CHFFA REVENUE BOND FINANCING PROGRAM
EXECUTIVE SUMMARY

Applicant:	Kaiser Foundation Hospitals (“Kaiser” or the “Borrower”) One Kaiser Plaza Oakland, CA 94612 Alameda County	**Amount Requested:**	$204,545,000
		Date Requested:	April 11, 2011
		Requested Loan Term:	Up to 40 years
		Resolution Number:	363

Project Sites: See Exhibit 1

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

Prior Borrower: Yes

Guarantors: Kaiser Foundation Health Plan, Inc. (“Health Plans”), Kaiser Health Plan Asset Management, Inc. (“HPAMI”), and Kaiser Hospitals Asset Management, Inc. (“HAMI”).

Credit Group: The Guarantors together with Kaiser establish the Credit Group.

Background: Kaiser was incorporated on February 2, 1948, and is part of the health care delivery system (“System”) known as the Kaiser Permanente Medical Care Program. The System includes Health Plans and Subsidiaries as well as Kaiser and Subsidiaries. The System provides medical, hospital and other health care services and coverage to over 8.7 million members. The number of members served in California is approximately 6.6 million.

Use of Proceeds: Bond proceeds will be used to acquire several medical office buildings and clinical facilities throughout California. A list of the project sites is displayed in Exhibit 1.

Type of Issue:	Negotiated public offering with floating or fixed rate bonds (Minimum $5,000 to $100,000 denominations) or private placement (in consultation with CHFFA’s Executive Director and the Borrower)
Credit Enhancement:	None
Expected Credit Rating:	A+/A+; S&P/ Fitch
Financing Team:	*Please see Exhibit 2 to identify possible conflicts of interest*

Financial Overview: The System’s income statement appears to exhibit improved operating results during the review period FY 2008 to FY 2010 with continued revenue growth as well as improved operating margins and investment strategies. The System appears to have a strong financial position with a proforma debt service coverage ratio of 13.72x.

Estimated Sources of Funds:		**Estimated Uses of Funds:**	
Par amount of bonds	$ 204,545,000	Acquisition	$ 204,545,000
Kaiser's equity contribution	1,500,000	Financing costs	1,500,000
Total Estimated Sources	$ 206,045,000	**Total Estimated Uses**	$ 206,045,000

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

Staff Recommendation: Staff recommends the Authority approve Resolution Number 363 in an amount not to exceed $204,545,000 subject to the conditions in the resolution, including a bond rating of at least investment grade by a nationally recognized rating agency. Macias Gini & O’Connell, LLP, the Authority’s financial analyst, and Public Financial Management, Inc. the Authority’s financial advisor, concur with the Authority’s staff recommendation.

I. PURPOSE OF FINANCING:

In 2001, Kaiser Hospital Assistance Corporation, LLC ("KHAC"), a special purpose entity formed to assist Kaiser, requested issuance of bonds from the California Infrastructure and Economic Development Bank ("I-Bank")[1] to acquire and construct several medical office buildings and clinical facilities throughout California.

Under the bond documents, Kaiser agreed to lease these facilities from KHAC. Upon termination of the lease, the bond documents require Kaiser to purchase the facilities from KHAC with the purchase price equal to the amount necessary to solely redeem the I-Bank bonds. Kaiser has determined to terminate the lease and purchase the properties by August 1, 2011.

Acquisition of Health Facilities **$204,545,000**

Kaiser plans to use the bond proceeds to acquire several health facilities listed in Exhibit 1. Title to the health facilities acquired will be transferred to Kaiser or Health Plans. The facilities will be used in conjunction with the Kaiser's health facilities.

Financing Costs **1,500,000**

- Underwriter's discount $1,000,000
- Estimated cost of issuance 500,000

The financing costs are pre preliminary estimates that will be paid out of Kaiser's equity.

Total Estimated Uses of Funds **$206,045,000**

[1] Though CHFFA was given the opportunity to handle this financing, a technical eligibility issue required CHFFA to defer to the I-BANK.

II. PROPOSED COVENANTS, SECURITY PROVISIONS AND DISCLOSURES:

Kaiser is the Borrower under the loan agreement (the "Loan Agreement") with CHFFA. Kaiser's obligations under the Loan Agreement are jointly and severally guaranteed by the Guarantors pursuant to the guarantee agreement (the "Guarantee Agreement") with CHFFA. Kaiser and the Guarantors are referred to as the "Credit Group."

After reviewing the Credit Group's credit profile, including its current financial profile, prior bond transactions and considering what the market will support, Kaiser, Public Financial Management, Inc. ("PFM"), and the underwriters have concluded the covenants listed below align the interests of the Credit Group, CHFFA, and the investors and therefore are appropriate to this transaction. Kaiser, PFM, and the underwriters note these covenants are consistent with covenants that have applied to the Credit Group's prior bond transactions and that the Credit Group's current financial situation does not suggest additional covenants should be required.

<u>The following covenants are applicable to this transaction</u>.*

Unconditional Promise to Pay. Kaiser agrees to pay the Trustee all amounts required for principal, interest or redemption premium, if applicable, and other payments and expenses designated in the Loan Agreement. The Guarantors guarantee all such payments under the Guarantee Agreement. All Revenues (which will include payments by Kaiser under the Loan Agreement and payments by the Guarantors under the Guarantee Agreement) and any other amounts held in a designated fund or account under the Indenture are pledged to secure the full payment of the Bonds (except certain payments specifically for the benefit of the Trustee and Authority).

Consolidation, Merger, Sale or Transfer of Assets. Each of Kaiser and the Guarantors covenant not to dissolve, sell or other dispose of all or substantially all of its assets or merge into another corporation or permit one or more other corporations to consolidate with or merge into it except upon compliance with certain conditions set forth in the Loan Agreement or Guarantee Agreement, as applicable.

Limitation on Encumbrances. Each of Kaiser and the Guarantors agrees not to create, assume or suffer to exist any mortgage, deed of trust, pledge, security interest, encumbrance, lien or charge of any kind (a "security interest") upon any property or revenues of any Affiliated Corporation, whether such property is now owned or hereafter acquired, unless the obligations of Kaiser under the Loan Agreement are secured prior to or equally and ratably with any indebtedness or other obligation secured by such security interest. Notwithstanding this covenant, any Affiliated Corporation may create, suffer or assume a specified list of Permitted Encumbrances.

Limitation on Disposition of Assets. Each of Kaiser and the Guarantors agrees not to sell, lease or otherwise dispose of any of its assets (including cash), or permit any Affiliated Corporation to sell, lease or otherwise dispose of any of its assets (including cash) except upon compliance with certain financial tests set forth in the Loan Agreement or Guarantee Agreement, as applicable.

Comply with SEC Rule 15c2-12. Each of Kaiser and the Guarantors will take such action as is necessary to assist the underwriters in complying with SEC Rule 15c2-12. Each of Kaiser and the Guarantors will contractually agree to disclose designated financial and operating information to the MSRB web site (EMMA) during the life of the bonds and to report designated "listed events" such as missed debt service payments, any change in bond ratings, defeasance, redemptions, etc.

* Please note these proposed covenants, security provisions and disclosures apply regardless of whether the transaction is ultimately a private placement or an openly marketed security.

(INTENTIONALLY LEFT BLANK)

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

	For the year ended December 31,		
	2010	**2009**	**2008**
Revenues: [(b)]			
Members' dues	$ 30,539	$ 28,939	$ 27,909
Medicare	10,743	10,469	9,717
Copays, deductibles, fees, and other	2,945	2,736	2,682
Total operating revenues	44,227	42,144	40,308
Expenses:			
Medical services	21,551	20,254	19,328
Hospital services	12,016	11,364	11,056
Outpatient pharmacy and optical services	4,667	4,497	4,368
Other benefit costs	2,939	2,703	2,486
Total medical and hospital services	41,173	38,818	37,238
Health Plan administration	1,812	1,704	1,573
Asset losses	40	37	38
Total operating expenses	43,025	40,559	38,849
Operating income	1,202	1,585	1,459
Other income and expense:			
Investment income (loss) - net	919	649	(2,237)
Gain on extinguishment of debt	-	-	83
Interest expense	(130)	(125)	(99)
Total other income and expense	789	524	(2,253)
Net income	1,991	2,109	(794)
Pension and other retirement liability changes to other comprehensive income	(1,188)	(2,816)	(777)
Change in net unrealized gains (losses) on investments	249	1,110	(631)
Change in restricted donations	(2)	4	-
Change in net worth	1,050	407	(2,202)
Net worth at beginning of year	11,838	11,431	13,633
Net worth at end of year	$ 12,888	$ 11,838	$ 11,431

[(a)] The total net worth of the subsidiaries that are **not** members of the Credit Group, as a percentage of total combined net worth, was 9% in 2010.

[(b)] **Payor Source**	**Percent**
Members' dues	69%
Medicare	24%
Copays, deductibles, fees, and other	7%
Total	100%

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

	As of December 31,		
Assets	**2010**	**2009**	**2008**
Current assets:			
Cash and equivalents	$ 181	$ 157	$ 73
Short-term investments	5,974	5,855	5,042
Securities lending collateral	1,143	1,533	1,611
Broker receivables	1,132	541	NA [b]
Accounts receivable, net	1,076	1,148	1,029
Inventories and other current assets	885	767	709
Total current assets	10,391	10,001	8,464
Long-term investments	14,182	11,585	8,488
Land, buildings, equipment and software-net	18,180	16,910	15,832
Other long-term assets	96	116	133
Total assets	$ 42,849	$ 38,612	$ 32,917
Liabilities & Net Worth			
Current liabilities:			
Accounts payable and accrued expenses	$ 2,114	$ 1,974	$ 2,118
Medical claims payable	1,221	1,196	1,192
Due to associated medical groups	663	647	801
Payroll and related charges	1,191	1,060	1,073
Securities lending payable	1,143	1,533	1,611
Broker payables	1,572	814	NA [b]
Current portion of long-term debt	218	12	12
Long-term debt subject to short-term remarketing arrangements-net	1,702	2,361	1,213
Other current liabilities	1,501	1,316	1,191
Total current liabilities	11,325	10,913	9,211
Long-term debt	3,832	3,196	2,724
Physicians' retirement plan liability	3,140	2,806	2,375
Pension and other retirement liabilities	9,745	7,969	5,159
Other long-term liabilities	1,919	1,890	2,017
Total liabilities	29,961	26,774	21,486
Net worth	12,888	11,838	11,431
Total liabilities & net worth	$ 42,849	$ 38,612	$ 32,917

Financial Ratios:	**Proforma [c] FYE December 31, 2010**			
Debt service coverage of operating income (x)	13.72	13.86	16.35	15.42
Debt service coverage of net income (x)	13.61	13.75	10.75	(4.15)
Debt/Unrestricted Net Assets (x)	0.45	0.45	0.47	0.35
Margin (%)		2.72	3.76	(6.74)
Current Ratio (x)		1.08	1.17	1.06

[a] The total net worth of the subsidiaries that are **not** members of the Credit Group, as a percentage of total combined net worth, was 9% in 2010.

[b] Broker receivables and payables was a new line item that reflects restated FY 2010 and 2009 financials. FY 2008 was not restated to reflect this item.

[c] Recalculates December 2010 results to include the impact of this proposed financing.

III. FINANCIAL STATEMENTS AND ANALYSIS:

The System's financial statements were analyzed in this section. The System's financials are also disclosed in the Preliminary Official Statement. The System includes Health Plans and Subsidiaries as well as Kaiser and Subsidiaries. Staff has also performed its typical financial analysis on the financials of the Credit Group and found them to be acceptable and consistent with the financial analysis noted for the System. The total net worth of the Subsidiaries that are not members of the Credit Group, as a percentage of total combined net worth, was 9% in 2010.

Financial Discussion – Statement of Activities (Income Statement)

The System's income statement appears to exhibit improved operating results during the review period from FY 2008 to FY 2010 with continued revenue growth as well as improved operating margins and investment strategies.

The System's revenue appears to have grown by 10% from $40.3 billion in FY 2008 to $44.2 billion in FY 2010. The System relates that the increase in revenues can mostly be attributed to an increase in its Members' dues revenue, which accounts for 69% of total revenue, and this increase was due to rate increases. The System's operating margins improved from negative 6.74% to a positive 3.76% and then to 2.72% in FY 2008, FY 2009, and FY 2010, respectively. In FY 2008, the System appeared to have experienced a significant loss in investments of approximately $2.2 billion due to the volatility of the market, but the System indicates it has since recovered due to its investment strategies. Specifically, since FY 2008, the System has actively reduced the overall risk of its portfolio, and has increased the frequency of its asset liability management process to ensure appropriate alignment with an ever changing market.

Particular Facts to Note:

- From FY 2008 to FY 2010, Medicare revenue increased by 11% mostly, according to the System, due to increased risk-adjusted Medicare reimbursement rates and a higher Medicare membership.

- In order to prepare for potential changes to Medicare reimbursement rates and changes in the overall market, the System has continued to focus on improving the quality of care it provides to its members and the communities it serves. By improving its quality of care, according to the System, it will be well positioned to receive government incentive payments for high-quality patient care and for meaningful use of health care information technology. The System has also focused on transforming care delivery, which will support lower than industry cost trends (e.g. preventive care and chronic care management).

- As a result of the health care reform legislation, states will need to provide access to approximately 16 million new Medicaid eligible recipients in 2014, as a part of moving the country towards universal coverage. The System as well as other large health plans and care delivery organizations will be expected to participate in providing health care to those recipients who will be newly covered. Consistent with other health plans and care delivery organizations, the System is evaluating markets where it can expand services and effectively serve those populations.

- The System's expenses appear to have been kept in line with revenues and have increased by approximately 11% from $38.9 billion in FY 2008 to $43.0 billion in FY 2010.

Financial Discussion – Statement of Financial Position (Balance Sheet)

The System appears to have a strong financial position with a proforma debt service coverage ratio of 13.72x.

The System's balance sheet appears to continue growing with total net assets increasing from $11.4 billion in FY 2008 to $12.8 billion in FY 2010, an increase of nearly 13%. The System attributes the increase primarily to an increase in net income and unrealized gains on investments. Total cash equivalents and short term investments grew from $5.1 billion in FY 2008 to $6.2 billion in FY 2010 to increased liquidity in the asset portfolio. The operating debt service coverage ratio appears to be a solid 13.86x, and with the proposed financing, the proforma operating debt service coverage ratio appears to remain solid at 13.72x.

Particular Facts to Note:

- The System's assets increased from $32.9 billion in FY 2008 to $42.9 billion in FY 2010 primarily due (according to the System) to an increase in short- and long-term investments along with a net increase in land, buildings, equipment and software-net.

- The System maintains a low level of debt with its debt-to-net assets ratio equaling .45x. With the proposed financing, the ratio will remain at .45x since the acquisition will occur by paying off the amount of the I-Bank bonds, which is reflected in the December 31, 2010 balance sheet numbers because the lease structure was collapsed prior to year end, and no new additional debt will be issued.

IV. DUE DILIGENCE:

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

- **Section 15438.5(a) of the Act (Savings Pass Through)**: Kaiser 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)**: Kaiser will complete and submit this certification and indicate whether Medi-Cal and Medicare patients are accepted at the closing of the bond deal.
- **Compliance with Seismic Regulation**s: Not Applicable.
- **Compliance with Section 15455(b) of the Act (California Environmental Quality Act)**: Kaiser properly submitted documentation to the Authority, where applicable, demonstrating that each 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 Diligenc**e.
- **Legal Review**.

(INTENTIONALLY LEFT BLANK)

EXHIBIT 1

PROJECT SITES

PROJECT	**PROJECT ADDRESS**
Antioch Medical Office Building	3454 Hillcrest Ave, Antioch, CA
Clovis Medical Office Building	2071 East Herndon Ave, Clovis, CA
Elk Grove Medical Office Building	9201 Big Horn Blvd, Elk Grove, CA
La Mesa Medical Office Building	8010 Parkway Dr, La Mesa, CA
Livermore Medical Office Building	3000 Las Positas Rd, Livermore, CA
Ontario Surgery Center	2295 South Vineyard Ave, Ontario, CA
Petaluma Medical Office Building	3900 Lakeview Hwy, Petaluma, CA
San Diego Avocado/Fury Medical Office Building	3875 Avocado Blvd, San Diego, CA
Santa Rosa Medical Office Building	3925 Old Redwood Hwy, Santa Rosa, CA
Selma Medical Office Building	2651 Highland Ave, Selma, CA

EXHIBIT 2

FINANCING TEAM

Trustees:	Wells Fargo Bank, N.A. or The Bank of New York Mellon Trust Company, N.A., in consultation with the Executive Director and Borrower.
Rating Agency:	Standard & Poor's Fitch Ratings
Issuer's Financial Advisor:	Public Financial Management, Inc.
Issuer's Financial Analyst:	Macias Gini & O'Connell, LLP
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP
Underwriters [a]:	J.P. Morgan Securities, LLC, Citigroup Global Markets Inc., and/ or Goldman, Sachs & Co.
Underwriter's Counsel:	Ropes & Gray LLP
Private Placement Purchaser [a]:	RBC Capital Markets LLC
Counsel of Private Placement Purchaser:	Kutak Rock LLP
Auditor:	KPMG, LLP

[a] Underwriter(s) will be party to the Purchase Contract in the case of a negotiated public offering. Private Placement Purchaser will be party to the Purchase contract in the case of a private placement. CHFFA's Executive Director, with the advice and consent of the Borrower, will select the alternative.

EXHIBIT 3

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.

The table below presents memberships as of December 31, 2008 through December 31, 2010:

As of Dec. 31,	Health Plans Membership	Affiliated Health Plans Membership[1]	Total Membership	Medicare Membership[2]
2010	6,834,451	1,841,917	8,676,368	996,400
2009	6,731,570	1,845,465	8,577,035	943,772
2008	6,789,577	1,851,593	8,641,170	900,704

(1) Includes Kaiser Permanente Insurance Company, if applicable.
(2) Reflects the combined Medicare membership for Health Plans and the Affiliated Health Plans.

EXHIBIT 4

OUTSTANDING DEBT

Date Issued	Original Amount	Amount Outstanding As of December 31, 2010[a]	Estimated Amount Outstanding after Proposed Financing
- EXISTING LONG-TERM DEBT:			
Authority Debt:			
Kaiser Permanente, 1989 Series A	$145,910,000	$5,999,308	$5,999,308
Kaiser Permanente, 2006 Series A	200,000,000	200,000,000	200,000,000
Kaiser Permanente, 2006 Series C	325,000,000	325,000,000	325,000,000
Kaiser Permanente, 2006 Series E	175,000,000	175,000,000	175,000,000
Other Debt:		$5,046,000,692	$4,841,455,692
- PROPOSED NEW DEBT:			
CHFFA Series 2011			**$204,545,000**
- TOTAL DEBT		**$5,752,000,000**	**$5,752,000,000**

[a] Includes current portion of long-term debt.

EXHIBIT 5

BACKGROUND, GOVERNANCE AND LICENSURE

Background

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

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

The Guarantors are comprised of Kaiser Foundation Health Plan, Inc. ("Health Plans"), 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 Plans, (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 Plans and Kaiser respectively.

Kaiser Permanente

Kaiser Permanente is the trade name for the integrated health care delivery system that delivers health care services through an integrated system of health plans, hospitals and physician groups that are related through parent/subsidiary relationships or contractual affiliation relationships operating under the system known as the Kaiser Permanente Medical Care Program ("Kaiser Permanente").

Kaiser Permanente consists of the following entities: Kaiser, HAMI, HPAMI, Health Plans, five other health plan organizations (the "Affiliated Health Plans" and, together with Health Plans, the "Health Plan Organizations"), eight independent medical groups (the "Permanente Medical Groups") and several other entities that engage in activity under the system known as the Kaiser Permanente Medical Care Program.

The Permanente Medical Groups are independent for-profit professional entities, which provide physician services to members of Health Plans and the Health Plan Organizations through mutually exclusive contractual arrangements. None of Kaiser, HAMI, HPAMI or the Health Plan Organizations has any shareholder or partnership interest in any of the Permanente Medical Groups.

Most Kaiser Permanente members enroll under membership agreements between their employers and one of the Health Plan Organizations. Services are provided principally at facilities owned by Kaiser and the Health Plan Organizations. In Colorado, Georgia, the Mid-Atlantic States and Ohio regions, Kaiser does not own or operate hospitals. Rather, it assumes the responsibility to arrange and pay for hospital services required by Health Plan Organization members, usually at local community hospitals. Physician services are provided by physicians affiliated with one of eight Permanente Medical Groups that contract with one of the Health Plan Organizations by mutually exclusive contracts or by community physicians that are under contract with one of the Permanente Medical Groups.

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 Kaiser 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 Plans), the other subsidiaries of Health Plans, other subsidiaries of Kaiser or any of the Permanente Medical Groups has any obligation to make payments with respect to the Bonds.

Corporate Governance

Kaiser and Health Plans, both California nonprofit public benefit corporations, are non-stock corporations with common boards of directors and senior management. Control over the affairs of each corporation is vested in its board of directors, the members of which are elected by the board by class for three-year terms (except for one ex officio member and a member of senior management designated by the Chief Executive Officer who are elected each year). The Affiliated Health Plans, all nonprofit corporations, are also non-stock corporations, and Health Plans is the sole corporate member of the Affiliated Health Plans. All or a majority of the directors of the Affiliated Health Plans are elected by the board of directors of Health Plans. Kaiser and Health Plans are the sole corporate members of HAMI and HPAMI, respectively, and appoint their boards of directors.

Licensure and Memberships

All Kaiser patient care facilities are licensed by the Department of Health Services to the extent required by law. Kaiser participates in Medicare and Medi-Cal programs.