Care	Santa Cruz, CA	Greater Bay Area
French Hospital Medical Center	Acute Care	San Luis Obispo, CA	Central Coast
Glendale Memorial Hospital and Health Center	Acute Care	Glendale, CA	Greater Los Angeles
Marian Medical Center (two locations)	Acute Care	Santa Maria, CA	Central Coast
Mercy General Hospital	Acute Care	Sacramento, CA	Greater Sacramento
Mercy Gilbert Medical Center	Acute Care	Gilbert, AZ	Arizona
Mercy Hospital (two locations)	Acute Care	Bakersfield, CA	Central California
Mercy Hospital of Folsom	Acute Care	Folsom, CA	Greater Sacramento
Mercy Medical Center Merced (two locations)	Acute Care	Merced, CA	Central California
Mercy Medical Center, Mt. Shasta	Acute Care	Mt. Shasta, CA	North State
Mercy Medical Center Redding	Acute Care	Redding, CA	North State
Mercy San Juan Medical Center	Acute Care	Carmichael, CA	Greater Sacramento
Methodist Hospital of Sacramento	Acute Care	Sacramento, CA	Greater Sacramento
Northridge Hospital Medical Center	Acute Care	Northridge, CA	Greater Los Angeles
Saint Mary’s Regional Medical Center	Acute Care	Reno, NV	Northern Nevada
Sequoia Hospital	Acute Care	Redwood City, CA	Greater Bay Area
St. Bernardine Medical Center	Acute Care	San Bernardino, CA	Greater Los Angeles
St. Elizabeth’s Community Hospital	Acute Care	Red Bluff, CA	North State
St. John’s Pleasant Valley Hospital	Acute Care	Camarillo, CA	Central Coast
St. John’s Regional Medical Center	Acute Care	Oxnard, CA	Central Coast
St. Joseph’s Behavioral Health Center	Acute Psychiatric	Stockton, CA	Central California
St. Joseph’s Hospital and Medical Center	Acute Care	Phoenix, AZ	Arizona
St. Joseph’s Medical Center of Stockton	Acute Care	Stockton, CA	Central California
St. Mary Medical Center	Acute Care	Long Beach, CA	Greater Los Angeles
St. Mary’s Medical Center	Acute Care	San Francisco, CA	Greater Bay Area
St. Rose Dominican Hospital Rose de Lima Campus	Acute Care	Henderson, NV	Southern Nevada
St. Rose Dominican Hospital San Martin Campus	Acute Care	Las Vegas, NV	Southern Nevada
St. Rose Dominican Hospital Siena Campus	Acute Care	Henderson, NV	Southern Nevada
Woodland Memorial Hospital	Acute Care	Woodland, CA	Greater Sacramento
Bakersfield Memorial Hospital	Acute Care	Bakersfield, CA	Central California
Community Hospital of San Bernardino	Acute Care	San Bernardino, CA	Greater Los Angeles
Mercy Senior Housing, Inc. ⁽¹⁾	N/A	Sacramento, CA	Greater Sacramento
CHW Medical Foundation ⁽²⁾	N/A	Various	Various
Saint Francis Memorial Hospital	Acute Care	San Francisco, CA	Greater Bay Area
Sierra Nevada Memorial-Miners Hospital	Acute Care	Grass Valley, CA	Greater Sacramento

⁽¹⁾ Operates a residential care facility.

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

Licensure, Certification and Accreditation

Each of the hospitals operated by an Obligated Group Member is 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. Each skilled nursing facility unit operated by an Obligated Group Member is certified to participate in the Medicare and 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 nineteen-member (19) Board of Directors. The Board of Directors, in turn, approves the election of the governing bodies for each of the Obligated Group Members, except that CHW's powers to approve directors are subject to restrictions in certain cases as noted under the Obligated Group. The Board of Directors is currently comprised of the seven corporate members and the President/Chief Executive Officer of CHW, and all other members are independent directors without any other formal relationship with CHW or its affiliates.

The Board of Directors has established "Hospital Community Boards" for the 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 and may do so through direct authorizing resolutions or the Board may from time to time implement or amend formal policies regulating certain of these activities.

V. UTILIZATION STATISTICS:

The following table shows utilization statistics for the acute care hospitals operated by the Obligated Group Members for the fiscal years ended June 30, 2009, 2008 and 2007:

	Fiscal Year Ended June 30 ³		
	2009	2008	2007
Licensed Acute Beds ^{1,2}	8,777	8,624	8,503
Acute Admissions ¹	406,384	403,983	385,550
Acute Patient Days ¹	1,793,283	1,820,421	1,723,521
Acute Average Length of Stay (days) ¹	4.4	4.5	4.5
Medicare PPS Acute Average Length of Stay (days)	5.0	5.2	5.1
Outpatient Revenue as a % of Total Patient Service Revenue	32%	30%	29%

¹ Acute care statistics include psychiatric and rehabilitation beds.

² Licensed beds include beds in suspense status.

³ Amounts for all periods exclude statistics for facilities that have been closed and/or disposed of. They also exclude healthcare services provided by facilities within the CHW System that are outside the Obligated Group. Saint Mary's Regional Medical Center is included beginning January 1, 2007, the date of merger into CHW

VI. OUTSTANDING DEBT:

As of fiscal year ending June 30, 2009, CHW has approximately \$4.3 billion in outstanding debt of which \$1.9 billion is Authority debt. Since this bond transaction is a refunding/exchange, CHW's outstanding debt remains unchanged at \$4.3 billion.

VII. DUE DILIGENCE:

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

- **Section 15438.5(a) of the Act (Savings Pass Through):** CHW 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):** CHW properly completed and submitted this certification and indicated that Medi-Cal and Medicare patients are accepted.
- **Compliance with Seismic Regulations:** CHW properly completed and submitted a description of its seismic requirements.
- **Compliance with Section 15455(b) of the Act (California Environmental Quality Act):** CHW 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

Financing Team

System Counsel:	Manatt , Phelps & Phillips, LLP
Financial Advisor to CHW:	Kaufman, Hall & Associates, Inc.
Underwriter Counsel:	Orrick, Herrington & Sutcliff LLP
SWAP Counsel:	McDermott Will & Emery LLP
Auditor:	Deloitte & Touche
Master Trustee:	U.S. Bank N.A,
Master Trustee Counsel:	Dorsey & Whitney
Bond Trustee:	The Bank of New York Trust Company, N.A.
Bond Trustee Counsel:	Davis Wright Tremaine LLP