CHFFA REVENUE BOND FINANCING PROGRAM
EXECUTIVE SUMMARY

Applicant:	Cedars-Sinai Medical Center ("CSMC") 8700 Beverly Blvd. Los Angeles, CA 90048 Los Angeles County	**Amount Requested:** **Auth Meeting Date:** **Requested Loan Term:** **Resolution Number:**	$165,000,000 October 27, 2011 Up to 40 years 373
Project Sites:	Same as above		
Facility Types:	General Acute Care Hospital - Tertiary Care Teaching Hospital		
Prior Borrower:	Yes		

Background: Cedars-Sinai Medical Center ("CSMC"), a California nonprofit public benefit corporation established in 1961, owns and operates a major tertiary medical center in Los Angeles, California. CSMC is situated on an approximate 26-acre site and includes a 1.7 million square foot main medical center complex supported by an additional 891,000 square feet in adjacent research and ancillary facilities. In addition, CSMC owns an adjacent outpatient Surgery Center of approximately 44,000 square feet. As a teaching hospital, CSMC serves as a regional resource with a full complement of primary care, specialty and subspecialty services.

Use of Proceeds: Bond proceeds will be used to refund California Health Facilities Financing Authority ("CHFFA") Series 1997A and 1997B Bonds. The Series 1997A and 1997B bond proceeds were used to finance and refinance various capital projects, and to finance related issuance and insurance costs

Type of Issue:	Negotiated public offering of fixed rate bonds (minimum $5,000 denominations)
Expected Credit Rating:	A2 Moody's; A+ Fitch
Financing Team:	*Please see Exhibit 1 to identify possible conflicts of interest*

Financial Overview: CSMC's income statement appears to exhibit solid operating results over the review period along with continued revenue growth. CSMC appears to have a strong financial position with a proforma debt service coverage ratio of 5.05x.

Estimated Sources of Funds:		**Estimated Uses of Funds:**	
Par amount of bonds	$ 165,000,000	Refunding	$ 162,000,000
		Cost of Issuance	3,000,000
Total Estimated Sources	$ 165,000,000	**Total Estimated Uses**	$ 165,000,000

Legal Review: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through, CEQA documentation, and the Iran Contracting Act certificate. All documentation satisfies the Authority's requirements.

Staff Recommendation: Staff recommends the Authority approve Resolution Number 373 for Cedars-Sinai Medical Center in an amount not to exceed $165,000,000 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 ("PFM"), the Authority's financial advisor, concur with the Authority's staff recommendation.

I. PURPOSE OF FINANCING

CSMC seeks to refund CHFFA 1997 Series A and 1997 Series B Bonds and take advantage of the recent decline in the lower interest rates being offered in the marketplace. The refinancing is expected to allow CSMC to reduce the term of its bonds from the remaining 17 years to 10 years and to reduce the interest rate from between 5% and 5.25% to 3.20% (pending market changes to the pricing date), resulting in an expected interest savings of approximately $50 million over the next 10 years.

Refunding ***$162,000,000***

CSMC will refund the following two bond issues:

California Health Facilities Financing Authority Insured Revenue Bonds, Series 1997A (the "1997 Series A Bonds")

CSMC used the funds from the 1997 Series A Bonds to finance and refinance certain capital projects, including to refund a portion of the Series 1992 Certificates of Participation issued through the California Statewide Communities Development Authority.

California Health Facilities Financing Authority Insured Revenue Bonds, Series 1997B (the "1997 Series B Bonds")

The 1997 Series B Bonds were used to finance various renovation projects, purchase capital equipment, and reimburse certain expenditures.

Estimated Cost of Issuance ***3,000,000***

Estimated Total Uses of Funds ***$165,000,000***

II. PROPOSED COVENANTS, SECURITY PROVISIONS AND DISCLOSURES:

Obligated Group. CSMC is a California nonprofit public benefit corporation and is the only member of the Obligated Group. CSMC is the borrower under the Loan Agreement(s).

After reviewing CSMC's current financial profile, prior bond transactions, and considering what the market will support, CSMC, PFM and the underwriter have concluded the covenants listed below should be applicable to this transaction. CSMC and PFM note these covenants are consistent with covenants that have applied to the CSMC's prior bond transactions and that the CSMC's current financial profile does not suggest that additional covenants should be required by CHFFA.

The following covenants are applicable for this transaction:

Unconditional Promise to Pay. *CSMC agrees to pay to the Bond Trustee all amounts required for principal, interest or redemption premium, if applicable, and other payments and expenses designated in the Loan Agreement. The Obligated Group guarantees all such payments under the Obligation issued under the Master Indenture. All Revenues (which will include payments CSMC under the Loan Agreement and payments by the Obligated Group under the Obligation) and any other amounts held in a designated fund or account under the Bond Indenture are pledged to secure the full payment of the Series 2011 Bonds.*

Pledge of Gross Revenues. *Under the Supplemental Master Indenture for the Series 2011 Bonds, each member of the Obligated Group pledges to deposit all of its Gross Revenues into a Gross Revenue Fund over which, under certain circumstances related to payment defaults on any Obligation, the Master Trustee can exercise control for the benefit of each Obligation holder.*

Limitation on Liens. *Each Member agrees that it will not create, assume or suffer to exist any Lien upon the Property of the Obligated Group except for Permitted Encumbrances.*

Limited Permitted Encumbrances. *Each Member is subject to a restrictive set of allowable Liens it may incur pursuant to the Master Indenture, such allowable Liens being "Permitted Encumbrances."*

Debt Service Coverage Requirement. *The Master Indenture requires an Annual Required Debt Service Coverage Ratio of more than 1.10:1.00. A debt service coverage ratio measures the ability to make interest and principal payments as they become due. If the Annual Required Debt Service Coverage Ratio falls below 1:10:1.00, the Obligated Group Representative promises to employ an Independent Consultant. An immediate event of default occurs if the Annual Required Debt Service Coverage Ratio falls below 1.00:1.00.*

Limitations on Mergers, Sales or Conveyances. *Each Member agrees that it will not merge or consolidate with any other entity or sell or convey all or substantially all of its assets to any entity that is not a Member unless authorized by various limiting measures set out in the Master Indenture.*

Limitations on Exit of Existing Members of the Obligated Group or Entrance of New Members. *The Master Indenture sets forth restrictions that must be met, including financial tests, for an existing member to exit the Obligated Group or a new member to enter the Obligated Group.*

Disposition of Cash and Property Limitations. *Each Member agrees that it will not dispose any Property if such disposition will cause the Annual Required Debt Service Coverage Ratio for the Members to be less than 1.10:1.0.*

No Reserve Account. *There will not be a debt service reserve account pledged to the Series 2011 Bonds. .*

Staff has reviewed the entirety of this financing package and finds it to be acceptable.

[Intentionally Left Blank]

III. FINANCIAL STATEMENTS AND ANALYSIS:

Cedars-Sinai Medical Center

Financial Position ($000)

	As of June 30, 2010	2009	2008
Assets:			
Current Assets:			
Cash and cash equivalents	$ 314,930	$ 127,525	$ 146,734
Investments	296,379	301,121	346,001
Board designated assets	342,074	294,371	299,277
Current portion of assets limited as to use	11,512	8,524	9,808
Patient accounts receivable	383,731	415,490	344,674
Inventory	17,290	14,484	13,022
Prepaid expenses and other assets	43,472	48,890	41,207
Total current assets	1,409,388	1,210,405	1,200,723
Assets limited as to use, less current portion	284,452	4,439	5,233
Property and equipment, net	1,166,832	1,010,281	928,693
Investments	156,691	148,492	135,484
Assets restricted for acquisition of property & equipment	4,444	4,132	3,676
Pledges receivable	55,741	64,617	97,106
Permanently restricted assets	215,829	195,742	185,665
Other assets	88,347	34,775	43,919
Total assets	$ 3,381,724	$ 2,672,883	$ 2,600,499
Liabilities and net assets:			
Current liabilities:			
Accounts payable and other accrued liabilities	$ 141,965	$ 171,530	$ 149,273
Due to third-party payers	10,271	12,143	12,996
Accrued payroll and related liabilities	184,944	163,699	146,429
Current maturities of long-term debt	32,975	13,740	12,995
Total current liabilities	370,155	361,112	321,693
Long-term debt, less current maturities	1,204,136	697,198	711,889
Accrued workers' compensation and malpractice insurance claims, less current portion	61,809	50,202	48,375
Other liabilities	49,059	47,260	35,022
Total liabilities	1,685,159	1,155,772	1,116,979
Net assets:			
Unrestricted	1,258,005	1,099,421	1,057,970
Temporarily restricted	222,731	221,948	239,885
Permanently restricted	215,829	195,742	185,665
Total net assets	1,696,565	1,517,111	1,483,520
Total liabilities and net assets	$ 3,381,724	$ 2,672,883	$ 2,600,499

Financial Ratios:	**Proforma (a) FYE June, 2010**	2010	2009	2008
Debt service coverage (x)	5.05	5.01	3.56	6.22
Debt/Unrestricted Net Assets (x)	0.73	0.73	0.47	0.49
Margin (%)		5.77	5.85	7.53
Current Ratio (x)		3.81	3.35	3.73

(a) Recalculates FY 2010 audited results to include the impact of this proposed financing.

Cedars-Sinai Medical Center
Statement of Activities ($000)
(Unrestricted)

	For the Year Ended June 30,		
	2010	2009	2008
Unrestricted net assets activity			
Unrestricted revenues, gains and other support:			
Net patient service revenues	$ 2,117,193	$ 2,031,480	$ 1,782,288
Premium revenues	58,108	56,816	55,007
Other operating revenues	105,401	96,952	99,679
Investment results used for operations	87	(6,727)	(3,418)
Net assets released from restrictions	107,859	101,754	108,452
Total revenue and support	2,388,648	2,280,275	2,042,008
Expenses:			
Salaries and related costs	1,139,446	1,020,079	909,562
Materials, supplies and other	708,376	741,347	662,630
Provision for uncollectible accounts	176,222	194,484	134,707
Depreciation and amortization	97,695	84,141	77,856
Professional fees	82,495	75,803	70,400
Interest	46,694	31,000	33,096
Total expenses	2,250,928	2,146,854	1,888,251
Operating income	137,720	133,421	153,757
Investment results retained for future operating and capital needs	52,475	(58,497)	6,769
Amortization of prior service costs	(34,275)	(33,838)	3,835
Other	2,664	365	7,244
Change in unrestricted net assets	**158,584**	**41,451**	**171,605**
Total net assets, beginning of year	1,517,111	1,483,520	1,295,605
Total net assets, end of year	$ 1,696,565	$ 1,517,111	$ 1,483,520

Net Patient Revenues

	Fiscal Year Ended, June 2010
	Percent
Medicare	26
Medi-Cal	5
Other third-party payers	59
Self-pay and other	10
Total	100

Financial Discussion – Statement of Activities (Income Statement)

CSMC's income statement appears to exhibit solid operating results over the review period along with continued revenue growth.

CSMC's operating margins exhibit solid operating results over the review period from 7.53% in FY 2008 to 5.85% in FY 2009 to 5.77% in FY 2010. Total revenue has increased approximately 17% from approximately $2 billion in FY 2008 to $2.4 billion in FY 2010. This primarily appears to be a result of an increase in net patient service revenues, which increased from approximately $1.8 billion in FY 2008 to $2.1 billion in FY 2010.

Particular Facts to Note:

- CSMC reports that the fluctuations evident in the operating margins were due to the increases in revenue stated above as well as increases in total expenses over the review period, which was approximately 19% from approximately $1.8 billion in FY 2008 to $2.2 billion in FY 2010. Salaries and related costs increased by approximately 25% from approximately $910 million in FY 2008 to $1.1 billion in FY 2010. CSMC reports the increase in salaries is due to an increase in Full Time Equivalent of 16% from approximately 8,700 to approximately 10,100 to support continued growth and to comply with increased regulations related to nursing coverage. This increase in salaries was also impacted by annual inflationary increases of approximately 3% per year and to increase in the costs of health benefits.

- CSMC incurred investment income losses of approximately $58.5 million in FY 2009 and an investment gain of approximately $52.5 million in FY 2010. According to CSMC, the changes in investment income reflected fluctuations in the financial market conditions between the fiscal periods.

- Net patient revenue increased over the review period due to planned volume increases of approximately 2% per year, primarily in the more profitable outpatient lines of business and in annual rate increases of approximately 8% each year.

Financial Discussion – Statement of Financial Position (Balance Sheet)

CSMC's balance sheet appears solid with increasing net assets and a strong proforma operating debt service coverage ratio at 5.05x.

Particular Facts to Note:

- CSMC's balance sheet appears to continue growing with total net assets increasing from approximately $1.5 billion in FY 2008 to $1.7 billion in FY 2010, an increase of 14%. CSMC has excellent liquidity with a current ratio of 3.81x for FY 2010 and with cash and cash equivalents of approximately $315 million, resulting in 111 days cash on hand.

- CSMC's property and equipment increased by about 26% over the review period from approximately $929 million in FY 2008 to $1.2 billion in FY 2010. This increase was mainly due to investments in computer systems, software, and equipment as well as additional construction projects (buildings and land improvements) according to CSMC.

- According to CSMC, patient accounts receivables increased from approximately $345 million in FY 2008 to $383 million in FY 2010 as a result of higher volumes and utilization.

- The debt service coverage is a solid 5.01x and with the proposed financing, the proforma debt service coverage ratio appears to improve to 5.05x, indicating CSMC can likely manage this financing.

- According to CSMC, the increase in cash and cash equivalents over the review period is attributed to new debt that was issued in FY 2010, but it is also attributed to operating activities, which provided cash and cash equivalents each period.

IV. DUE DILIGENCE:

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

- **Section 15438.5(a) of the Act (Savings Pass Through)**: Cedars-Sinai Medical Center 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)**: Cedars-Sinai Medical Center properly completed and submitted this certification and indicated that Medi-Cal and Medicare patients are accepted.

- **Compliance with Section 15455(b) of the Act (California Environmental Quality Act)**: Cedars-Sinai Medical Center 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 Diligence**.

- **Legal Review**.

- **Iran Contracting Act Certificate**: Cedars-Sinai Medical Center properly submitted the certificate to the Authority.

EXHIBIT 1

FINANCING TEAM

Trustees:	The Bank Of New York Mellon
Issuer's Counsel:	Office of the Attorney General
Issuer's Financial Advisor:	Public Financial Management, Inc.
Issuer's Financial Analyst:	Macias Gini & O'Connell, LLP
Bond Counsel:	Orrick, Herrington & Sutcliffe, LLP
Trustee's Counsel:	Emmet, Marvin & Martin
Borrower's Financial Advisor:	Kaufman Hall
Corporation Counsels:	Paul, Hastings, Janofsky & Walker LLP and Manatt, Phelps & Phillips, LLP
Underwriter:	Bank of America Merrill Lynch
Underwriter Counsel:	Sidley Austin
Auditor:	Ernst & Young LLP

EXHIBIT 2

UTILIZATION STATISTICS

Cedars-Sinai Medical Center

	Fiscal Year Ended June 30		
	2010	**2009**	**2008**
Occupancy (as % of Available Beds)	81.3%	84.1%	81.9%
Admissions [1]	51,186	49,134	48,269
Patient Days [1]	275,597	279,021	273,128
Average Length of Stay (days) [1]	5.5	5.7	5.7
Emergency Room Visits	81,669	79,624	77,964
Outpatient Surgeries	14,814	13,374	12,989

[1] Average length of stay is defined as patient days divided by admissions.

EXHIBIT 3

OUTSTANDING DEBT

As of fiscal year ending June 30, 2010, CSMC has approximately $1.2 billion in outstanding debt of which $702.27 million is Authority debt. With this financing, CSMC will be refunding $161.42 million of Authority debt, and the outstanding debt will remain at $1.2 billion.

EXHIBIT 4

BACKGROUND, GOVERNANCE AND LICENSURE

Background

CSMC, a California nonprofit public benefit corporation, incorporated in 1961, owns and operates a major tertiary medical center in Los Angeles, California. CSMC is situated on an approximately 26-acre site and includes a 1.7 million square foot main medical center complex supported by an additional 891,000 square feet in adjacent research and ancillary facilities. In addition, CSMC owns an adjacent outpatient Surgery Center and the Mark Goodson Building, an offsite ambulatory care facility of approximately 269,000 square feet of space, including parking. As a teaching hospital, CSMC serves as a regional resource with a full complement of primary care, specialty and subspecialty services.

As one of the largest nonprofit hospitals in the western United States, CSMC has combined expertise in technology, research and the provision of patient care to create a standard of excellence in healthcare. The campus is comprised of multiple patient care buildings totaling over 2.3 million square feet of available space for inpatient and outpatient services. CSMC is currently licensed for 947 beds, of which 892 were available for use as of August 31, 2011. CSMC's facilities are in compliance with the California seismic safety requirements and will not require any construction, retrofitting or relocation of core services and facilities in order to fully comply with such requirements until 2030.

CSMC provides comprehensive health services to a diverse population of approximately 3.8 million people who reside in the central, western and southern portions of metropolitan Los Angeles and the southern San Fernando Valley.

Cedars-Sinai Medical Care Foundation ("The Foundation")

Formed as a California nonprofit public benefit corporation in December 1993, the Foundation operates and maintains multispecialty clinics, holds payor contracts and the assets of acquired physician and physician group practices, and contracts for physician services pursuant to professional services agreements. The Foundation is affiliated with approximately 632 physicians with practices situated on the west side of Los Angeles and manages approximately 45,000 commercial and senior managed care capitated lives. CSMC is the sole corporate member of the Foundation.

Licenses and Contracts

CSMC is licensed by the State of California Department of Health Services. CSMC is accredited by the Joint Commission. CSMC has received several certifications, including: American Heart Association First Hour Designation, Emergency Department Approved for Pediatrics, Commission on Cancer Certificate of Approval, and American Diabetes Association Certificate of Recognition. CSMC holds memberships in the American Hospital Association, the California Hospital Association, the Hospital Council of Southern California, the Association of Western Hospitals, the Voluntary Hospitals of America, and the Council of Teaching Hospitals of the Association of American Medical Colleges.

Governance

CSMC is governed by its Board of Directors, which shall consist of not less than 15 nor more than 42 members. Each member of the Board of Directors is elected initially to a one or two-year term at the December Board of Directors meeting and is subject to reelection for an unlimited number of subsequent one or two-year terms in accordance with CSMC's bylaws.