CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
EXECUTIVE SUMMARY

Applicant:	Adventist Health System/West (Obligated Group) ("AHS/W") Roseville, California Placer County	**Amount Requested:** **Loan Terms:** **Date Requested:**	$168,000,000 30 years May 29, 2003
Primary Project Sites:	See 'Purpose of Financing' on Pages 1 & 2	**Resolution Number:** **Facility Types**:	F-297 General acute/subacute and outpatient care

Uses of Bond Proceeds: AHS/W intends to use the majority of funds ($106 million) for construction projects at 6 hospital locations. In addition, AHS/W will use approximately $ 33 million for equipment and $11 million to current refund short-term bank debt.

Type of Issue:	Negotiated public offering with fixed rates.
Credit Enhancement:	None expected.
Expected Credit Rating:	"A" (S&P): *[AHS/W has not previously had an unenhanced credit rating]*
Senior Underwriter:	Banc of America Securities LLC
Bond Counsel:	Orrick, Herrington & Sutcliffe

Financial Overview: AHS/W is a financially stable health system demonstrating well-managed growth, with sizeable unrestricted net assets, good liquidity, and modest leverage. This financing will produce a modestly leveraged position. A proforma debt service coverage ratio of 3.80x indicates a strong ability to manage this debt.

Sources of Revenue:
(FYE 12/31/02)

Net patient service revenue	90%
Premium revenues	4%
Investment income	1%
Other	5%
Total unrestricted revenues, gains and support	100%

Sources of Funds (000's):		**Uses of Funds (000's):**	
Par Amount of CHFFA Bonds	$168,000	Construction	$106,000
		Equipment	32,621
		Current refunding	11,379
		Debt service reserve fund	16,789
		Issuance costs	1,211
Total Sources	$168,000	Total Uses	$168,000

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

Staff Recommendation: Staff recommends the Authority approve a Resolution in an amount not to exceed $168,000,000 for Adventist Health System/West Obligated Group, subject to a bond rating of at least an "A" category rating by a nationally recognized rating agency.

(bes)

STAFF SUMMARY AND RECOMMENDATION
ADVENTIST HEALTH SYSTEM/WEST (OBLIGATED GROUP)

May 29, 2003
Resolution Number: F-297

I. PURPOSE OF FINANCING:

AHS/W proposes to use the majority of proceeds ($106 million) for construction at six of its facilities in order to meet capital plan goals for upgrades and expansion and to address state seismic requirements. An additional $33 million will be spent for equipment and $11 million will refund a taxable short-term borrowing. This financing is part of the 10 year capital plan, expected to cost $1.2 billion. Future expenditures under this plan include approximately $164 million which will satisfy seismic requirements through 2013.

Construction*... *$106,000,000

Projects:

1. <u>Hospital replacement - Hanford Community Medical Center - $15 million</u> AHS/W is replacing its facility on a new site. The estimated cost for the total replacement will be $76 million, of which $5 million has been expended.

2. <u>San Joaquin Community Hospital – North Tower - $34 million</u> AHS/W is underway with a partial replacement, estimated to total $42.5 million (of which $2.2 million has been expended), including the items necessary to bring the hospital into compliance for 2008 and 2013, resulting in a significant expansion and upgrade.

3. <u>Glendale Adventist Medical Center – Main Tower - $24 million</u> AHS/W is proceeding with an upgrade and expansion project estimated to total $84 million, of which $2 million has been expended. FEMA has committed funds of $26 million for this project.

4. <u>White Memorial Medical Center – New Main Acute Tower - $21 million</u> The hospital is substantially rebuilding the campus at an estimated cost of $130 million, of which $32 million has been expended. FEMA has committed funds of $90 million for this project.

5. <u>Simi Valley Hospital & Health Care Services – New Tower - $8.5 million</u> The hospital has undertaken an upgrade and partial replacement project at an estimated cost of $33 million, of which $4 million has been spent. FEMA has committed approximately $16 million for this project.

6. <u>Ukiah Valley Medical Center – Outpatient Services - $3.5 million</u> The hospital will renovate and upgrade its laboratory, radiology, and outpatient surgery services.

Equipment* *32,621,000

Equipment will include a clinical information system and for various medical equipment (particularly for the new facilities, above), including imaging, diagnostic, laboratory, and surgical equipment.

Current refunding* *11,379,000

AHS/W intends to use roughly $11 million to refund a taxable line of credit borrowing used to fund early costs of the projects. There are no prepayment or escrow costs.

Other financing costs are as follows* *18,000,000

Debt service reserve $16,789,000
Estimated issuance costs 1,211,000

Total Uses of Funds ***$168,000,000***

Financing Structure:

- Fixed rate bonds, with serial and term maturities and a final maturity in 2033.
- Joint and several obligation of the Adventist Health System/West Obligated Group (see Pages 7 and 8 for a listing of Obligated Group members).
- Negotiated public offering.
- Expected credit rating of A (S&P).

II. FINANCIAL STATEMENTS AND ANALYSIS:

The following pages provide the financial statements for Adventist Health System/West. This transaction's *Obligated Group*, responsible for repaying the proposed bonds, accounts for about 97% of system revenue and approximately 99.9% of total assets.

ADVENTIST HEALTH SYSTEM/WEST

Statement of Unrestricted Revenue and Expenses ($000's)

	3 month Period Ending March 31 2003 (unaudited)	For the years ended December 31 2002	2001	2000
Unrestricted revenues, gains and other support:				
Net patient service revenue	360,756	1,301,179	1,120,156	998,071
Premium revenues *	10,348	58,813	77,234	83,206
Other Revenue	16,164	62,751	60,154	68,428
Investment income	4,810	19,086	25,500	33,725
Net assets released from restrictions for operations	740	3,550	3,986	4,362
Total unrestricted revenues, gains and support	392,818	1,445,379	1,287,030	1,187,792
Expenses:				
Employee compensation	197,460	736,027	655,792	600,285
Professional fees	28,323	112,909	90,163	73,585
Supplies	53,565	200,272	179,424	162,094
Purchased services and other	49,024	201,268	194,941	181,725
Interest	1,900	9,742	16,478	19,231
Depreciation	17,913	68,083	64,639	61,454
Provision for bad debts	23,472	74,901	53,184	52,326
Total expenses	371,657	1,403,202	1,254,621	1,150,700
Excess of revenues over expenses	**21,161**	**42,177**	**32,409**	**37,092**
Transfers to related parties	-	-	-	-
Net unrealized gains (losses) on investments	(2,138)	4,363	6,604	(1,655)
Net assets released from restrictions for capital additions	94	1,783	2,080	4,729
Net loss on discontinued operations	-	(1,092)	(1,015)	(12,030)
Loss on disposal	-		(23,867)	
Extraordinary loss on early extinguishment of debt	-	(3,816)	-	-
Other	476	1,395	3,713	2,134
Other changes in unrestricted net assets	(1,568)	2,633	(12,485)	(6,822)
Increase in unrestricted net assets	**19,593**	**44,810**	**19,924**	**30,270**
Unrestricted net assets, beginning of year	725,789	680,979	661,055	630,785
Unrestricted net assets, end of year	$ 745,382	$ 725,789	$ 680,979	$ 661,055

* Premium Revenues are monthly capitation payments from various HMO's based on the number of each HMO's covered participants.

ADVENTIST HEALTH SYSTEM/WEST

Balance Sheet ($000's)

	As of 3-31-03 (unaudited)	As of December 31 2002	2001	2000
ASSETS				
Current assets	$ 471,455	$ 431,472	$ 414,191	$ 383,992
Long-term investments	83,847	90,737	61,512	79,370
Assets whose use is limited *	362,886	371,236	353,560	359,860
Property and equipment	624,072	613,566	538,912	525,449
Other assets	28,965	29,299	25,537	24,774
Total assets	$ 1,571,225	$ 1,536,310	$ 1,393,712	$ 1,373,445
LIABILITIES				
Current liabilities	271,377	251,283	213,358	189,907
Long-term debt	354,556	365,416	315,844	336,804
Other non-current liabilities	163,471	157,697	154,054	157,135
Total liabilities	789,404	774,396	683,256	683,846
Unrestricted net assets	745,382	725,789	680,979	661,055
Temporarily restricted net assets	36,439	36,125	29,477	28,544
Total Net Assets	781,821	761,914	710,456	689,599
TOTAL LIABILITIES AND NET ASSETS	$ 1,571,225	$ 1,536,310	$ 1,393,712	$ 1,373,445

* Certain AWS/W assets are limited as to use through board resolution, provisions of contractual arrangements with third parties, terms of indentures, self-insurance trust arrangements or donors who restrict the use of specific assets.

Financial Ratios:

	Proforma [a]	2002	2001	2000
Debt Service Coverage (x)	3.80	5.34	4.14	3.66
Debt-to-unrestricted net assets (x)	0.77	0.54	0.50	0.53
Margin (%)		3.08%	1.53%	2.38%
Current Ratio (x)		1.72	2.04	2.15

(a) Recalculates 2002 audited results to include the impact of this proposed financing. Extraordinary items and other non-recurring costs have been excluded from the calculation.

Financial Discussion:

AHS/W is a financially stable health system demonstrating well-managed growth, with sizeable unrestricted net assets, good liquidity, and modest leverage.

AHS/W is one of California's larger and financially stable health systems, with over $1.5 billion in assets. Solid operating results have kept leverage relatively low while maintaining good liquidity. Unrestricted net assets have grown to a formidable $726 million in 2002, an increase of 10% since 2000.

AHS/W has been consistently profitable in the three years of our review. Revenue has grown steadily, while expenses have been kept in check. Among AHS/W's diverse revenues are significant investment earnings generated from a conservative portfolio. Management also reports that it has improved managed care reimbursements and has increased volume in several of its markets.

In 2001, AHS/W decided to close the system's two physician organizations after continued losses, including $12 million in 2000. Despite recording a loss on disposal of nearly $24 million, 2001 was a profitable year. Interest expense has declined significantly since 2000, largely due to declining variable rates.

This financing will produce a modestly leveraged position. A proforma debt service coverage ratio of 3.80x indicates a strong ability to manage this debt.

This financing will increase the debt to unrestricted net asset ratio from 0.54x to a modest 0.77x. Proforma debt service coverage will remain strong at 3.80x.

III. UTILIZATION STATISTICS

Obligated Group

	Year Ended December 31		
	2002	2001	2000
Inpatient Data (acute)			
Beds in Service	2,601	2,695	2,736
Occupancy percentage	55.38%	52.16%	47.99%
Admissions	104,321	102,625	98,407
Average length of stay (days)	5.06	4.99	4.89
Skilled Nursing Beds			
Beds in Service (licensed)	302	302	340
Occupancy percentage	72.44%	68.78%	63.21%
Outpatient Data			
Emergency visits	356,692	350,548	334,165
Outpatient visits	1,567,482	1,519,818	1,547,612
Revenue from Operations			
Inpatient	65%	65%	65%
Outpatient	35%	35%	35%

IV. BACKGROUND:

Although Adventist Health Systems/West itself is a relatively new corporate entity, the health care activities of the hospitals in the AHS/W system date back as far as 1878, with three of its hospitals having been founded prior to 1900.

AHS/W, headquartered in Roseville, California is a religious corporation created in 1980 when two smaller health systems, Adventist Health Services, Inc. and Northwest Medical Foundation, merged. AHS/W was formed to coordinate the management of health care facilities in the Western United States (California, Hawaii, Oregon, and Washington). AHS/W (both Obligated Group and non-obligated members) collectively represents regional delivery networks comprised of 20 acute care facilities (controlled, managed, or leased), approximately 3,100 beds, 17,500 employees, numerous outpatient facilities, 16 home health agencies (operated as departments of each hospital), and three joint-venture retirement centers.

Obligated Group: The Obligated Group will consist of 16 nonprofit hospital corporations, including 12 in California, as well as the AHS/W corporate office. In addition, AHS/W controls 3 other corporations which own or lease hospital facilities in California but are non-members of the Obligated Group. AHS/W also provides management services to two independent, nonprofit hospital corporations located in California and Hawaii. The members of the Obligated Group are jointly and severally liable for substantially all of AHS/W's debt under the terms of a Master Indenture. The current and anticipated members of AHS/W's Obligated Group (in addition to all other AHS/W members) are listed below. All the entities, with the exception of Anacapa Adventist Hospital, operate acute care hospital facilities:

Adventist Health System/West Facilities, Providers and Locations

Adventist Health Clearlake Hospital, Inc. (d.b.a. Redbud Community Hospital)	Clearlake, CA
*Anacapa Adventist Hospital	Port Hueneme, CA
Castle Medical Center	Kailua, Hawaii
*Central Valley General Hospital *(management contract)*	Hanford, CA
Feather River Hospital	Paradise, CA
Glendale Adventist Medical Center	Glendale, CA
Hanford Community Hospital	Hanford, CA
*Howard Memorial Hospital	Willits, CA
*N. Hawaii Comm. Hospital *(management contract)*	Waimea, Hawaii
Northwest Medical Foundation of Tillamook (d.b.a. Tillamook County General Hospital)	Tillamook, Oregon
Paradise Valley Hospital	San Diego, CA
Portland Adventist Medical Center (d.b.a. Adventist Medical Center)	Portland, Oregon
**San Joaquin Community Hospital	Bakersfield, CA
*Selma District Hospital	Selma, CA

* Nonobligated group members. Obligated group members, those without asterisks, will be jointly and severally obligated in this proposed financing under a Master Indenture.

** Limited obligated group member. San Joaquin Community Hospital is party to outstanding agreements which conflict with certain provisions of the Master Indenture and has agreed to incur liabilities to the extent that the outstanding agreements permit them to do so.

(continued on next page)

Simi Valley Hospital & Health Care Services	Simi Valley, CA
Sonora Community Hospital	Sonora, CA
South Coast Medical Center	Laguna Beach, CA
St. Helena Hospital	Deer Park, CA
Ukiah Adventist Hospital (d.b.a. Ukiah Valley Medical Center)	Ukiah, CA
Walla Walla General Hospital	Walla Walla, Washington
White Memorial Medical Center	Los Angeles, CA

<u>Licenses and Contracts</u>

All members of AHS/W's Obligated Group that operate acute care hospitals provide Medicare services. With regards to Medi-Cal, five Obligated Group members have Medi-Cal contracts while the remaining California members are either in a non-contracting area or in an area which is not pursuing additional contracts, but treat Medi-Cal patients on a cost reimbursement basis. In addition, AHS/W contracts with Blue Cross and other managed care providers in its service areas throughout California. Sources of patient revenue for 2002 are as follows: 39% from Medicare, 18% from Medi-Cal, 36% from managed care, and 7% private pay /other.

<u>Governance</u>

AHS/W is governed by a 13-member Board of Directors, which is also the Legal Board of each hospital. The Legal Board delegates many operational functions, policy and direction to local hospital Governing Boards, which are selected by the Legal Board. The local hospital Governing Boards then develop plans and objectives consistent with AHS/W's policies and also participate in a centralized cash management system implemented by the Legal Board.

<u>Service Area and Competition</u>

Six of AHS/W's smallest California facilities are in rural areas, where they are not in competition with other large hospital systems. Other facilities have carved a niche in their markets with specialized services such as St. Helena Hospital (alcohol, nicotine, and chemical dependency, wellness programs) and South Coast (behavioral medicine, eating disorders).

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.

AHS/W 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”.

Each member of the obligated group has executed this certification and submitted its current list of physicians, specialties, languages spoken, telephone numbers and whether Medi-Cal and Medicare patients are accepted. A copy of one member’s certification, as an example, is 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.

AHS/W has provided a description of its seismic requirements. See Attachment C.

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VIII. PREVIOUS AUTHORITY DEBT: As of December 31, 2002, the outstanding debt issued through the Authority for AHS/W's Obligated Group totaled $286,872,482. Following this proposed financing, the outstanding debt issued through the Authority for AHS/W's Obligated Group will total approximately $454,872,482. This debt is composed of the issues shown below:

Adventist Health System/West Obligated Group

Bond Issue Name: Series	**Original Issue Amount**	**Amount Outstanding as of 12/31/02**	**Estimated Amount Outstanding After Proposed Financing**
Existing Authority Debt			
Adventist Health/Sutter Pool, (Variable rate): 1991A&B	$28,417,482	$28,417,482	$28,417,482
AHS/W: 1991A	59,650,000	41,045,000	41,045,000
AHS/W 1991B:	72,570,000	45,210,000	45,210,000
AHS/W 1998A:	60,000,000	60,000,000	60,000,000
AHS/W 1998B:	42,200,000	42,200,000	42,200,000
AHS/W 1998C:	12,300,000	10,000,000	10,000,000
AHS/W 2002A:	35,000,000	35,000,000	35,000,000
AHS/W 2002B:	25,000,000	25,000,000	25,000,000
Proposed Authority Debt			
AHS/W 2003A (Proposed)		___________	***168,000,000***
Total Authority Debt		286,872,482	454,872,482
Other Debt		100,017,000	100,017,000
Total Debt		$386,889,482*	$554,889,482

* Total Debt is composed of AHS/W's long-term debt. The debt to be refunded with 2003 bond proceeds is a short-term borrowing and thus is not included in this figure.

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

X. STAFF RECOMMENDATION

Staff recommends the Authority approve a Resolution in an amount not to exceed $168,000,000 for Adventist Health System/West Obligated Group, subject to a bond rating of at least an "A" category rating by a nationally recognized rating agency.