CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
(CHFFA)
EXECUTIVE SUMMARY

Applicant:	Sutter Health (Obligated Group) ("Sutter Health") 2200 River Plaza Drive Sacramento, California	**Amount Requested:** **Date Requested:** **Requested Loan Term:** **Resolution Number:**	$305,000,000 January 5, 2010 up to 26 years 350

Project sites: See pages 2-3 for listing
Facility Types: General acute/subacute and outpatient care
Obligated group: The Obligated Group is identified on page 9.

Background: Sutter Health, a California nonprofit public benefit corporation, is the "parent" of the Sutter Health system (comprised of Sutter Health and its affiliated health care organizations) (the "System"), which operates primarily in Northern California. The System provides a broad range of health care services, including acute, sub-acute, long-term, home health and outpatient care, as well as physician delivery systems. These services are provided through an integrated health care delivery approach which gives the System the ability to deliver a full range of health care products and services to the communities it serves.

Uses of Bond Proceeds: Bond proceeds will be used to currently refund (in whole or in part) CHFFA/Sutter Health Series 1997C Bonds, CHFFA/Sutter Health Series 1998A Bonds, and CHFFA/Sutter Health Series 1999A Bonds, and to advance refund CHFFA/Sutter Health Series 2000A Bonds.

Type of Issue:	Negotiated public offering with fixed rate securities
Credit Enhancement:	None
Expected Credit Rating:	Aa3/A+/AA- Moody's/S&P/Fitch
Senior Underwriter:	Morgan Stanley
Bond Counsel:	Orrick, Herrington and Sutcliffe LLP
Financing Team:	See Exhibit I (Page 11)

Financial Overview*:* Sutter Health's income statement appears to have exhibited solid operating results over the past three fiscal years. Sutter Health's balance sheet appears strong with a solid operating debt service coverage ratio of 8.03x.

Sources of Patient Service revenues: (FYE 12/31/08)

	Percent
Medicare	40%
Commercial Programs	39%
Medi-Cal	15%
Other Sources	6%
	100%

Estimated Sources of Funds:		**Estimated Uses of Funds**:	
		Refundings	$302,000,000
Par amount of CHFFA bonds	$305,000,000	Financing costs	3,000,000
Total Sources	$305,000,000	Total Uses	$305,000,000

Legal Review: Staff and legal counsel to the Authority have reviewed the applicant's responses to the questions contained in the Legal Status portion of the application. Staff and counsel have concluded the disclosed information does not appear to raise questions regarding the financial viability or legal integrity of this applicant.

Staff Recommendation: Staff recommends the Authority approve a Resolution in an amount not to exceed $305,000,000 for Sutter Health, subject to receipt of a bond rating of at least an "A" category rating by a nationally recognized rating agency. Macias Consulting, Inc., the Authority's financial analyst, has reviewed all relevant financial documentation submitted by Sutter Health and has advised of its concurrence with the Authority's staff recommendation.

STAFF SUMMARY AND RECOMMENDATION

Sutter Health (Obligated Group)
("Sutter Health")
January 5, 2010
Resolution Number: 350

I. GUIDELINE EXCEPTION:

The Authority adopted bond issuance guidelines in September 2000 which included a minimum debt service coverage ratio of 1.25x. Sutter Health's Master Indenture dated August 1, 1985, which governs all of its public debt issued since that date, imposes a minimum 1.10x debt service coverage ratio. On several prior occasions, the Authority has acknowledged all financings must be reviewed individually and exceptions to Authority guidelines may be considered if the applicant demonstrates that such exception is a necessary part of a cost-effective and prudent borrowing strategy. Staff recommends permitting a minimum debt service coverage of 1.10x to allow Sutter Health to continue to operate in compliance with its Master Indenture covenant. Based on operating results[1], Sutter Health's current proforma debt service coverage is a healthy 8.03x. The Authority has granted such exceptions to other borrowers with similar Master Indenture covenants on several previous occasions and most notably within the last 18 months.

II. PURPOSE OF FINANCING:

Sutter Health seeks to use approximately $305 million in bond proceeds to currently refund[2] as well as to advance refund[3] prior CHFFA bonds that were issued to finance projects throughout California. The refunding will remove downgraded insurance and will also allow Sutter Health to refund their existing bonds into new fixed rate bonds. Sutter Health expects to realize an interest savings as a result of these actions.

Refunding.. $302,000,000

CHFFA/Sutter Health Series 1997C Bonds

The CHFFA/Sutter Health Series 1997C Bond proceeds were used to advance refund the 1992 Series A, City of Berkeley Health Facility Refunding Revenue Bonds (Alta Bates Medical Center), and to pay for the cost of issuance and bond insurance. The Series 1997C Bonds were insured by Financial Securities Assurance, Inc.

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1 As a result of realized and unrealized losses in fiscal year 2008, Sutter Health's proforma debt service coverage ratio is 1.76x. However, based solely on operating results, the operating proforma debt service coverage ratio is a solid 8.03x, indicating the temporary lower debt service coverage ratio will not likely impact the repayment of bonds. Sutter Health seems to have adequate revenue streams to support the new debt.

2 Current refundings contemplate that the prior refunded bonds are redeemed within 90 days following the new bond issue. A borrower can currently refund bonds more than once under federal tax law.

3 Advance refunding are bonds that are called or mature more than 90 days after the new bonds are issued. Advance refunding may occur only once during the life of an issue.

CHFFA/Sutter Health Series 1998A Bonds

The CHFFA/Sutter Health Series 1998A Bonds were used to, (1) reimburse Sutter Health for the cost of the purchase of Eden Medical Center and defease its outstanding debt, (2) construct new facilities for two hospitals, Sutter Health Amador and Novato, (3) fund construction, improvements, and purchase equipment for an additional five Members of the Obligated Group and, (4) reimburse certain expenditures. The Series 1998A Bonds were insured by Financial Securities Assurance, Inc., and MBIA Insurance Corporation.

CHFFA/Sutter Health Series 1999A Bonds

The CHFFA/Sutter Health Series 1999A Bonds were used to reimburse Sutter Health for purchasing Davies Medical Center and capital expenditures, and to deposit part of the proceeds into an escrow fund to advance refund the 1989 and 1990 Bonds. The Series 1999A Bonds were insured by MBIA Insurance Corporation.

CHFFA/Sutter Health Series 2000A Bonds

The CHFFA/Sutter Health Series 2000A Bonds were used to finance capital expenditures at Summit and Alta Bates, including seismic upgrades and renovation, life safety systems, ADA compliance (wheelchair access, etc), nursing unit upgrades, relocation of pulmonary nursing facility, and other miscellaneous projects. The Series 2000A Bonds were not insured.

Financing Costs* 3,000,000

Total Uses of Funds.. $305,000,000

*If Sutter Health elects to pay costs of issuance and/or underwriter discount in the form of equity contribution and not from bonds proceeds, as it did in the past, the size of the 2010 bond issue will be reduced accordingly.

III. FINANCIAL STATEMENTS AND ANALYSIS:

SUTTER HEALTH OBLIGATED GROUP
Combined Statements of Operations
($ millions)

	For the Year Ended December 31, 2008	2007	2006
Unrestricted revenues, gains and other support:			
Patient service revenues	$ 6,472	$ 5,790	$ 5,421
Capitation revenues	972	1,059	983
Contributions	9	6	6
Other	362	325	273
Total revenues, gains and other support	7,815	7,180	6,683
Expenses:			
Salaries and employee benefits	3,430	3,058	2,869
Purchased services	1,544	1,449	1,282
Supplies	888	827	773
Depreciation and amortization	382	352	324
Capitated purchased services	246	277	276
Provision for bad debts	259	245	224
Rentals and leases	100	92	85
Interest	90	76	54
Insurance	63	62	52
Other	299	270	268
Total operating expenses	7,301	6,708	6,207
Income from operations	**514**	**472**	**476**
Investment income	**9**	133	112
Change in net unrealized gains and loss on investments classified as trading	(213)	(15)	35
Income	**310**	**590**	**623**
Unrestricted net assets:			
Change in net unrealized gains and (losses) on investments classified as other-than-trading	(25)	11	(12)
Net assets released from restrictions for equipment acquisition	29	23	5
Donated long-lived assets	1	1	4
Pension-related changes other than net periodic pension cost	(535)	139	-
Equity transfers between related entities	(27)	(46)	(36)
Cumulative effect of change in accounting principle	(24)	(1)	(178)
Other	9	(1)	-
Increase (decrease) in unrestricted net assets	**(262)**	**716**	**406**
Temporarily restricted net assets:	(31)	(3)	9
Permanently restricted net assets:	-	-	(1)
Increase (decrease) in net assets	(293)	713	414
Net assets, beginning of period	4,004	3,291	2,877
Net assets, end of the period	**$ 3,711**	**$ 4,004**	**$ 3,291**

SUTTER HEALTH OBLIGATED GROUP
Combined Balance Sheets
($ millions)

	As of December 31,		
	2008	2007	2006
Assets			
Current assets:			
Cash and cash equivalents	$ 377	$ 227	$ 273
Short-term investments	763	1,089	523
Patient accounts receivable, net	935	884	832
Other receivables	180	169	108
Inventories	84	78	70
Securities lending receivable	75	244	262
Other current assets	52	48	39
Total current assets	2,466	2,739	2,107
Non-current investments	1,264	1,355	1,046
Property, plant and equipment, net	4,283	3,654	3,073
Other assets	243	346	244
Total assets	$ 8,256	$ 8,094	$ 6,470
Liabilities and net assets			
Current liabilities:			
Accounts payable and accrued expenses	$ 1,032	$ 1,000	$ 855
Securities lending collateral payable	78	249	269
Current portion of long-term obligations	28	28	47
Total current liabilities	1,138	1,277	1,171
Non-current liabilities:			
Long-term obligations, less current portion	2,941	2,331	1,561
Other	466	482	447
Net assets:			
Unrestricted	3,663	3,925	3,209
Temporarily restricted	39	70	73
Permanently restricted	9	9	9
	3,711	4,004	3,291
Total liabilities and net assets	$ 8,256	$ 8,094	$ 6,470

Financial Ratios:

	Proforma [a] FYE December 31, 2008	2008	2007	2006
Debt Service Coverage (x) (Operating)	8.03	8.03	8.64	8.82
Debt Service Coverage (x) (Total Income)	1.76[b]	1.76	10.97	7.67
Debt/Unrestricted Net Assets (x)	0.94	0.94	0.72	0.64
Margin (%)		6.58	6.57	7.12
Current Ratio (x)		2.17	2.14	1.80

[a] Recalculates FY 2008 audited results to include the impact of this proposed financing. With $409 million in CSCDA financing, the operating Debt Service Coverage ratio will be approximately 6.86x.

[b] The decrease in DSC is due to adding the unrealized losses in investment to the calculation.

Financial Discussion:

Sutter Health's income statement appears to have exhibited solid operating results over the past three fiscal years.

Particular Facts to Note:

The income statement for the Sutter Health exhibits the following:

- Sutter Health's operating revenues have been increasing steadily over the review period. Sutter Health's revenue increased by $636 million and $497 million in FY 2008 and FY 2007, respectively.

- Sutter Health's acute affiliates had 207,239 admissions during FY 2008, representing volumes that are slightly lower than the 207,711 admissions from FY 2007.

- Patient service revenues and capitation revenues increased a total of $595 million reflecting scheduled contract increases for some capitated payors and increased volumes at some of the Medical Foundations. In addition, patient service revenues include $53 million of awards resulting from arbitration resolving disputes with health plans over claims paid for prior years' dates of service.

- In FY 2008, Sutter Health's revenue was derived from three main sources, of which patient service revenues constituted 83%, while capitation revenues and other revenues constituted 12% and 5%, respectively.

- In FY 2008, Sutter Health derived 42% of its patient service revenues from Medicare, 16% from Medi-Cal, 35% from commercial programs and 7% from other payors.

- Operating expenses increased in response to the increase in revenues over the review period, recording a 17.6% increase. The increase in operating expense was most notably in salaries and employee benefits, an increase of 21%.

- Total expenses for FY 2008 increased by $593 million, or 8.8% over the same period in FY 2007. Salaries and employee benefits increased by $372 million, or 12.2%, for the FY 2008 over FY 2007. Sutter Health recognized $41 million of favorable adjustments for the Workers' Compensation program in FY 2008. Purchased services increased by $95 million or 6.60%. Interest expense increased by $14 million (or 18.4%) as several construction projects were put into service as well as the issuance of $300 million of new debt. Insurance expense increased by $1 million or 1.6%. All other expenses increased $111 million or 5.4%, which included increases over FY 2007 in supplies, depreciation and amortization, provision for doubtful accounts and rentals and lease expense items.

- The operating margin was 7.1% for FY 2006, whereas it was 6.6% for both FY 2007 and FY 2008. From these results, it seems that Sutter Health has continuously sustained profits from operations.

- Net income of Sutter Health was $310 million for FY 2008, versus $590 million for the FY 2007, a decrease of $280 million, primarily due to unrealized losses on investments.

- Sutter Health System's reported investment losses of $277 million (which Sutter attributes to the drop in the global financial market beginning in 2008) overshadowed Sutter Health's operating results, yielding a loss in unrestricted net assets for the entire year. Investment income totals include net unrealized losses of $285 million and net unrealized loss of $17 million for FY 2008 and FY 2007, respectively, from trading investments. Total realized losses for the pooled investments in FY 2008 were $53 million. Fixed income and cash investments returns averaged 3.1% for domestic intermediate term bonds and 14.6% for global bonds. The S&P 500 Index lost 37.0% in FY 2008. There were less than $10 million of investment write downs for investments considered other than temporarily impaired for the Sutter Health system. The Sutter Health system's target asset allocation at December 31, 2008 was 27% equity, 70% fixed income and cash, 2% real estate, and 1% commodities versus the target at December 31, 2007 of 29% equity, 68% fixed income and cash, 2% real estate, and 1% commodities.

Sutter Health's balance sheet appears strong with a solid operating debt service coverage ratio.

Particular Facts to Note:

- Cash and cash equivalents increased from $273 million in FY 2006 to $377 million in FY 2008. According to Sutter Health, management decided to retain higher liquidity because of market conditions which, Sutter reports, resulted in the increase of cash and cash equivalents.

- Net property, plant and equipment increased by 40%, from $3.07 billion in FY 2006 to $4.28 billion in FY 2008, which according to Sutter Health reflects its continued investments in Sutter Health's facilities.

- As a result of the realized and unrealized losses in FY 2008, Sutter Health's proforma debt service coverage ratio appears to be 1.76x. However, based solely on operation results, the operating proforma debt service coverage ratio appears to be a solid 8.03x, indicating Sutter Health's likely ability the repay the bonds. Sutter Health appears to have adequate revenue streams to support the refunding.

IV. BACKGROUND:

Sutter Health, a California nonprofit public benefit corporation, is the "parent" of the Sutter Health system (comprised of Sutter Health and its affiliated health care organizations) (the "System"), which operates primarily in Northern California. The System provides a broad range of health care services, including acute, sub-acute, long-term, home health and outpatient care, as well as physician delivery systems. These services are provided through an integrated health care delivery system that has the ability to deliver a full range of health care products and services to the communities it serves

Sutter Health's affiliated physician organizations, hospitals, home care and other programs provide many services to those in need of care, regardless of their ability to pay. The Sutter Health system's community benefit activities include providing care for which the Sutter Health system was not paid or was underpaid as well as the unpaid costs of providing health screenings, free clinics and other health-related services, educating the community with various seminars and performing medical research.

The Sutter Health system currently includes the following health care facilities and providers:

- Thirty acute care hospital facilities (two of which are acute psychiatric hospitals) and three skilled nursing facilities operating under 25 licenses, with a total of approximately 5,046 licensed acute care beds and approximately 589 licensed skilled nursing beds

- Five medical foundations (each, a "Medical Foundation") that contract with medical groups organized as professional corporations that account for the services of approximately 2,135 physicians and physician extenders

- Nine home health care providers

To further the development of its integrated delivery system, Sutter Health works with its affiliated physician organizations in the planning and implementation of joint business strategies, involving physician leaders in its governance, management and decision making processes. Sutter Health also is active in the development, support and operation of Sutter Connect LLC, which provides services to Medical Foundations and independent practice associations.

The Sutter Health Obligated Group (the "Obligated Group") is the central financing vehicle for the Sutter Health system. As of January 1, 2009, the Obligated Group included 25 nonprofit corporations that either owned or leased and operated 28 acute care hospital facilities (one of which is an acute psychiatric hospital), operating under 23 licenses, and three skilled nursing facilities, as well as four nonprofit Medical Foundations. As a result of a restructuring as of January 1, 2010, the Obligated Group included 15 nonprofit corporations (including three Medical Foundations) owning and/or operating those same facilities. Although the financial positions of the entities involved in the restructuring remained the same, management believes that this step provided significant restructuring to streamline management, governance and organizational structure.

The Obligated Group Members are currently as follows:

Sutter Health
Obligated Group Members(1)(2)

- East Bay Prenatal Center
- Eden Medical Center
- Marin Community Health
- Mills-Peninsula Health Services
- Palo Alto Medical Foundation for Health Care, Research and Education
- Sutter Coast Hospital
- Sutter Central Valley Hospitals
- Sutter East Bay Hospitals
- Sutter Gould Medical Foundation
- Sutter Health
- Sutter Health Sacramento Sierra Region
- Sutter Medical Foundation
- Sutter Medical Center, Castro Valley
- Sutter Visiting Nurse Association and Hospice
- Sutter West Bay Hospitals

(1) Marin General Hospital ("MGH"), a former Obligated Group Member, withdrew from the Obligated Group effective September 30, 2007.
(2) This list reflects an internal reorganization with the System that took place in 2009.

Licenses and Contracts: All Sutter Health affiliated hospitals are licensed by the Department of Health Services. Sutter Health's Obligated Group Members participate in the Medicare and the Medi-Cal programs and provide a full range of services to Medicare and Medi-Cal patients.

V. UTILIZATION STATISTICS:

The Obligated Group[1]
Acute Care Facility Utilization
Fiscal Year Ended
December 31,

	2006	2007	2008
Licensed Beds	4,813	5,037	5,023
Beds in Service	4,319	4,482	4,533
Admissions[2]	210,416	207,895	207,604
Patient Days[2]	1,047,015	1,022,288	1,018,770
Average Length of Stay (Days)	5	4.9	4.9
Occupancy %[3]	66.4	62.5	61.6
Emergency Room Visits[4]	725,038	743,572	753,659

(1) Non-acute care utilization statistics of Obligated Group hospitals were omitted to ensure comparability of data. MGH withdrew from the Obligated Group in September 2007 and its utilization statistics were removed for all periods for comparability.
(2) Excluding well newborns.
(3) Based on Beds in Service.
(4) Does not include Emergency Room patients subsequently admitted as inpatients.

VI. OUTSTANDING DEBT:

As of December 31, 2008, Sutter Health's long-term debt totaled $2.57 billion, of which over $1.52 billion (59%) was comprised of debt issued through this Authority. Following a proposed financing through CSCDA for $409 million to be issued simultaneously with these CHFFA bonds, Sutter Health's total debt will equal approximately $2.9 billion, with the amount of Authority debt remaining unchanged, yet comprising a lower 51% of Sutter Health's total 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)**: Sutter Health 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)**: Sutter Health properly completed and submitted this certification and indicated that Medi-Cal and Medicare patients are accepted.
- **Compliance with Seismic Regulations**: Sutter Health properly completed and submitted a description of its seismic requirements.
- **Compliance with Section 15455(b) of the Act (California Environmental Quality Act)**: Sutter Health 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**.

EXHIBIT I

Other Parties Affiliated with this Transaction:

Manatt, Phelps & Phillips, LLP (Borrower's Counsel)

Bank of America Merrill Lynch (Co-Manager)

Sutter Securities, Inc. (Co-Manager)

Sidley Austin (Underwriter's Counsel)

Wells Fargo Bank Corporate Trust Services (Trustee for Series 2010B)

Wells Fargo Bank (Trustee Counsel)

U.S. Bank, N.A. (Master Trustee and prior trustee)

The Bank of New York Mellon Trust Company, N.A. (prior trustee

Rating Agencies:

Moody's Investors Service

Standard & Poor's

Fitch Ratings