

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (CHFFA)

BOND FINANCING PROGRAM

EXECUTIVE SUMMARY

<p>Applicant: Catholic Healthcare West (Obligated Group) (“CHW”) San Francisco, California San Francisco County</p>	<p>Amount Requested: \$600,000,000 Date Requested: April 8, 2009 Requested Loan Term: 30 years Resolution Number: 336</p>																								
<p>Project Sites: Various Facility Types: General acute/sub-acute and outpatient care, acute psychiatric, chemical dependency rehabilitation, outpatient surgery, and skilled nursing services</p>																									
<p>Background: Catholic Healthcare West (“CHW”) is a California nonprofit public benefit corporation headquartered in San Francisco, California. CHW, together with its subsidiary corporations, comprise the Catholic Healthcare West System (“CHW System”). The CHW System operates 41 hospitals throughout California, Phoenix, Arizona and Las Vegas and Reno, Nevada.</p>																									
<p>Use of Proceeds: Bond proceeds will be used to finance various capital improvement projects as well as refund all or a portion of their outstanding Variable Rate Demand Bonds.</p>																									
<p>Type of Issue: Negotiated public offering with fixed rate/variable rate intermediate term put bonds</p>																									
<p>Credit Enhancement: None</p>																									
<p>Underlying Credit Rating: A2/A/A+ Moody’s/S&P/Fitch</p>																									
<p>Senior Underwriter: J.P. Morgan Securities</p>																									
<p>Bond Counsel: Sidley Austin LLP</p>																									
<p>Financial Overview: CHW’s income statement appears to exhibit positive operating results and net income over the review period along with continued revenue growth. CHW’s balance sheet also appears solid with a strong historical debt service coverage ratio and growing net assets.</p>																									
<table border="0" style="width: 100%;"> <thead> <tr> <th align="left" colspan="2">Estimated Sources of Funds (000’s):</th> <th align="left" colspan="2">Estimated Uses of Funds (000’s):</th> </tr> </thead> <tbody> <tr> <td>Par amount of bonds</td> <td align="right">\$600,000</td> <td>Refunding</td> <td align="right">\$301,000</td> </tr> <tr> <td>Original Issue Discount</td> <td align="right">(30,000)</td> <td>Projects</td> <td align="right">200,000</td> </tr> <tr> <td></td> <td></td> <td>Debt Service Reserve Fund</td> <td align="right">57,000</td> </tr> <tr> <td></td> <td></td> <td>Financing costs</td> <td align="right"><u>12,000</u></td> </tr> <tr> <td> Total Sources</td> <td align="right"> <u>\$570,000</u></td> <td> Total Uses</td> <td align="right"> <u>\$570,000</u></td> </tr> </tbody> </table>		Estimated Sources of Funds (000’s):		Estimated Uses of Funds (000’s):		Par amount of bonds	\$600,000	Refunding	\$301,000	Original Issue Discount	(30,000)	Projects	200,000			Debt Service Reserve Fund	57,000			Financing costs	<u>12,000</u>	 Total Sources	 <u>\$570,000</u>	 Total Uses	 <u>\$570,000</u>
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<p>Legal Review: Staff has reviewed the applicant’s responses to the questions contained in the Legal Status portion of the application. The disclosed information does not appear to question the financial viability or legal integrity of this applicant.</p>																									
<p>Staff Recommendation: Staff recommends the Authority approve a Resolution in an amount not to exceed \$600,000,000 for Catholic Healthcare West subject to a bond rating of at least an “A” category rating by a nationally recognized rating agency and satisfactory conclusion of the TEFRA hearing and approval.</p>																									

STAFF SUMMARY AND RECOMMENDATION
Catholic Healthcare West (“CHW”)

April 8, 2009

Resolution Number: 336

I. POLICY ISSUES:

The Authority adopted bond issuance guidelines in September 2000 including a minimum debt service coverage ratio of 1.25x. The Authority then acknowledged that exceptions to the guidelines may be considered if the applicant demonstrates such exception is a necessary part of a cost-effective and prudent borrowing strategy. CHW’s 1986 Master Indenture requires maintenance of a minimum debt service coverage of 1.10x and also requires that certain non-cash items, including unrealized investment losses, be included in the calculation of income available for debt service when determining debt service coverage. CHW is currently seeking to amend its Master Indenture to exclude non-cash items from the calculation of income available for debt service when determining debt service coverage. Such a methodology is consistent with the methodology used by many other health care system providers that operate under more modern master indenture documents. Employing this more modern methodology would then require CHW to maintain a minimum debt service coverage in excess of 1.25x for the six months ended December 31, 2008, as well as on a proforma basis, taking into consideration the new debt to be incurred upon the issuance of the bonds. In consideration of the historical and current financial strength of CHW (its current proforma debt service coverage as of FY 2008 is a solid 3.20x) and the extraordinary market conditions over the last year, staff recommends debt service coverage of 1.25x be waived and the master indenture requirement of a minimum debt service coverage of 1.10x be permitted.

II. PURPOSE OF FINANCING: CHW has an opportunity to restructure a significant portion of its existing long-term debt and finance long-term capital needs. CHW seeks to issue up to \$600 million in long-term bonds. This proposal will result in approximately \$300 million additional Authority debt to CHW.

Refunding..... \$301,000,000

CHW seeks to refund on a current basis the CHFFA 2008 Series C, D, and E as well as California Statewide Communities Development Authority 2008 Series G bonds. The outstanding amount is approximately \$250 million.

Projects..... 200,000,000

St. Mary’s Medical Center – Cancer Center Project \$7,000,000

This project includes development of a comprehensive cancer center which includes radiation therapy and infusion services. This project includes relocating the existing infusion department and including it as part of the cancer center. This project includes the remodeling and renovation of approximately 12,000 sq ft of space at 2250 Hayes Street, San Francisco. It includes 8 treatment bays and 2 private rooms and a linear accelerator.

Mercy General Hospital – Heart Tower 37,000,000

This is a four story building with a basement and mechanical penthouse designed at approximately 123,000 sq ft and includes 90 beds. The first floor will contain the Cancer Patient Center. It will also house the Cardiac Rehab Department and shelled space for future expansion of cardiac or emergency services. The second floor will include 20 CSICU rooms to provide post-surgical care for open heart surgery patients. The third floor will have 35 cardiac intervention unit beds which will all be private. The fourth floor will have 35 progressive care unit beds which will all be private. The penthouse will contain mechanical equipment including air handling units and cooling towers. Adjacent to the building will be two enclosures that include space for a new emergency generator.

St. Joseph Medical Center – Patient Pavilion 16,000,000

The construction and equipping of a new 4 story patient pavilion of approximately 105,000 sq ft that would provide expanded women and children's services, and increase medical, surgical and ICU/NICU beds by 70. Also, this project includes the remodeling of existing 15,000 sq ft of OB and nursery space.

Mercy San Juan Hospital – New Tower 40,000,000

The construction and equipping of a new 6 story patient tower adjacent to the existing main hospital tower that would increase capacity by 110 beds. This project also includes the construction of a 3 story parking structure to accommodate the expansion.

Systemwide Seismic 40,000,000

Seismic retrofit at various hospitals which include Dominican Santa Cruz Hospital, Santa Francis Hospital, St. Mary Hospital in San Francisco and Woodland Hospital to comply with SB 1953 and NPC-3 requirements. This includes non-structural seismic requirements and encompasses seismically bracing or anchoring communications systems, emergency power supplies, bulk medical gas systems, fire sprinklers and fire alarm systems including the anchorage of central plant equipment that serves these systems in critical areas. It includes ensuring that all nonstructural components and equipment, as listed in the 1995 CBC, Part 2, Title 24, Table 16A-O, and sprinkler systems comply with the bracing and anchorage.

Marian Medical Center 60,000,000

This project is a 216,000 sq ft addition to the medical center which not only brings the hospital into SB 1953 compliance, but provides needed additional capacity to the growing needs of the community. The four story tower would increase the beds from 132 to 188. The project includes 108 surgical beds, a 14-bed neonatal unit, a 32-bed obstetric unit, 14

labor/delivery rooms and 10 additional critical care beds. The project also includes the expansion and relocation of the ER, pharmacy and dietary services to the new facility.

<i>Debt Service Reserve Fund</i>	57,000,000
<i>Financing Costs</i>	<u>12,000,000</u>
<i>Total Uses of Funds</i>	<u>\$570,000,000*</u>

**The par amount of bonds will be \$600 million minus an Original Issue Discount of \$30 million.*

III. FINANCIAL STATEMENTS AND ANALYSIS:

Catholic Healthcare West - System* Financial Position

	As of June 30, (in thousands)		
	2008 (Restated)	2007 (Restated)	2006 (Restated)
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 611,110	\$ 496,312	\$ 484,427
Short-term investments	537,405	468,444	294,573
Collateral held under securities lending program	386,851	424,796	315,206
Assets limited as to use	1,364,830	528,814	537,643
Patient accounts receivable, net	1,197,384	1,079,495	918,518
Other current assets	321,335	340,853	288,070
Total current assets	<u>4,418,915</u>	<u>3,338,714</u>	<u>2,838,437</u>
Assets limited as to use:			
Board-designated assets for:			
Capital projects	2,259,275	2,276,567	1,927,557
Workers' compensation	285,223	305,960	299,907
Hospital professional and general liability	203,482	232,570	222,304
Under Bond indenture agreements for:			
Capital projects	511,094	855,357	434,241
Debt service	142,818	53,182	56,257
Bond reserves	45,093	46,256	77,349
Donor-restricted	431,899	393,707	354,474
Other	59,806	61,659	50,892
Less amount required to meet current obligations	<u>(1,364,830)</u>	<u>(528,814)</u>	<u>(537,643)</u>
Net assets limited as to use	<u>2,573,860</u>	<u>3,696,444</u>	<u>2,885,338</u>
Property and equipment, net	3,404,351	2,945,174	2,515,410
Ownership interest in health-related activities	324,091	308,230	216,494
Assets held for sale	-	24,825	25,512
Other long-term assets, net	160,857	206,890	156,600
Total assets	<u>\$10,882,074</u>	<u>\$10,520,277</u>	<u>\$8,637,791</u>

(Continued)

* The Obligated Group consists of 95% of the consolidated unrestricted net assets of the CHW System.

Catholic Healthcare West - System*
Financial Position
(Continued)

	<u>As of June 30,</u> (in thousands)		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
LIABILITIES AND NET ASSETS			
Current liabilities:	(Restated)	(Restated)	(Restated)
Current portion of long-term debt	\$ 106,591	\$ 25,745	\$ 23,214
Demand bonds subject to short-term liquidity arrangements	1,129,900	384,000	384,000
Accounts payable	329,664	323,380	299,024
Payable under securities lending program	386,851	424,796	315,206
Due to government agencies	24,334	23,632	28,513
Accrued salaries and benefits	403,914	363,515	330,038
Accrued workers' compensation	41,584	41,380	44,296
Accrued hospital professional and general liability	45,485	45,585	44,102
Pension and other postretirement liabilities	156,949	209,728	134,980
Other accrued liabilities	365,237	231,504	206,941
Total current liabilities	<u>2,990,509</u>	<u>2,073,265</u>	<u>1,810,314</u>
Other Liabilities:			
Workers' compensation	198,311	192,465	197,422
Hospital professional and general liability	150,838	180,640	198,050
Pension and other postretirement liabilities	176,760	385,150	110,263
Other	161,828	144,406	131,592
Total other liabilities	<u>687,737</u>	<u>902,661</u>	<u>637,327</u>
Long-term debt, net current portion	2,872,965	3,665,644	2,918,757
Total liabilities	<u>6,551,211</u>	<u>6,641,570</u>	<u>5,366,398</u>
Net Assets:			
Unrestricted	3,905,187	3,492,519	2,925,458
Temporarily restricted	337,170	300,562	260,586
Permanently restricted	88,506	85,626	85,349
Total net assets	<u>4,330,863</u>	<u>3,878,707</u>	<u>3,271,393</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,882,074</u>	<u>\$ 10,520,277</u>	<u>\$ 8,637,791</u>

Financial Ratios:	Proforma (a)			
	<u>FYE June, 2008</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Debt service coverage (x)	3.20	3.47	5.87	4.96
Debt/Unrestricted Net Assets (x)	1.21	1.05	1.17	1.14
Margin (%)		1.90	4.01	4.05
Current Ratio (x)		2.37	1.98	1.99

(a) Recalculates 2008 audited results to include the impact of this proposed financing.

* The Obligated Group consists of 95% of the consolidated unrestricted net assets of the CHW System.

Catholic Healthcare West - System*
Statement of Activities
(Unrestricted)

	For the Year Ended June 30,		
	(in thousands)		
	2008	2007	2006
Unrestricted revenues and other support:			
Net patient revenue	\$ 7,596,186	\$ 6,723,481	\$ 6,008,211
Premium revenue	505,759	418,021	335,902
Revenue from health-related activities, net	66,824	104,314	63,253
Other operating revenue	208,380	202,741	187,247
Contributions	24,346	28,387	22,642
Total unrestricted revenues and other support	8,401,495	7,476,944	6,617,255
Expenses:			
Salaries and benefits	4,175,946	3,739,427	3,314,457
Supplies	1,217,708	1,098,499	972,636
Provisions for bad debts	649,276	551,045	534,149
Purchased services and other	1,582,153	1,319,204	1,148,563
Depreciation	345,207	298,723	233,983
Interest, net	163,603	149,677	124,496
Market adjustment on swaps, net	17,929	3,925	(552)
Loss on early extinguishment of debt	68,213	16,779	21,668
Special charges	21,424	-	-
Total expenses	8,241,459	7,177,279	6,349,400
Operating income	160,036	299,665	267,855
Other income:			
Investment income, net	9,922	591,593	175,082
Excess of revenues over expenses	169,958	891,258	442,937

(Continued)

* The Obligated Group consists of 95% of the consolidated unrestricted net assets of the CHW System.

Catholic Healthcare West - System*
Statement of Activities

(Unrestricted)
(Continued)

	For the Year Ended June 30,		
	(in thousands)		
	2008	2007	2006
Unrestricted net assets:			
Excess of revenues over expenses	169,958	891,258	442,937
Effect of changes in accounting principles	-	(381,745)	(21,514)
Net assets acquired in merger	-	154,128	5,136
Change in net unrealized (gains) losses on investments	-	(194,369)	-
Net assets released from restrictions used for purchase of property and equipment	18,470	19,362	10,000
Change in funded status of pension and other postretirement benefit plans	197,072	51,739	64,102
Gain (loss) from discontinued operations	34,461	820	(6,687)
Change in fair value of interest rate swaps	(42,658)	13,052	39,995
Donated property	30,016	14,372	11,935
Other	5,349	(1,556)	(760)
Increase in unrestricted net assets	412,668	567,061	545,144
Temporarily restricted net assets:			
Contributions	99,620	40,380	40,734
Net assets acquired in merger	-	10,551	-
Net realized and unrealized gains (losses) on investments	(2,693)	7,182	2,930
Net Assets released from restrictions	(53,257)	(44,260)	(22,785)
Change in interest in net assets of unconsolidated foundations	(7,407)	27,998	23,207
Other	345	(1,875)	509
Increase in temporarily restricted net assets	36,608	39,976	44,595
Permanently restricted net assets:			
Contributions	1,477	716	3,315
Net assets acquired in merger	-	3,810	-
Net realized and unrealized gains on investments	96	61	675
Change in interest in net assets of unconsolidated foundations	1,359	717	3,597
Other	(52)	(5,027)	(895)
Increase in permanently restricted net assets	2,880	277	6,692
Increase in net assets	452,156	607,314	596,431
Net assets, beginning of year	3,878,707	3,271,393	2,674,962
Net assets, end of year	\$ 4,330,863	\$ 3,878,707	\$ 3,271,393

* The Obligated Group consists of 95% of the consolidated unrestricted net assets of the CHW System.

Financial Discussion:

CHW's income statement appears to exhibit positive operating results and net income over the review period along with continued revenue growth.

The CHW System reported consolidated operating income of \$160.0 million for fiscal year 2008 compared to consolidated operating income of \$299.7 million for fiscal year 2007.

During fiscal year 2008, CHW implemented a planned closure of one facility for 10 days for mold remediation resulting in \$21.4 million of special charges. These charges include costs related to shutting down the facility, performing the remediation, then reopening the facility and ramping up activity, consisting of legal, consulting, insurance, moving, fumigation, staffing and repair and maintenance costs. In addition to these special charges, lost net patient revenues estimated at approximately \$13.0 million significantly impacted operating results for the period, resulting in total estimated closure related costs of approximately \$34.4 million during fiscal year 2008.

Operating results for fiscal year 2007 include activities of Saint Mary's Regional Medical Center beginning January 1, 2007, the merger date. Further, operating results include a partial year of activity for St. Rose Dominican Hospital San Martin Campus (operating activity began in November 2006, at which time construction was completed and the facility began accepting patients).

Revenues increased 12.4% in fiscal year 2008 as compared to fiscal year 2007. Adjusted patient days increased 5.4% in fiscal year 2008 compared to fiscal year 2007. Net patient and premium revenue per adjusted patient day increased 7.7% in fiscal year 2008 compared to fiscal year 2007, primarily as a result of managed care contract renewals and renegotiations and improvements in revenue services procedures. Income from health-related activities, net, included \$22.9 million of non-cash income related to CHW's interest in the increase in unrestricted net assets of Scripps Health compared to \$57.3 million in fiscal year 2007.

Salaries and benefits expense increased 11.7% in fiscal year 2008 as compared to fiscal year 2007, or 6.0% per adjusted patient day. The increase was due to increased wage and benefit costs and staffing level increases.

Supply expense increased 10.9% in fiscal year 2008 as compared to fiscal year 2007, or 5.2% per adjusted patient day. Increased costs related primarily to prosthetics, particularly in orthopedic implants and new technology advancements in spine implants and surgical supplies.

Provision for bad debts, as a percentage of net patient and premium revenues, increased to 8.0% in fiscal year 2008 from 7.7% in fiscal year 2007 primarily as a result of rate increases.

Purchased services increased 19.9% in fiscal year 2008 compared to fiscal year 2007 due primarily to additional provider costs associated with capitation arrangements related to the

health plan activity associated with Saint Mary's Regional Medical Center, and increases in administrative and coverage fees paid to physicians and repair and maintenance costs.

Depreciation expense was \$345.2 million in fiscal year 2008 compared to \$298.7 million in fiscal year 2007. The increase was associated with the net addition of two facilities and increases in capital expenditures.

Interest expense, net, including market adjustments on swaps, increased to \$181.5 million in fiscal year 2008 from \$153.6 million in fiscal year 2007. Market adjustments on swaps reflected a \$17.9 million non-cash loss during fiscal year 2008, compared to a \$3.9 million non-cash loss during fiscal year 2007, as a result of disruption in the variable rate debt market. Excluding the effect of market adjustments on swaps, the increase in interest expense was due primarily to the addition of new debt in the spring of 2007.

Losses on early extinguishment of debt of \$68.2 million were recorded in fiscal year 2008 related to restructuring of certain auction rate securities. Included in that amount is \$14.5 million related to swap arrangements that lost their designation as hedges when the underlying bonds being hedged were restructured.

Net investment income was \$9.9 million in fiscal year 2008 compared to \$591.6 million in fiscal year 2007. The decrease was due primarily to \$194.2 million in unrealized losses recorded in fiscal year 2008, in contrast to the \$341.4 million in cumulative unrealized net gains recorded in fiscal year 2007. The realized and unrealized losses in 2008 were due to the drop in global financial markets, while the unrealized gains recorded in fiscal year 2007 reflected cumulative unrealized investment gains from fiscal year 2007 and prior years as a result of changing the classification of the investment portfolio to a trading portfolio from available-for-sale.

CHW's balance sheet also appears solid with a strong debt service coverage ratio and growing net assets.

CHW's balance sheet appears to continue growing with total net assets increasing from \$2.8 billion in 2006 to \$3.8 billion in fiscal year 2008. Capital resources consist of cash and cash equivalents, short-term investments and Board-designated assets for capital projects. These resources amounted to \$3.4 billion at June 30, 2008, as compared to \$3.2 billion at June 30, 2007. The increase was primarily related to operating results. Debt service coverage is a solid 3.47x and with the proposed financing appears to be 3.20x, indicating that CHW can likely manage additional debt.

According to management, CHW anticipates that the Obligated Group may not satisfy the Rate Covenant under the Master Indenture for the fiscal year 2009 due to significant unrealized investment losses and the Master Indenture's requirement to include certain non-cash items, including unrealized investment losses, in the calculation of Income Available for Debt Service. For the six-month period ended December 31, 2008, the CHW System has experienced unrealized investment losses of approximately \$550.0 million. Based upon operating results for the CHW System for the six months ended December 31, 2008, CHW estimates that, if unrealized investment losses were excluded from the calculation of Income Available for Debt Service, the Debt Service Coverage Ratio for the fiscal year 2009 should exceed 1.10x.

IV. BACKGROUND:

Catholic Healthcare West (“CHW”) is a California nonprofit public benefit corporation headquartered in San Francisco, California. CHW, together with its subsidiary corporations, comprise the Catholic Healthcare West System (“CHW System”), which is one of the largest not-for-profit acute healthcare delivery systems in the United States as measured by annual revenue. The CHW System operates 41 hospitals throughout major California markets and in the Phoenix, Arizona and Las Vegas and Reno, Nevada metropolitan markets. The CHW System’s facilities currently include approximately 8,700 licensed acute care beds and approximately 1,000 licensed skilled nursing beds. The CHW System maintains prominent market shares in many of its service areas, and many of its hospitals rank among the finest in the nation. With a significant presence in Sacramento, San Francisco, Southern California, San Joaquin Valley, Central Coast, Central California, Northern California and Santa Cruz, the CHW System’s California operations are well dispersed throughout the state.

The hospital activities of the sponsors of the CHW System date back to 1856. The CHW System was founded in 1986, when two religious congregations brought together the 10 facilities they sponsored at the time. Since then, the CHW System has grown significantly in size, through mergers, affiliations and development of expanded markets. Today, the CHW System includes many facilities that are community sponsored as well as those that are religiously sponsored.

Obligated Group

The CHW System undertakes most of its borrowing activities under a Master Indenture. Under the Master Indenture, a group composed of CHW and certain other corporations in the CHW System (each a “Member” of the “Obligated Group”) have agreed to be jointly and severally obligated for debt incurred under the Master Indenture. Other entities affiliated with CHW are not Members of the Obligated Group (the “Non-Member Entities”). Only the corporations that are Members of the Obligated Group are jointly and severally obligated under the Master Indenture. None of the Non-Member Entities has assumed any financial obligation related to payment of or security for the Bonds. The Non-Member Entities in the CHW System represented approximately 1% of the consolidated revenue and 4-5% of consolidated unrestricted net assets of the CHW System for the fiscal years ended June 30, 2008, 2007 and 2006.

CHW has “membership” rights and powers exercised either directly or indirectly with respect to each of the other Obligated Group Members. Generally, these membership powers include the right of CHW to approve budgets, capital expenditures, liens and encumbrances, changes in corporate charter documents, certain asset acquisitions and sales, and mergers and dissolutions, among other things. Generally, CHW also has the right to approve the appointment of the CEO of each other Obligated Group Member, and generally the CEO is an employee of CHW.

In total, there are seven Obligated Group Members: CHW, which directly owns and operates 35 acute care hospitals, of which two hospital facilities are leased to CHW until 2049, one hospital facility is leased to CHW until 2033 and one is leased until 2056, plus six subsidiary corporations. Of the six subsidiary corporations that are Obligated Group Members, four operate hospitals. These four subsidiary Obligated Group Members operate four acute care hospitals. In total, in the Obligated Group, there are 39 licensed acute care hospitals that are covered by 36

licenses (in three situations, a single license covers two inpatient locations). The remaining Obligated Group Members are the CHW Medical Foundation, which operates an integrated multi-site medical clinic in the Sacramento, Woodland, Stockton, Grass Valley, Santa Cruz and Redwood City, California areas and has professional services agreements with professional corporations that employ approximately 360 physicians and extenders, and Mercy Senior Housing, Inc., which provides assisted living housing in a 118-unit facility in Sacramento, California.

**LIST OF OBLIGATED GROUP MEMBERS
AND HEALTHCARE FACILITIES**

<u>Obligated Group Member/Facilities</u>	<u>Type of Facility</u>	<u>Location</u>
Catholic Healthcare West	N/A.....	San Francisco, CA
Arroyo Grande Community Hospital.....	Acute Care.....	Arroyo Grande, CA
California Hospital Medical Center – Los Angeles	Acute Care.....	Los Angeles, CA
Chandler Regional Hospital.....	Acute Care.....	Chandler, AZ
Dominican Hospital.....	Acute Care.....	Santa Cruz, CA
French Hospital Medical Center.....	Acute Care.....	San Luis Obispo
Glendale Memorial Hospital and Health Center....	Acute Care.....	Glendale, CA
Marian Medical Center (two locations).....	Acute Care.....	Santa Maria, CA
Mercy General Hospital.....	Acute Care.....	Sacramento, CA
Mercy Gilbert Medical Center.....	Acute Care.....	Gilbert, AZ
Mercy Hospital (two locations).....	Acute Care.....	Bakersfield, CA
Mercy Hospital of Folsom.....	Acute Care.....	Folsom, CA
Mercy Medical Center Merced (two locations).....	Acute Care.....	Merced, CA
Mercy Medical Center, Mt. Shasta.....	Acute Care.....	Mt. Shasta, CA
Mercy Medical Center Redding.....	Acute Care.....	Redding, CA
Mercy San Juan Medical Center.....	Acute Care.....	Carmichael, CA
Methodist Hospital of Sacramento.....	Acute Care.....	Sacramento, CA
Northridge Hospital Medical Center.....	Acute Care.....	Northridge, CA
Saint Mary’s Regional Medical Center.....	Acute Care.....	Reno, NV
Sequoia Hospital.....	Acute Care.....	Redwood City, CA
St. Bernardine Medical Center.....	Acute Care.....	San Bernardino, CA
St. Elizabeth’s Community Hospital.....	Acute Care.....	Red Bluff, CA
St. John’s Pleasant Valley Hospital.....	Acute Care.....	Camarillo, CA
St. John’s Regional Medical Center.....	Acute Care.....	Oxnard, CA
St. Joseph’s Behavioral Health Center.....	Acute Psychiatric	Stockton, CA
St. Joseph’s Hospital and Medical Center.....	Acute Care.....	Phoenix, AZ
St. Joseph’s Medical Center of Stockton.....	Acute Care.....	Stockton, CA
St. Mary Medical Center.....	Acute Care.....	Long Beach, CA
St. Mary’s Medical Center.....	Acute Care.....	San Francisco, CA
St. Rose Dominican Hospital Rose de Lima Campus	Acute Care.....	Henderson, NV
St. Rose Dominican Hospital San Martin Campus	Acute Care.....	Las Vegas, NV
St. Rose Dominican Hospital Siena Campus.....	Acute Care.....	Henderson, NV
Woodland Memorial Hospital.....	Acute Care.....	Woodland, CA
Bakersfield Memorial Hospital.....	Acute Care.....	Bakersfield, CA
Community Hospital of San Bernardino.....	Acute Care.....	San Bernardino, CA
Mercy Senior Housing, Inc. ⁽¹⁾	N/A	Sacramento, CA
CHW Medical Foundation ⁽²⁾	N/A	Various.....
Saint Francis Memorial Hospital.....	Acute Care.....	San Francisco, CA
Sierra Nevada Memorial-Miners Hospital.....	Acute Care.....	Grass Valley, CA

⁽¹⁾ Operates a residential care facility.

⁽²⁾ Operates medical clinics pursuant to professional service agreements with physician groups.

Licenses and Contracts

Each of the hospitals operated by an Obligated Group Member is appropriately licensed for the level of care it delivers and is certified to participate in the Medicare program and its state's Medicaid program, and each is accredited by The Joint Commission. Each skilled nursing facility unit operated by an Obligated Group Member is certified to participate in the Medicare and the Medicaid programs. The residential care facility for the elderly operated by Mercy Senior Housing, Inc. is certified by the California Department of Social Services.

Governance

Subject to the rights reserved to Sponsors and Corporate Members, CHW is currently governed by a nineteen-member Board of Directors. The Board of Directors, in turn, approves the election of the governing bodies for each of the Obligated Group Members, except that CHW's powers to approve directors are subject to restrictions in certain cases as noted above under the caption "THE OBLIGATED GROUP." The Board of Directors is currently comprised of the seven corporate members and the President/Chief Executive Officer of CHW, and all other members are independent directors without any other formal relationship with CHW or its affiliates.

The Board of Directors has established "Hospital Community Boards" for the acute care facilities that are directly owned and operated by CHW. The Hospital Community Boards are delegated certain local oversight responsibilities for quality of care and medical staff matters, and serve as advisory bodies to the CHW Board of Directors with respect to strategic business planning for local facilities, local operational issues and facility level implementation of community benefit programs. The CHW Board of Directors as well as the Board's Finance Committee must approve all material debt, borrowings, loans, guarantees, encumbrances or liens for the CHW System and may do so through direct authorizing resolutions or the Board may from time to time implement or amend formal policies regulating certain of these activities. The governance of the separately incorporated Obligated Group Members that are subsidiaries of CHW is described above under the caption "THE OBLIGATED GROUP."

V. UTILIZATION STATISTICS:

The following table shows utilization statistics for the acute care hospitals operated by the Obligated Group Members for the fiscal years ended June 30, 2008, 2007 and 2006:

	Fiscal Year Ended June 30 ³		
	2008	2007	2006
Licensed Acute Beds ^{1,2}	8,624	8,503	7,994
Acute Admissions ¹	403,983	385,550	362,858
Acute Patient Days ¹	1,820,421	1,723,521	1,623,689
Acute Average Length of Stay (days) ¹	4.5	4.5	4.5
Medicare PPS Acute Average Length of Stay (days)	5.2	5.1	5.1
Outpatient Revenue as a % of Total Patient Service Revenue	30%	29%	29%

¹ Acute care statistics include psychiatric and rehabilitation beds.

² Licensed beds include beds in suspense status.

³ Amounts for all periods exclude statistics for facilities that have been closed and/or disposed of as further discussed on page A-8. They also exclude healthcare services provided by facilities within the CHW System that are outside the Obligated Group. Saint Mary's Regional Medical Center is included beginning January 1, 2007.

VI. OUTSTANDING DEBT:

As of fiscal year ending June 30, 2008, CHW has approximately \$4.0 billion in outstanding debt of which \$1.6 billion is Authority debt. With this bond financing, CHW outstanding debt will increase approximately \$300 million for a total of \$4.3 billion in outstanding debt.

VII. DUE DILIGENCE:

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

- **Section 15438.5(a) of the Act (Savings Pass Through):** CHW 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):** CHW properly completed and submitted this certification and indicated that Medi-Cal and Medicare patients are accepted.
- **Compliance with Seismic Regulations:** CHW properly completed and submitted a description of its seismic requirements.
- **Compliance with Section 15455(b) of the Act (California Environmental Quality Act):** CHW properly submitted documentation to the Authority demonstrating the 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.**