CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

EXECUTIVE SUMMARY

Applicant:	Kaiser Foundation Hospitals (Kaiser) Oakland, California (Alameda County)	**Amount Requested:**	$1,500,000,000
		Date Requested:	April 27, 2006
		Requested Loan Term:	40 years
Project sites:	Numerous (see page 3 for listing)	**Resolution Number:**	F-318

Facility Types: Acute care, outpatient services, physical therapy, emergency, health education and pharmacy.

Credit group: The credit group consists of Kaiser Foundation Hospitals (the Obligor) and Kaiser Foundation Health Plan Inc., Kaiser Health Plan Asset Management, Inc., and Kaiser Hospitals Asset Management, Inc.(the Guarantors).

Uses of Bond Proceeds: Bond proceeds will be used to construct replacement hospitals and new facilities, purchase real estate, and purchase equipment.

Type of Issue: Negotiated public offering with fixed rate and variable rate securities
Credit Enhancement: None
Expected Credit Rating: A+/A1 (S&P), A /F1(Fitch): based on underlying rating
Senior Underwriter: Citigroup
Bond Counsel: Orrick, Herrington and Sutcliffe LLP

Financial Overview: Kaiser exhibits a solid financial profile, consistently profitable, liquid, and low debt to equity. Leverage will remain low following this financing and a proforma debt service coverage ratio of 8.3x indicates Kaiser's ability to manage this debt.

Sources of Revenue ($millions): (FYE 12/31/05)	**Amount**	**Percent**
Member's dues	$16,441	65%
Medicare	6,192	24%
Contract revenues from Health Plans	1,142	5%
Copays. deductibles, and other revenues	1,581	6%
	$25,356	100.0%

Estimated Sources of Funds ($000's):		**Estimated Uses of Funds ($000's):**	
Par Amount of CHFFA Bonds	$1,500,000	Construction	$1,661,000
Kaiser equity	853,500	Equipment	384,000
		Purchase real estate	254,000
		Capitalized interest	46,000
		Costs of Issuance	8,500
Total Sources	$2,353,500	Total Uses	$2,353,500

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 $1,500,000,000 for Kaiser subject to a bond rating of at least an "A" category rating by a nationally recognized rating agency.
Staff also recommends reduction of the yearly Authority administrative fee for borrowers with an aggregate outstanding bond balance in excess of $750 million, at which point the yearly fee would be 0.01% for any amount over $750 million. This reduction would commence with the January 2008 Authority billing (this billing will be based on the January 2007 outstanding balances).

(GR/bes)

STAFF SUMMARY AND RECOMMENDATION

Kaiser Foundation Hospitals ("Kaiser")

April 27, 2006
Resolution Number: F-318

Policy Issue:

Staff proposes reducing the Authority's annual fee for Kaiser. Currently, the annual fee is .02% of each borrower's total Authority bonds outstanding*. The proposed annual fee would remain at .02% for the first $750 million, but would be assessed at .01% for the remaining outstanding balance over $750 million.

Staff recommends a reduction in the annual fee so that the savings may be used for community benefit.

Payments are assessed one year following the issuance of the bonds. Since the first annual billing is based on the amount outstanding as of January 31, 2007, this policy would not benefit Kaiser until the January 2008 billing.

If $1.5 billion of Authority debt is issued in 2006, the outstanding balance would be approximately $1.519 billion.

Based on that amount, the annual fee amount would be $226,876 versus $303,752 under the current formula.

Staff will bring a more formal proposal to reduce the annual administration fee for all Authority borrowers at the next Authority meeting.

	Bonds outstanding:		Fee amount:
Proposed Fee Schedule:	750,000,000	*.02%	150,000
	768,759,239	*.01%	76,876
	$1,518,759,239		**226,876**
Existing Fee Schedule:	750,000,000	*.02%	150,000
	768,759,239	*.02%	153,752
	$1,518,759,239		**303,752**

* For a Private Health Facility (or system) with annual gross revenues of $2.5 million or greater.

I. PURPOSE OF FINANCING:

Kaiser plans to invest approximately $16 billion in projects from 2006-2012 throughout California, including new medical office buildings, construction of replacement hospitals to meet seismic requirements and expansion of existing facilities.

2006 Bond proceeds will be used to construct, renovate and purchase equipment for a variety of facilities in several locations.

Kaiser proposes to build replacement hospitals for its Panorama City, Los Angeles, West Los Angeles, South Bay, Hayward, and Oakland medical center campuses. Other uses of proceeds include the construction of medical office buildings, purchase of an office building to house information technology personnel and the purchase of land in the Mt. Diablo area for future growth.

Construction/Renovation $1,661,000,000

Los Angeles Medical Center ("LAMC") replacement hospital

Construction of a 464-bed replacement hospital on the existing Los Angeles Medical Center campus to comply with seismic regulations. LAMC provides general acute care to approximately 200,000 members within a thirty-minute drive time of the facility and specialized tertiary and quaternary services (cardiac surgery, neurosurgery, pediatric surgery, radiation therapy and complex/rare medical care) to the members residing in the Greater Los Angeles area. The project is under construction.

Panorama City Medical Center ("PCMC") replacement hospital

Construction of a 218-bed replacement hospital (plus an option to build an 8 bed Neonatal Intensive Care Unit (NICU)) on the existing PCMC campus to provide seismically-compliant inpatient services for the east San Fernando Valley membership. The project is under construction.

West LA Medical Center replacement hospital

The West Los Angeles Tower Addition (178,000 sq. ft.) replacement project provides a seismically compliant facility. In addition, a parking structure, upgrades to the central plant, remodels to the existing compliant South Tower and relocations of displaced outpatient departments are necessary. To accommodate the parking structure, an outpatient facility will be demolished. The project is under construction.

South Bay replacement hospital – Vermont Pavilion

The 112,480 square feet building will house Labor & Delivery, Post Partum, Pediatric and Neonatal Intensive Care Unit inpatient areas as well as Perioperative functions that will address capacity demand. The project is under construction, along with a parking structure and upgrades to the Central Plant.

Oakland Medical Center (“OMC”)

This is Phase One of a multi-phased project to replace OMC. In this phase, a 50-provider medical office building and 728 car garage is being constructed in order to relocate existing services from OMC. The OMC will later be rebuilt at the MacArthur-Broadway site in time for compliance with seismic legislation.

Modesto hospital and Medical office building

Construction of a new 224-bed hospital and a medical office building for 80 providers on 49 acres in Salida / North Modesto.

Vacaville hospital

Construction of a new 150 bed tower and parking structure.

Santa Rosa hospital tower

Construction of a new five story hospital tower, ambulatory surgery and outpatient procedure center. The project also includes renovations in the existing hospital.

Purchase equipment $384,000,000

New equipment will be purchased for the new, renovated and existing hospital facilities including surgical equipment, laboratory equipment, MRI and other imaging equipment, data processing equipment, and phone systems.

Purchase real estate $254,000,000

San Leandro land purchase

Purchase of 63 acres of land in the San Leandro Marina area for the future replacement of Kaiser’s Hayward medical center. The planned campus will provide a full range of medical services to residents of the Hayward and South Oakland geographical area. The services that will be provided will include a 298-bed hospital and a 182-Provider Office (PO) Medical Office Building with an Ambulatory Surgery Center (ASC).

Interstate 580 land purchase

This Project will include the purchase of approximately 50 acres of land in the Mt. Diablo area at the I-580/I-680 interchange. The cost also includes the costs of development and entitlements. This Project will provide land for future development as membership grows in the area.

Pleasanton Information Technology Campus

Kaiser has recently purchased a portion of the former People Soft campus in Pleasanton. This space will accommodate up to 1600 IT employees of Hospitals.

Capitalized interest **$46,000,000**

Other financing costs are as follows .... **$ 8,500,000**

Underwriters discount	*6,700,000*
Estimated issuance costs	*1,800,000*

Total Uses of Funds **$2,353,500,000***

*$250 million of prior expenditures for the above projects were reimbursed by FEMA. No further FEMA reimbursements are expected for these projects at this time.

Structure of Financing:

- Negotiated public offering, fixed rates and variable rates
- Credit enhancement: Bond insurance, if feasible
- Expected Credit Rating: A+/A-1 (S&P) & A/F1 (Fitch) based on Kaiser's underlying rating.
- General obligation
- Financial covenants acceptable to Authority in accordance with guidelines for "A" rated financings.

- Waiver of the following bond issuance guideline covenants:*
  - Gross Revenue Pledge.
  - Requirement to maintain rates and charges to maintain a minimum coverage ratio of at least 1.25 times maximum annual debt service.
  - Requirement to maintain minimum 1.25 times coverage to incur additional debt.

*At the March 2006 Authority meeting, the Authority approved a resolution approved exceptions to certain financial covenants in the Authority's currently published bond issuance guidelines with respect to revenue bonds issued in 2006 for the benefit of Kaiser Permanente: 1) Gross Revenue Pledge and 2) Reporting requirement to maintain appropriate rates and charges and the requirement to maintain a minimum coverage ratio of at least 1.25 times maximum annual debt service (including the requirement to maintain minimum 1.25 times coverage to incur additional debt).

II. FINANCIAL STATEMENTS AND ANALYSIS

Kaiser (Credit Group)
Combined Statements of Operations (In millions)

	For the year ended December 31,		
	2005	2004	2003
Revenues:			
Members' dues	$ 16,441	$ 15,188	$ 13,578
Contract revenue from Health Plans	1,142	1,027	868
Medicare	6,192	5,168	4,874
Copays, deductibles, fees, and other	1,581	1,431	1,247
Total operating revenues	25,356	22,814	20,567
Expenses:			
Medical services	11,409	9,830	8,772
Hospital services	8,358	7,389	6,751
Outpatient pharmacy and optical services	2,575	2,327	2,350
Other benefit costs	1,550	1,400	1,291
Total medical and hospital services	23,892	20,946	19,164
Health Plan administration	705	566	519
Asset losses and divestiture adjustments	24	(31)	3
Total operating expenses	24,621	21,481	19,686
Equity in net income of subsidiaries	94	171	157
Operating income	829	1,504	1,038
Other income and expense:			
Investment income - net	520	306	192
Interest expense	(306)	(199)	(220)
Effect of change in accounting priniple	(34)	-	-
Net income	1,009	1,611	1,010
Change in additional minimum pension liability			470
Change in unrealized gains/losses on marketable securities	(134)	72	439
Grant contributions received	87	26	57
Change in net worth	962	1,709	1,976
Net worth at beginning of year	9,850	8,141	6,165
Net worth at end of year	$ 10,812	$ 9,850	$ 8,141

Kaiser (Credit Group) [(a)]
Combined Balance Sheets (In millions)

	As of December 31,		
	2005	**2004**	**2003**
Assets			
Current assets:			
Cash and equivalents	$ 43	$ 40	$ 22
Marketable securities	4,041	4,054	4,255
Accounts receivable, net	659	673	747
Other current assets	644	631	536
Total current assets	5,387	5,398	5,560
Marketable securities	6,124	5,903	3,583
Land, buildings, equipment and software-net	10,075	8,819	7,701
Investments in subsidiaries	1,487	1,381	1,210
Other assets	482	531	574
Total assets	$ 23,555	$ 22,032	$ 18,628
Liabilities & Net Worth			
Current liabilities:			
Accounts payable and accrued expenses	$ 1,503	$ 1,212	$ 972
Medical claims payable	761	653	572
Due to associated medical groups	427	215	296
Payroll and related charges	793	846	709
Due to affiliated organizations	700	1,082	691
Medicare payments received in advance	-	477	398
Current installments on long term debt	-	90	856
Other current liabilities	750	767	4
Total current liabilities	4,934	5,342	4,498
Long-term debt, including due to affiliates	3,415	3,080	2,516
Physicians' retirement plan liability	1,757	1,616	1,503
Other long-term liabilities	2,637	2,144	1,970
Total liabilities	12,743	12,182	10,487
Net worth	10,812	9,850	8,141
Total liabilities & net worth	$ 23,555	$ 22,032	$ 18,628

Financial Ratios:	**Proforma** [(b)]			
Debt Service Coverage (x)	**8.3**	**11.4**	**22.4**	**12.9**
Debt/Net worth (x)	**0.45**	**0.32**	**0.32**	**0.31**
Operating Margin (%)		**3.3%**	**6.5%**	**5.0%**
Current Ratio (x)		**1.09**	**1.01**	**1.24**

[(a)] Credit Group consists of the borrower, Kaiser Foundation Hospitals, and the guarantors (Kaiser Foundation Health Inc., Kaiser Health Plan Asset Management, Inc., and Kaiser Hospital Asset Management). The Credit Group financial statements are presented in the auditor's report as 'additional' or 'supplementary' information and as such cannot be considered as 'audited statements'. The audited Combined Financial Statements for Kaiser Foundation and Subsidiaries and Kaiser Foundation Hospitals and Subsidiaries are presented as Attachment 1 to this staff report.

[(b)] Recalculates December 2005 results to include the impact of this proposed financing.

Financial Discussion:

Kaiser exhibits a solid financial profile, consistently profitable, liquid, and a low debt to equity. Leverage will remain low with this financing.

Kaiser's operating revenues are in a positive trend, growing from $20.6 billion in 2003 to $25.4 billion in 2005 and Kaiser has shown strong operating margins of 5.0%, 6.5%, and 3.3% for the years 2003, 2004 and 2005 respectively, as expenses have been kept in line. Kaiser's overall memberships have increased in each year of our review period, from 8,216,936 in 2003 to 8,445,234 in 2005.

The balance sheet has improved, with net worth increasing from $8.1 billion in 2003 to $10.8 billion in 2005. However, although the operating and gross margins remained strong in 2005, these margins declined somewhat. According to management, this was primarily due to the expensing of a portion of health care delivery information systems and higher retirement expenses. In addition, gains on marketable securities have declined in our review period.

Kaiser has been consistently liquid, with over $4 billion in short term marketable securities in 2005. Total cash and investments is approximately $10.2 billion, equating to 158 days cash on hand and 3.0x cash to debt.

Debt service coverage has been excellent, with a debt service coverage ratio of at least 11.4x in our review period. Leverage has been low, with a 0.32x debt to equity ratio at December 31, 2005.

Leverage will remain low with this financing, with a proforma 0.45x debt to equity ratio. The proforma debt service coverage ratio of 8.3x demonstrates Kaiser's ability to manage the additional debt.

Challenges facing Kaiser in the near future include rapidly increasing construction costs and labor negotiations due later this year.

III. BACKGROUND:

Kaiser Foundation Hospitals ("Hospitals") was incorporated on February 2, 1948, and is part of the health care delivery system known as the Kaiser Permanente Medical Care Program.

Hospitals, as borrower, is obligated to make loan repayments under the Loan Agreement, and the Guarantors are obligated to make payments under the Guarantee Agreement. The Guarantors and the Hospitals collectively comprise the Credit Group.

The Guarantors are comprised of Kaiser Foundation Health Plan, Inc. ("Health Plan, Inc"), Kaiser Health Plan Asset Management, Inc. ("HPAMI"), and Kaiser Hospital Asset Management ("HAMI"). Pursuant to the Guarantee Agreement, the Guarantors have agreed to comply with various financial covenants, including the limiting of encumbrances and disposing of assets.

Health Plan, Inc,, (the health plan organization serving members in California and Hawaii), includes approximately 78% of Kaiser Permanente members. HPAMI and HAMI were incorporated as nonprofit corporations in 1998 in order to own certain capital assets and lease such assets for use at the facilities of Health Plan, Inc. and Hospitals respectively.

Kaiser Permanente

The Kaiser Permanente Medical Care Program (also known as Kaiser Permanente) is an integrated health care delivery system. It consists of The Credit Group, health plan organizations in several other states, several other subsidiaries of Hospitals and of Health Plan, Inc. and eight independent Permanente medical groups.

Organizations participating in Kaiser Permanente provide medical, hospital and other health care services and coverage to over 8.4 million members (subscribers and their dependents), as of December 31, 2005, living primarily in the greater metropolitan areas of California, Portland (Oregon), Denver, Cleveland, Honolulu, Washington, D.C., Baltimore and Atlanta. As of December 31, 2005, Hospitals, Health Plan, Inc. and the other health plan organizations had more than 93,000 employees.

Health Plan Organizations

The Health Plan Organizations are nonprofit corporations that enter into membership contracts with individuals and groups to arrange covered medical services on a predominantly prepaid basis. Each Health Plan Organization contracts with Hospitals to provide or arrange hospital services. Benefits under membership contracts typically include hospital care, professional care in hospitals and physicians' offices, imaging and laboratory services, physical therapy, emergency ambulance service, health education and certain prescription drugs.

Each Health Plan Organization contracts exclusively with one or more of the Permanente Medical Groups to provide or arrange professional and related medical care covered by membership contracts. Permanente Medical Groups are principally organized as professional corporations. In California, the responsibilities of the two Permanente Medical Groups include employment of allied health professional and administrative personnel.

None of the Health Plan Organizations (other than Health Plan Inc.), the other subsidiaries of Health Plan, Inc., other subsidiaries of Hospitals or any of the Permanente Medical Groups has any obligation to make payments with respect to the Bonds.

Service Area and Competition: Kaiser is one of the largest health systems in California with facilities located throughout the state. There is no other system or organization that offers a comparable mix of acute-care and managed-care services.

Licenses and Contracts: : All Kaiser patient care facilities are licensed by the Department of Health Services. Kaiser participates in Medicare and Medi-Cal programs.

IV. UTILIZATION STATISTICS:

Kaiser does not aggregate the types of inpatient and outpatient visits that are made specifically to its hospitals or the medical clinics. Since approximately 95% of its patients are members and pay for services on a prepaid basis and because Kaiser is an integrated healthcare delivery system, the percentage of inpatient and outpatient revenues to total hospital revenue is not relevant.

Selected Patient Data:	Year End		
	2005	2004	2003
Acute*:			
Licensed Beds	6,907	6,528	6,579
Average Length of Stay	3.80	3.76	3.80
Occupancy Percent	67%	66%	66%
Discharges	441,452	420,209	416,523
Ambulatory Encounters	32,800,000	31,600,000	32,100,000

*California hospitals only

Membership*:	8,445,234	8,237,729	8,216,936

*For all Kaiser health plan organizations

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. Pursuant to the Attorney General's advice letter dated November 17, 2005, the "savings pass through" language is a directive (legislative goal) to CHFFA.

Kaiser has provided a description of its savings pass through in **Exhibit 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, and (b) 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".

Kaiser has executed this certification and whether Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B.**

VII. COMPLIANCE WITH SEISMIC REGULATIONS: SB 1953 (Chapter 740, 1994) requires that all acute care hospitals in California meet specific seismic safety standards by 2008 and 2030.

Kaiser has provided a description of its seismic requirements. See **Exhibit C.**

VIII. OUTSTANDING DEBT:

Date Issued:	**Original Amount**	**Amount Outstanding As of 12/31/05***	**Estimated Amount Outstanding after Proposed Financing**
Existing Authority Debt:			
Series 1989A	$193,895,000	11,998,777	$11,998,777
2000 Equip. Loan	50,000,000	6,760,462	6,760,462
Other Debt			
		2,621,240,761	2,621,240,761
Proposed Authority Debt			
2006 Series A-D	1,500,000,000		1,500,000,000
Total Debt		$2,640,000,000	$4,140,000,000

*Includes current portion of long-term debt. See Kaiser combined financial statements in Attachment 1.

IX. RELIGIOUS AFFILIATION DUE DILIGENCE: Staff has reviewed the Applicant's responses to the questions contained in the Religious Affiliation portion of the application. No information was disclosed in the questionnaire or discovered by staff to question the Applicant's compliance with the provisions of the Authority's Act relating to religious affiliation.

X. 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.

STAFF RECOMMENDATION: Staff recommends the Authority approve a Resolution in an amount not to exceed $1,500,000,000 for Kaiser subject to a bond rating of at least an "A" category rating by a nationally recognized rating agency.

Staff also recommends reduction of the yearly Authority administrative fee for borrowers with an aggregate outstanding bond balance in excess of $750 million, at which point the yearly fee would be 0.01% for any amount over $750 million. This reduction would commence with the January 2008 Authority billing (this billing will be based on the January 2007 outstanding balances).

Attachment 1

Kaiser Foundation Health Plan, Inc. and Subsidiaries and
Kaiser Foundation Hospitals and Subsidiaries

Combined Statements of Operations (In millions)

	For the year ended December 31,		
	2005	2004	2003
Revenues:			
Members' dues	$ 21,694	$ 19,911	$ 17,816
Medicare	7,389	6,241	5,847
Copays, deductibles, fees, and other	2,037	1,872	1,659
Total operating revenues	31,120	28,024	25,322
Expenses:			
Medical services	15,178	13,178	11,879
Hospital services	8,491	7,484	6,844
Outpatient pharmacy and optical services	3,448	3,119	3,094
Other benefit costs	2,070	1,873	1,696
Total medical and hospital services	29,187	25,654	23,513
Health Plan administration	1,103	909	783
Asset losses and divestiture adjustments	27	(13)	8
Total operating expenses	30,317	26,550	24,304
Operating income	803	1,474	1,018
Other income and expense:			
Investment income - net	285	208	92
Interest expense	(44)	(71)	(100)
Cumulative effect of change in accounting priniple	(35)	-	-
Net income	1,009	1,611	1,010
Change in additional minimum pension liability	-	-	470
Change in unrealized gains/losses on marketable securities	(134)	72	439
Grant contributions received	87	26	57
Change in net worth	962	1,709	1,976
Net worth, beginning of year	9,850	8,141	6,165
Net worth, end of year	$ 10,812	$ 9,850	$ 8,141

Kaiser Foundation Health Plan, Inc. and Subsidiaries and
Kaiser Foundation Hospitals and Subsidiaries

Combined Balance Sheets (In millions)

	As of December 31,		
	2005	**2004**	**2003**
Assets			
Current assets:			
Cash and equivalents	$ 84	$ 56	$ 44
Marketable securities	4,572	4,516	4,693
Accounts receivable, net	862	822	879
Other current assets	748	728	647
Total current assets	6,266	6,122	6,263
Marketable securities	6,137	5,915	3,591
Land, buildings, equipment and software, net	11,009	9,705	8,531
Other long-term assets	574	646	716
Total assets	$ 23,986	$ 22,388	$ 19,101
Liabilities & Net Worth			
Current liabilities:			
Accounts payable and accrued expenses	$ 1,695	$ 1,387	$ 1,113
Medical claims payable	911	820	727
Due to associated medical groups	533	310	397
Payroll and related charges	925	987	840
Medicare payments received in advance	8	572	483
Current installments on long-term debt	-	90	4
Other current liabilities	1,096	1,094	1,098
Total current liabilities	5,168	5,260	4,662
Long-term debt	2,640	2,638	2,225
Physicians' retirement plan liability	1,757	1,616	1,503
Other long-term liabilities	3,609	3,024	2,570
Total liabilities	13,174	12,538	10,960
Net worth	10,812	9,850	8,141
Total Liabilities & Net worth	$ 23,986	$ 22,388	$ 19,101