

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

STAFF SUMMARY RECOMMENDATION

KAISER FOUNDATION HOSPITALS

Supplement and Amendment to Resolution No. 425

December 7, 2017

AMOUNT APPROVED:	\$4,400,000,000
PRIOR AMOUNT ISSUED:	\$2,126,475,000
PROPOSED AMOUNT TO ISSUE:	Not to Exceed \$2,250,000,000
PRIOR APPROVAL DATE:	March 23, 2017
PROJECT SITES:	See Exhibit 1 for list of project sites
FINANCING TEAM:	See Exhibit 2 to identify possible conflicts of interest

PURPOSE OF THE SUPPLEMENT AND AMENDMENT

Kaiser Foundation Hospitals (“Kaiser”) seeks to authorize a Supplement and Amendment to Resolution No. 425 (the “Resolution”) to include additional projects identified in Attachment 1.

BACKGROUND

In March 2017, the Authority approved the Resolution, authorizing the issuance of one or more series of revenue bonds in an amount not to exceed \$4,400,000,000 over a period of five years. Bond proceeds were authorized to be used for the financing and/or reimburse costs of construction, expansion, remodeling, renovation, furnishing, equipping, acquisition and other capital projects. Bond proceeds were also authorized to refinance and/or refund prior debt.

In May 2017, Kaiser issued approximately \$2.1 billion in tax-exempt bonds to refund prior debt as well as for eligible projects that were identified at that time and approved by the Authority. Prior to issuing bonds for additional projects, Kaiser must disclose the projects to the Authority, and ensure the projects are eligible by meeting the California Environmental Quality Act requirements and completing the Tax Equity and Fiscal Responsibility Act process.

FINANCIAL STATUS

An analysis of Kaiser’s three most recent financial statements as of fiscal year end December 2016 was completed at the time of Kaiser’s application in March 2017. No significant or material changes have occurred since completion of the prior analysis. Kaiser’s financial statements for fiscal years 2014, 2015, and 2016 are displayed on pages 2 and 3.

DUE DILIGENCE

Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, and CEQA documentation. All documentation satisfies the Authority’s requirements.

RECOMMENDATION

Staff recommends that the Authority approve the Supplement and Amendment to Resolution No. 425, subject to all prior provisions and conditions remaining unchanged and in full effect. Macias Gini & O’Connell, LLP, the Authority’s financial analyst, and KNN Public Finance, LLC, the Authority’s financial advisor, concur with the Authority’s staff recommendation.

**Kaiser Foundation Health Plan, Inc. and Subsidiaries
and Kaiser Foundation Hospitals and Subsidiaries
Combined Statements of Operations and Changes in Net Worth
(In millions)**

	For the year ended December 31,		
	2016	2015	2014
Revenues: ^(a)			
Members' dues	\$ 43,315	\$ 40,956	\$ 38,587
Medicare	15,414	14,436	13,347
Copays, deductibles, fees, and other	5,822	5,357	4,506
Total operating revenues	<u>64,551</u>	<u>60,749</u>	<u>56,440</u>
Expenses:			
Medical services	30,486	27,732	26,410
Hospital services	16,664	16,364	14,619
Outpatient pharmacy and optical services	7,370	7,059	6,069
Other benefit costs	4,099	3,900	3,468
Total medical and hospital services	<u>58,619</u>	<u>55,055</u>	<u>50,566</u>
Health Plan administration	4,008	3,928	3,697
Total operating expenses	<u>62,627</u>	<u>58,983</u>	<u>54,263</u>
Operating income	<u>1,924</u>	<u>1,766</u>	<u>2,177</u>
Other income and expense:			
Investment income - net	1,379	300	1,101
Interest expense	(183)	(198)	(205)
Total other income and expense	<u>1,196</u>	<u>102</u>	<u>896</u>
Net income	3,120	1,868	3,073
Change in pension and other retirement liability charges	(1,215)	2,997	(5,196)
Change in net unrealized gains (losses) on investments	299	(793)	(110)
Change in restricted donations	(1)	(2)	15
Change in noncontrolling interest	(10)	-	(4)
Change in net worth	<u>2,193</u>	<u>4,070</u>	<u>(2,222)</u>
Net worth at beginning of year	<u>24,897</u>	<u>20,827</u>	<u>23,049</u>
Net worth at end of year	<u>\$ 27,090</u>	<u>\$ 24,897</u>	<u>\$ 20,827</u>

(a) Revenue by Payor Source	FY 2016	FY 2015
Members' dues	67.1%	67.4%
Medicare	23.9%	23.8%
Copays, deductibles, fees, and other	9.0%	8.8%
Total	<u>100%</u>	<u>100%</u>

**Kaiser Foundation Health Plan, Inc. and Subsidiaries
and Kaiser Foundation Hospitals and Subsidiaries
Combined Balance Sheets
(In millions)**

	As of December 31,		
Assets	2016	2015	2014
Current assets:			
Cash and equivalents	\$ 434	\$ 210	\$ 288
Current investments	8,677	6,554	6,390
Securities lending collateral	631	1,068	1,528
Broker receivables	767	816	495
Due from associated medical groups	12	5	-
Accounts receivable - net	2,030	1,966	1,841
Inventories and other current assets	1,357	1,422	1,208
Total current assets	13,908	12,041	11,750
Noncurrent investments	25,756	26,189	26,081
Land, buildings, equipment and software - net	24,342	23,782	23,484
Other long-term assets	607	585	600
Total assets	\$ 64,613	\$ 62,597	\$ 61,915
Liabilities and Net Worth			
Current liabilities:			
Accounts payable and accrued expenses	\$ 3,852	\$ 2,977	\$ 3,139
Medical claims payable	1,862	1,750	1,393
Due to associated medical groups	862	784	983
Payroll and related charges	1,828	1,694	1,832
Securities lending payable	631	1,068	1,528
Broker payables	849	1,160	819
Long-term debt subject to short-term remarketing arrangements-net	785	732	1,445
Other current debt	1,904	775	672
Other current liabilities	2,102	2,027	1,759
Total current liabilities	14,675	12,967	13,570
Long-term debt	4,754	6,060	5,505
Physicians' retirement plan liability	6,566	5,730	5,923
Pension and other retirement liabilities	9,148	10,525	13,700
Other long-term liabilities	2,380	2,418	2,390
Total liabilities	37,523	37,700	41,088
Net worth	27,090	24,897	20,827
Total liabilities and net worth	\$ 64,613	\$ 62,597	\$ 61,915

Financial Ratios:	Proforma ^(a)			
	FYE 2016	2016	2015	2014
Debt service coverage (x) -- Operating	11.63	13.15	16.89	11.00
Debt service coverage (x) -- Net	14.78	16.72	17.31	13.24
Debt/Net Worth (x)	0.39	0.27	0.30	0.37
Margin (%)		2.98	2.91	3.86
Current Ratio (x)		0.95	0.93	0.87

^(a) Recalculates FY 2016 results to include the impact of this proposed financing.

EXHIBIT 1

PROJECT SITES

Dublin Specialty Medical Offices	3100 and 3200 Dublin Boulevard, Dublin, California 94568 or otherwise located in the vicinity of the intersection of Dublin Boulevard and Grafton Street in Dublin, California 94568
Redwood City Medical Center and Medical Offices	1100 Veterans Boulevard and 1175 Marshall Street, Redwood City, California 94063
Roseville Medical Offices	1001 Riverside Avenue, Roseville, California 95678
Daly City Medical Offices	395 Hickey Boulevard, Daly City, California 94015
J Street Medical Offices	501 J Street, Sacramento, California 95814
Los Gatos Medical Offices	1650 Los Gatos Drive, San Rafael, California 94903
Fremont Medical Center and Offices	39400 Paseo Padre Parkway, Fremont, California 94538
Irwindale Specialty Medical Offices	12761 Schabarum Avenue, Irwindale, California 91706 or otherwise located in the area between Schabarum Avenue and Interstate 605 in Irwindale, California 91706
Santa Rosa Medical Offices	2240 Mercury Way, Santa Rosa, California 95407 or otherwise located in the vicinity of the intersection of Mercury Way and Apollo Way in Santa Rosa, California 95407
Carson Medical Offices	18600 South Figueroa Street, Gardena (Carson), California 90248
Clairemont Mesa Medical Offices	6911 Convoy Court, San Diego, California 92111 or otherwise located in the vicinity of the intersection of Convoy Court and Shawline Street in San Diego, California 92111
Murrieta Medical Offices	28150 Keller Road, Murrieta, California 92563
Market Street Medical Offices	4949 Market Street, Ventura, California 93003 or otherwise located in the vicinity of the intersection of Market Street and Portola Road in Ventura, California 93003

EXHIBIT 1

PROJECT SITES

(Continued)

Baldwin Hills-Crenshaw Medical Offices	3782 West Martin Luther King Jr. Boulevard, Los Angeles, California 90008
Sacramento Medical Center	Approximately 18 acres of land generally located in the vicinity north of Railyards Boulevard, west of 5th Street, and east of Interstate 5 in Sacramento, California 95811 and 95814
Downey Medical Center	9333 Imperial Highway, Downey, California 90242
Woodland Hills Medical Center	5601 De Soto Avenue, Woodland Hills, California 91367

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EXHIBIT 2

FINANCING TEAM

Borrower: Kaiser Foundation Hospitals

Agent for Sale: California State Treasurer

Issuer's Counsel: Office of the Attorney General

Issuer's Financial Advisor: KNN Public Finance, LLC

Issuer's Financial Analyst: Macias Gini & O'Connell, LLP

Bond Counsel: Orrick, Herrington & Sutcliffe LLP

Special Tax Counsel: Drinker Biddle & Reath LLP

Proposed Private Placement Purchaser(s): Goldman Sachs & Co.
Citigroup Global Markets Inc.
J.P. Morgan Securities, LLC
Morgan Stanley & Co. LLC
Wells Fargo Securities, LLC
Barclays Capital, Inc.

Private Placement Purchaser's Counsel: Squire Patton Boggs (US) LLP

Trustee: Wilmington Trust, National Association

Auditor: KPMG, LLP

RESOLUTION OF THE CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
SUPPLEMENTING AND AMENDING RESOLUTION NO. 425
AUTHORIZING THE ISSUANCE OF
REVENUE BONDS
TO FINANCE AND REFINANCE PROJECTS AT THE HEALTH FACILITIES OF
KAISER FOUNDATION HOSPITALS AND CERTAIN AFFILIATED CORPORATIONS

WHEREAS, the California Health Facilities Financing Authority (the “Authority”), a public instrumentality of the State of California, is authorized and empowered by the provisions of the California Health Facilities Financing Authority Act (the “Act”) to issue revenue bonds and loan the proceeds thereof to any participating health institution to finance the construction, expansion, remodeling, renovation, furnishing, equipping and acquisition of health facilities (including by reimbursing expenditures made for such purposes), to refinance indebtedness of a participating health institution in connection therewith and to refund any outstanding bonds or any outstanding series or issue of bonds of the Authority; and

WHEREAS, Kaiser Foundation Hospitals (the “Borrower”) is a nonprofit public benefit corporation duly organized and existing under the laws of the State of California, and is a participating health institution (as defined in the Act); and

WHEREAS, the Borrower is affiliated with Kaiser Foundation Health Plan, Inc., Kaiser Hospital Asset Management, Inc., and Kaiser Health Plan Asset Management, Inc., each of which is a nonprofit public benefit corporation duly organized and existing under the laws of the State of California; and

WHEREAS, the Borrower previously requested that the Authority issue one or more series of its revenue bonds in an aggregate principal amount not to exceed \$4,400,000,000, and make one or more loans of the proceeds thereof to the Borrower to, among other things, finance, including reimburse for, the costs of the construction, expansion, remodeling, renovation, furnishing, equipping and acquisition of certain health facilities, including as more particularly described under the caption “New Project” in **Exhibit B** to the Authority’s Resolution No. 425 (the “Original Resolution”); and

WHEREAS, in the Original Resolution, the Authority authorized the issuance of one or more series of its revenue bonds in an aggregate principal amount not to exceed \$4,400,000,000, and one or more loans of the proceeds thereof to the Borrower to, among other things, finance, including reimburse for, the costs of the construction, expansion, remodeling, renovation, furnishing, equipping and acquisition of certain health facilities, including as more particularly described under the caption “New Project” in **Exhibit B** to the Original Resolution; and

WHEREAS, the Borrower has requested that the Authority supplement and amend the Original Resolution to add the health facilities described in **Exhibit A** hereto (the “Additional Projects”) to the description of the “New Project” contained in **Exhibit B** to the Original Resolution; and

WHEREAS, to the extent required by subdivision (b) of Section 15455 of the Government Code, the Borrower has provided documentation to the Authority demonstrating, to the extent applicable, that the Additional Projects have complied with Division 13 (commencing with Section 21000) of the Public Resources Code or is not a “project” under such division; and

WHEREAS, the Authority now desires to supplement and amend the Original Resolution by adding the Additional Projects to the description of the “New Project” contained in **Exhibit B** to the Original Resolution;

NOW, THEREFORE, BE IT RESOLVED by the California Health Facilities Financing Authority, as follows:

SECTION 1. The Original Resolution is hereby supplemented and amended by adding the Additional Projects to the description of the “New Project” contained in **Exhibit B** to the Original Resolution. In addition to the uses of the proceeds of the Bonds (as defined in the Original Resolution) authorized by the Original Resolution, the proceeds of the Bonds shall be used to finance, including reimburse for, the costs of the construction, expansion, remodeling, renovation, furnishing, equipping and acquisition of the Additional Projects.

SECTION 2. Each officer of the Authority is hereby authorized and directed, for and in the name of and on behalf of the Authority, to do any and all things which they may deem necessary or advisable in order to effectuate the purposes of the Original Resolution, as amended by this Resolution.

SECTION 3. The provisions of the Authority’s Resolution No. 2017-01 apply to the documents and actions approved in the Original Resolution, as amended by this Resolution.

SECTION 4. The Authority hereby approves and ratifies each and every action taken by its officers, agents and employees prior to the date hereof in furtherance of the purposes of the Original Resolution, as amended by this Resolution.

SECTION 5. The Original Resolution, as supplemented and amended by this Resolution, is hereby ratified and confirmed and remains in full force and effect.

SECTION 6. This Resolution shall take effect from and after the date of adoption.

Date of Adoption: _____

EXHIBIT A

Additional Projects

- Dublin Specialty Medical Offices, located at 3100 and 3200 Dublin Boulevard, Dublin, California 94568 or otherwise located in the vicinity of the intersection of Dublin Boulevard and Grafton Street in Dublin, California 94568
- Redwood City Medical Center and Medical Offices, located at 1100 Veterans Boulevard and 1175 Marshall Street, Redwood City, California 94063
- Roseville Medical Offices, located at 1001 Riverside Avenue, Roseville, California 95678
- Daly City Medical Offices, located at 395 Hickey Boulevard, Daly City, California 94015
- J Street Medical Offices, located at 501 J Street, Sacramento, California 95814
- Los Gatos Medical Offices, located at 1650 Los Gatos Drive, San Rafael, California 94903 (not to exceed \$113,000,000)
- Fremont Medical Center and Offices, located at 39400 Paseo Padre Parkway, Fremont, California 94538
- Irwindale Specialty Medical Offices, located at 12761 Schabarum Avenue, Irwindale, California 91706 or otherwise located in the area between Schabarum Avenue and Interstate 605 in Irwindale, California 91706
- Santa Rosa Medical Offices, located at 2240 Mercury Way, Santa Rosa, California 95407 or otherwise located in the vicinity of the intersection of Mercury Way and Apollo Way in Santa Rosa, California 95407
- Carson Medical Offices, located at 18600 South Figueroa Street, Gardena (Carson), California 90248
- Clairemont Mesa Medical Offices, located at 6911 Convoy Court, San Diego, California 92111 or otherwise located in the vicinity of the intersection of Convoy Court and Shawline Street in San Diego, California 92111
- Murrieta Medical Offices, located at 28150 Keller Road, Murrieta, California 92563
- Market Street Medical Offices, located at 4949 Market Street, Ventura, California 93003 or otherwise located in the vicinity of the intersection of Market Street and Portola Road in Ventura, California 93003
- Baldwin Hills-Crenshaw Medical Offices, located at 3782 West Martin Luther King Jr. Boulevard, Los Angeles, California 90008

- Sacramento Medical Center, consisting of approximately 18 acres of land generally located in the vicinity north of Railyards Boulevard, west of 5th Street, and east of Interstate 5 in Sacramento, California 95811 and 95814
- Downey Medical Center, located at 9333 Imperial Highway, Downey, California 90242
- Woodland Hills Medical Center, located at 5601 De Soto Avenue, Woodland Hills, California 91367