NEW ISSUE — BOOK-ENTRY ONLY **Ratings †**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

$750,000,000
CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY

KAISER PERMANENTE®

Revenue Bonds

$150,000,000 Series 2004E **$150,000,000 Series 2004G**
$150,000,000 Series 2004F **$150,000,000 Series 2004H**
$150,000,000 Series 2004I

Dated: Date of Delivery Due: As shown below

The Series E Bonds, the Series F Bonds, the Series G Bonds, the Series H Bonds and the Series I Bonds (collectively, the "Bonds" and each a "Series of Bonds") will initially bear interest from their date of delivery for a Long-Term Interest Rate Period. During such Long-Term Interest Rate Periods, each Series of Bonds shall bear interest at the rates and for the initial Long-Term Interest Rate Periods specified below:

Series	Last Day of Long-Term Interest Rate Period	Initial Mandatory Tender Date	Interest Rate	Maturity Date
E	March 31, 2005	April 1, 2005	1.08 %	April 1, 2032
F	April 30, 2007	May 1, 2007	2.30	April 1, 2033
G	April 30, 2007	May 1, 2007	2.30	April 1, 2034
H	April 30, 2008	May 1, 2008	2.625	April 1, 2034
I	April 30, 2011	May 1, 2011	3.45	April 1, 2035

Interest on each Series of Bonds, while in a Long-Term Interest Rate Period, will be payable on each April 1 and October 1, commencing October 1, 2004, and on the day following the last day of any Long-Term Interest Rate Period. Following the initial Long-Term Interest Rate Period, the Bonds may bear interest for a Long-Term Interest Rate Period, a Commercial Paper Interest Rate Period, an ARS Interest Rate Period, a Daily Interest Rate Period or a Weekly Interest Rate Period (each an "Interest Rate Period"), as described herein, as directed by Kaiser Foundation Hospitals ("Hospitals").

The Bonds will be subject to optional redemption prior to maturity in certain circumstances, all as described herein. **During the initial Long-Term Interest Rate Period, the Bonds will not be subject to optional redemption, nor will such Bonds be subject to optional tender for purchase and remarketing, but such Bonds will be subject to mandatory tender for purchase and remarketing in certain circumstances, all as described herein.**

The Bonds will be issued as fully registered bonds and initially will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchase of beneficial interests in the Bonds will be made in book-entry only form (without physical certificates) in denominations of, with respect to a Long-Term Interest Rate Period, $5,000 or integral multiple thereof, with respect to a Daily Interest Rate Period, a Weekly Interest Rate Period or a Commercial Paper Interest Rate Period, $100,000 and any integral multiple of $5,000 in excess of $100,000 and, with respect to an ARS Interest Rate Period, $25,000 and any integral multiple thereof. For so long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, (i) payments of the principal and purchase price of and premium, if any, and interest on the Bonds will be made directly to Cede & Co. for payment to its participants for subsequent disbursement to the beneficial owners, and (ii) all notices, including any notice of redemption, notice of conversion to another interest rate period or notice of mandatory tender, shall be mailed only to Cede & Co. See APPENDIX D – "BOOK-ENTRY SYSTEM" herein.

The Bonds are limited obligations of the California Statewide Communities Development Authority (the "Authority"), secured under the provisions of the Indenture and the Loan Agreement, as described herein, and will be payable from Loan Repayments made by Hospitals under the Loan Agreement and from certain funds held under the Indenture. The obligation of Hospitals under the Loan Agreement, including its obligation to purchase Bonds that have not been remarketed, will be guaranteed by Kaiser Foundation Health Plan, Inc. ("Health Plan, Inc."), Kaiser Hospital Asset Management, Inc. ("HAMI"), and Kaiser Health Plan Asset Management, Inc. ("HPAMI") pursuant to the Guarantee Agreement, as described herein (Hospitals, Health Plan, Inc., HAMI and HPAMI, collectively, are referred to herein as the "Credit Group").

THE BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF CALIFORNIA OR ANY SUCH POLITICAL SUBDIVISION, OTHER THAN THE AUTHORITY, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR UNDER THE INDENTURE. NEITHER THE STATE OF CALIFORNIA NOR THE AUTHORITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OR PURCHASE PRICE OF THE BONDS, OR THE PREMIUM OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT AND THE INDENTURE, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR PURCHASE PRICE OF OR THE PREMIUM OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.

This cover page contains certain information for quick reference only. It is not intended to be a summary of the security or terms of the Bonds. Investors are instructed to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as and if received by the Underwriters, subject to prior sale and to the approval of the validity of the Bonds and certain legal matters by Orrick, Herrington & Sutcliffe LLP, Bond Counsel, the approval of certain matters for the Authority by Orrick, Herrington & Sutcliffe LLP, for Hospitals, HAMI, HPAMI, and Health Plan, Inc. by their General Counsel and for the Underwriters by their counsel, Sidley Austin Brown & Wood LLP, San Francisco, California. It is expected that the Bonds in book-entry form will be available for delivery to DTC in New York, New York, on or about March 30, 2004.

JPMorgan **Citigroup**

Date: March 25, 2004

† For an explanation of the ratings, see "RATINGS" herein.

The information relating to the Authority contained herein under the headings "THE AUTHORITY" and "LITIGATION—The Authority" has been furnished by the Authority. All other information contained herein has been obtained from the Credit Group, DTC and other sources (other than the Authority) that are believed to be reliable. Such other information is not guaranteed as to accuracy or completeness and is not to be relied upon or construed as a promise or representation by the Authority or the Underwriters. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

No dealer, broker, salesperson or other person has been authorized by the Authority, the Credit Group or the Underwriters to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any statement nor any sale made hereunder shall create under any circumstances any implication that there has been no change in the affairs of the Authority, the Credit Group or DTC since the date hereof. This Official Statement is submitted in connection with the issuance of securities referred to herein and may not be used, in whole or in part, for any other purpose.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements generally are identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. Such forward-looking statements include but are not limited to certain statements contained in the information under the captions "PLAN OF FINANCING," "BONDHOLDERS' RISKS," and "THE CREDIT GROUP—Management's Discussion of Financial Position and Analysis and Results of Operations" in this Official Statement. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. None of Hospitals, Health Plan, Inc., HAMI or HPAMI plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

TABLE OF CONTENTS

Page

INTRODUCTORY STATEMENT 1
- Purpose of the Official Statement 1
- The Bonds 1
- Kaiser Permanente 2
- Security for the Bonds 3
- Related Financing 3

THE AUTHORITY 3

THE BONDS 4
- General 4
- Interest on the Bonds 4
- Purchase of the Bonds 10
- Liquidity for Payment of the Purchase Price 12
- Redemption 12

SECURITY FOR THE BONDS 14
- Loan Agreement and Guarantee Agreement 14
- Other 14

PLAN OF FINANCE 15

ESTIMATED SOURCES AND USES OF FUNDS 15

CONTINUING DISCLOSURE 15

BONDHOLDERS' RISKS 16
- General 16
- Kaiser Permanente's Integrated Delivery System and the Managed Care Industry 17
- Competition 18
- State Budgets 19
- Federal and State Legislation and Regulation 20
- Fraud and Abuse Enforcement 20
- Other Statutory and Regulatory Sources of Liability for Health Care Providers 24
- Medicare 24
- Tax-Exempt Status of Hospitals and the Health Plan Organizations 26
- Maintenance of Tax-Exempt Status of Interest on the Bonds 28
- Indigent Care 28
- Labor Relations 28
- Licensing, Surveys, Investigations and Audits 29
- Environmental Laws and Regulations 30
- Earthquakes 31
- Bankruptcy 31
- Factors That Could Affect the Enforceability of the Loan Agreement and the Guarantee Agreement 32
- Relationship of Hospitals and Health Plan, Inc. to their Subsidiaries 33
- Professional Liability Claims and General Liability Insurance 34
- Risks Related to Variable Rate Obligations 34
- Investments 34
- Major Disruption 35
- Other Risk Factors 35

THE CREDIT GROUP 35
- Health Care Services 35
- Membership 37

Employees 38
Financial Information of the Credit Group (Unaudited) 39
Management's Discussion of Financial Position and Analysis and Results of Operations 43
Governance 49
Facilities 51
Accreditations 51
TAX MATTERS 52
APPROVAL OF LEGALITY 53
INDEPENDENT AUDITORS 54
LITIGATION 54
The Credit Group 54
The Authority 54
RATINGS 54
UNDERWRITING 54
MISCELLANEOUS 55

APPENDIX A – COMBINED FINANCIAL STATEMENTS OF KAISER FOUNDATION HEALTH PLAN, INC. AND SUBSIDIARIES AND KAISER FOUNDATION HOSPITALS AND SUBSIDIARIES A-1
APPENDIX B – SUMMARY OF PRINCIPAL DOCUMENTS B-1
APPENDIX C – FORM OF OPINION OF BOND COUNSEL C-1
APPENDIX D – BOOK-ENTRY SYSTEM D-1
APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE E-1

OFFICIAL STATEMENT

$750,000,000
California Statewide Communities Development Authority
KAISER PERMANENTE
Revenue Bonds

$150,000,000 Series 2004E **$150,000,000 Series 2004G**
$150,000,000 Series 2004F **$150,000,000 Series 2004H**
$150,000,000 Series 2004I

INTRODUCTORY STATEMENT

The following introductory statement is subject in all respects to the more complete information set forth in this Official Statement. All descriptions and summaries of documents referred to herein do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each such document. Terms used in this Official Statement and not otherwise defined have the same meanings as in the Indenture (as defined below). See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS—Definitions."

Purpose of the Official Statement

This Official Statement, including the cover page, the inside cover page and the appendices hereto, is provided to furnish information in connection with the sale and delivery of the following Series of Bonds issued by the California Statewide Communities Development Authority (the "Authority"): $150,000,000 aggregate principal amount of the Kaiser Permanente Revenue Bonds, Series 2004E (the "Series E Bonds"), $150,000,000 aggregate principal amount of the Kaiser Permanente Revenue Bonds, Series 2004F (the "Series F Bonds"), $150,000,000 aggregate principal amount of the Kaiser Permanente Revenue Bonds, Series 2004G (the "Series G Bonds"), $150,000,000 aggregate principal amount of the Kaiser Permanente Revenue Bonds, Series 2004H (the "Series H Bonds") and $150,000,000 aggregate principal amount of the Kaiser Permanente Revenue Bonds, Series 2004I (the "Series I Bonds"). The Series E Bonds, the Series F Bonds, the Series G Bonds, the Series H Bonds and the Series I Bonds, collectively, are referred to herein as the "Bonds" and each series as a "Series" of Bonds.

The Bonds

The Bonds will be issued pursuant to and secured by an indenture (the "Indenture"), dated as of March 1, 2004, between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Authority will lend the proceeds of the Bonds to Kaiser Foundation Hospitals ("Hospitals"), which loan will be evidenced by a Loan Agreement, dated as of March 1, 2004 (the "Loan Agreement"), between the Authority and Hospitals.

Hospitals will use the proceeds of the Bonds to finance the cost of certain capital improvements and equipment acquisitions at certain health facilities and related facilities and support service centers owned and operated by Hospitals or Health Plan, Inc.

Hospitals' obligations under the Loan Agreement, including its obligation to purchase Bonds that have not been remarketed, are guaranteed by Kaiser Foundation Health Plan, Inc. ("Health Plan, Inc."), Kaiser Hospital Asset Management, Inc. ("HAMI") and Kaiser Health Plan Asset Management, Inc. ("HPAMI" and, collectively with Health Plan, Inc. and HAMI, the "Guarantors") pursuant to a guarantee agreement, dated as of March 1, 2004, between the Authority and the Guarantors (the "Guarantee Agreement").

Kaiser Permanente

Health Plan, Inc., Hospitals, HAMI, and HPAMI collectively comprise the Kaiser Permanente Credit Group (the "Credit Group"). The Credit Group, Kaiser Foundation Health Plan of Georgia, Inc. ("Health Plan Georgia"), Kaiser Foundation Health Plan of the Mid-Atlantic States, Inc. ("Health Plan MAS"), Kaiser Foundation Health Plan of Colorado ("Health Plan Colorado"), Kaiser Foundation Health Plan of Ohio ("Health Plan Ohio"), Kaiser Foundation Health Plan of the Northwest ("Health Plan Northwest"), several other subsidiaries of Hospitals and of Health Plan, Inc. and eight independent medical groups (the "Permanente Medical Groups") form the integrated health care delivery system known as the Kaiser Permanente Medical Care Program ("Kaiser Permanente"). Health Plan Georgia, Health Plan MAS, Health Plan Colorado, Health Plan Ohio, Health Plan Northwest and Health Plan, Inc. collectively are referred to herein as the "Health Plan Organizations" and individually as a "Health Plan Organization." See "THE CREDIT GROUP" herein.

Hospitals and Health Plan, Inc. have several subsidiaries (including HAMI, which is a subsidiary of Hospitals, and HPAMI, which is a subsidiary of Health Plan, Inc.), which are not Health Plan Organizations. HAMI and HPAMI were incorporated as nonprofit corporations in 1998 in order to own certain capital assets and lease such assets for use at the facilities of Hospitals and Health Plan, Inc., respectively, in furtherance of their health care delivery mission.

As of December 31, 2003, organizations participating in Kaiser Permanente provided medical, hospital and other health care services to over 8.2 million members (subscribers and their dependents) living primarily in the greater metropolitan areas of San Francisco, Sacramento, Los Angeles, San Diego, San Jose, Fresno, Bakersfield, Portland (Oregon), Denver, Cleveland, Honolulu, Washington, D.C., Baltimore and Atlanta. Approximately 79% of the Kaiser Permanente members are enrolled in Health Plan, Inc., which serves members in California and Hawaii. The remaining Kaiser Permanente members are enrolled in one of the other Health Plan Organizations.

Most Kaiser Permanente members enroll under a membership agreement between their employer and one of the Health Plan Organizations. Services are provided principally at facilities owned by Hospitals and the Health Plan Organizations. 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.

Kaiser Permanente has its origins in the prepaid health care delivery system established to serve workers and their families during the construction of the Grand Coulee Dam, starting in 1938. Later, Kaiser Permanente expanded to serve workers and their families at the World War II Henry J. Kaiser shipyards in Richmond, California, and in the Portland-Vancouver area of Oregon and Washington, as well as at the Kaiser Steel Mill in Fontana, California.

As described under "SECURITY FOR THE BONDS," only Hospitals is obligated to make Loan Repayments (described below) under the Loan Agreement and only the Guarantors are obligated to make payments under the Guarantee Agreement. None of the other Health Plan Organizations, the other subsidiaries of Health Plan, Inc. or Hospitals or any Permanente Medical Groups has any obligation to make payments with respect to the Bonds, nor are any of such organizations parties to any agreement relating to the Bonds.

Security for the Bonds

The Bonds will be payable from payments made by Hospitals under the Loan Agreement (the "Loan Repayments"), from payments made by the Guarantors under the Guarantee Agreement, and from certain funds held under the Indenture. In the Indenture, the Authority will assign to the Trustee its right, title and interest in the Loan Agreement (except the rights to receive any administrative fees or expenses to the extent payable to the Authority and any rights to indemnification, as provided in the Loan Agreement) and the Guarantee Agreement, including payments to be made thereunder by Hospitals and the Guarantors, respectively. The obligations of Hospitals and the Guarantors to make such payments are absolute and unconditional. No property or revenues of Hospitals or the Guarantors will be pledged as security for the Bonds. None of the other Health Plan Organizations has any obligation with respect to the Bonds. No reserve fund will be established with respect to the Bonds. No liquidity support initially will be provided for any Series of Bonds, and no external credit support will be provided for any Series of the Bonds. For a more detailed description of the obligations of Hospitals and the Authority under the Loan Agreement, of the Guarantors and the Authority under the Guarantee Agreement, and of the Authority and the Trustee under the Indenture, see APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS."

Related Financing

Concurrently with the issuance of the Bonds, Hospitals anticipates that the Authority will issue bonds initially bearing interest at Auction Rates in the aggregate principal amount of $350,000,000, bonds initially bearing interest at a Weekly Interest Rate in the aggregate principal amount of $350,000,000, and bonds initially bearing interest at Bond Interest Term Rates in the aggregate principal amount of $150,000,000 for the benefit of Hospitals. Hospitals intends to use the proceeds of such bonds (the "Additional Bonds") to finance the cost of certain capital improvements and equipment acquisitions at certain health facilities and related facilities and support service centers owned and operated by Hospitals or Health Plan, Inc. See "PLAN OF FINANCE" herein. Hospitals' obligations to pay debt service with respect to each series of Additional Bonds will be guaranteed by the Guarantors. The issuance of the Bonds is not dependent upon the issuance of the Additional Bonds. In addition, in connection with the issuance of the Additional Bonds that will bear interest at Auction Rates, the Credit Group expects to enter into one or more interest rate swap agreements with an aggregate notional amount equal to the aggregate principal amount of such Additional Bonds. The interest rate swap agreements are expected to have a term equal to the term of such Additional Bonds that will bear interest at Auction Rates, and the amortization of the swap agreements is expected to be approximately equal to the amortization of such Additional Bonds. Under the swaps, the Credit Group will pay a fixed amount and will receive a variable amount based on an index. The variable amount received by the Credit Group may not be equal to the interest payable on such Additional Bonds.

THE AUTHORITY

The Authority is a public entity organized pursuant to a Joint Powers Agreement among a number of California counties, cities and special districts entered into pursuant to the provisions relating to the joint exercise of powers contained in Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the California Government Code. The Authority is authorized to participate in financings for the benefit of organizations described under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code").

THE BONDS

The following is a summary of certain provisions of the Bonds. Reference is made to the Bonds for the complete text thereof and to the Indenture for all of the provisions relating to each Series of Bonds. The discussion herein is qualified by such reference.

General

The Series E Bonds, the Series F Bonds, the Series G Bonds, the Series H Bonds and the Series I Bonds are being issued in the respective aggregate principal amounts set forth on the cover page hereof and will mature on the respective dates set forth on the cover page hereof, subject to redemption prior to maturity.

The Bonds will be issued only as fully registered bonds and, when issued, will be registered in the name of Cede & Co. or such other name as may be requested by an authorized representative of DTC, as nominee of DTC. DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only in denominations of $5,000 or any integral multiple thereof during a Long-Term Interest Rate Period, $100,000 and any integral multiple of $5,000 in excess of $100,000 during a Daily Interest Rate Period, Weekly Interest Rate Period or a Commercial Paper Interest Rate Period, and $25,000 and any integral multiple thereof during an ARS Interest Rate Period. Principal and purchase price of and interest and premium, if any, on the Bonds will be payable by the Trustee to DTC, which is obligated, in turn, to remit principal, purchase price, interest and premium to DTC Participants, upon DTC's receipt of funds and corresponding detail information from the Trustee or the Authority, for subsequent disbursement to Beneficial Owners of such Bonds. See APPENDIX D – "BOOK-ENTRY SYSTEM."

The Credit Group and the Authority cannot and do not give any assurances that DTC will distribute to DTC Participants or that DTC Participants or others will distribute to the Beneficial Owners payments of principal and purchase price of and interest and premium, if any, on the Bonds or any redemption, mandatory tender or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Credit Group nor the Authority is responsible or liable for the failure of DTC or any DTC Participant or DTC Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.

Interest on each Series of Bonds may accrue at a Daily Interest Rate, a Weekly Interest Rate, a Bond Interest Term Rate ("BIT Rate") (the interest rate on Bonds during Commercial Paper Interest Rate Periods), an Auction Rate, or a Long-Term Interest Rate for periods selected from time to time by Hospitals. The rate of interest on each Series of Bonds after the initial Long-Term Interest Rate Period will be determined by the remarketing agent to be appointed by Hospitals, as described below under "THE BONDS—Interest on the Bonds—Interest Rate Periods."

Interest on the Bonds

General. The term of each Series of Bonds will be divided into consecutive Interest Rate Periods, during which such Series of Bonds will bear interest at interest rates as described below. At any time, the Interest Rate Periods will be the same for all Bonds within each Series, and all Bonds within each Series will bear interest at a Daily Interest Rate, a Weekly Interest Rate, a Long-Term Interest Rate, an Auction Rate or BIT Rates.

Each Series of Bonds initially will accrue interest at the Long-Term Interest Rate for such Series of Bonds from the date of delivery to and including the last day of the initial Long-Term Interest Rate Period for such Series of Bonds, all as shown on the cover page hereof. The initial interest rate for each Series of Bonds will be determined by the Underwriters named on the cover of this Official Statement prior to the delivery of the Bonds.

The Bonds will be subject to optional redemption prior to maturity in certain circumstances, as described below. During the initial Long-Term Interest Rate Period, the Bonds will not be subject to optional redemption, nor will the Bonds be subject to optional tender for purchase and remarketing, but the Bonds will be subject to mandatory tender for purchase and remarketing, as described below.

Hospitals at any time may direct that any such Series of Bonds, at the end of the initial Long-Term Interest Rate Period, be adjusted to an alternate Interest Rate Period, subject to the satisfaction of certain conditions specified in the Indenture, including delivery of a Favorable Opinion of Bond Counsel. Depending on which Interest Rate Period is then in effect for each Series of Bonds, the provisions for redemption, the dates on which notices of tender are required to be given, the dates on which each Series of Bonds are to be tendered, the dates for notices of adjustment to an alternate Interest Rate Period and the provisions for mandatory purchase applicable to each Series of Bonds will vary. See the description herein for further details.

Interest Rate Periods. Each Series of Bonds may be in the Daily Interest Rate Period, the Weekly Interest Rate Period, the Commercial Paper Interest Rate Period, the ARS Interest Rate Period or the Long-Term Interest Rate Period (each an "Interest Rate Period"), and interest on such Series of Bonds, accordingly, will accrue at a Daily Interest Rate, a Weekly Interest Rate, BIT Rates, an Auction Rate or a Long-Term Interest Rate.

Daily Interest Rate Period. The Daily Interest Rate will be determined by the remarketing agent by no later than 10:00 a.m., New York City time, on each Business Day during a Daily Interest Rate Period.

The Daily Interest Rate will be the rate of interest per annum determined by the remarketing agent to be the minimum interest rate that, if borne by the Bonds of the applicable Series, would enable the remarketing agent to sell such Bonds on the effective date of such rate at a price (without regarding accrued interest) equal to the principal amount thereof.

If the remarketing agent fails to establish a Daily Interest Rate for any Business Day, then the Daily Interest Rate for such week will be the same as the Daily Interest Rate for the immediately preceding Business Day, if the Daily Interest Rate for such preceding Business Day was determined by the remarketing agent. If for any reason the remarketing agent did not determine the Daily Interest Rate for the immediately preceding Business Day, or if a Daily Interest Rate determined by the remarketing agent is held to be invalid or unenforceable by a court of law, then the interest rate for such Business Day will equal the BMA Index on the day the Daily Interest Rate would otherwise be determined by the remarketing agent.

During a Daily Interest Rate Period, the "Interest Payment Date" will be the first Business Day of any month.

Weekly Interest Rate Period. The Weekly Interest Rate will be determined by the remarketing agent by no later than 5:00 p.m., New York City time, on Tuesday of each week during a Weekly Interest Rate Period or the next succeeding Business Day if any such Tuesday is not a Business Day. The first

Weekly Interest Rate for each Weekly Interest Rate Period will be determined on or prior to the first day of such Weekly Interest Rate Period and will apply to the period commencing on the first day of such Weekly Interest Rate Period and ending on the next succeeding Tuesday (whether or not a Business Day). Thereafter, each Weekly Interest Rate will apply to the period commencing on Wednesday (whether or not a Business Day) and ending on the next succeeding Tuesday (whether or not a Business Day), unless such Weekly Interest Rate Period ends on a day other than Tuesday, in which event the last Weekly Interest Rate for such Weekly Interest Rate Period will apply to the period commencing on Wednesday (whether or not a Business Day) preceding the last day of such Weekly Interest Rate Period and ending on the last day of such Weekly Interest Rate Period.

The Weekly Interest Rate will be the rate of interest per annum determined by the remarketing agent to be the minimum interest rate that, if borne by the Bonds of the applicable Series, would enable the remarketing agent to sell such Bonds on the effective date of such rate at a price (without regarding accrued interest) equal to the principal amount thereof.

If the remarketing agent fails to establish a Weekly Interest Rate for any week, then the Weekly Interest Rate for such week will be the same as the Weekly Interest Rate for the immediately preceding week, if the Weekly Interest Rate for such preceding week was determined by the remarketing agent. If for any reason the remarketing agent did not determine the Weekly Interest Rate for the immediately preceding week, or if a Weekly Interest Rate determined by the remarketing agent is held to be invalid or unenforceable by a court of law, then the interest rate for such week will equal the BMA Index on the day the Weekly Interest Rate would otherwise be determined by the remarketing agent.

During a Weekly Interest Rate Period, the "Interest Payment Date" will be the first Wednesday of each calendar month or the next succeeding Business Day, if such Wednesday is not a Business Day.

Commercial Paper Interest Rate Period. During each Commercial Paper Interest Rate Period with respect to a Series of Bonds, each Bond of such Series will bear interest at the BIT Rate for such Bond determined for the Bond Interest Term for such Bond by the remarketing agent no later than the first day of each Bond Interest Term. Each Bond Interest Term will be a period not exceeding 180 days, as determined by the remarketing agent to be the period that, together with all other Bond Interest Terms for all Outstanding Bonds of the applicable Series, will result in the lowest overall interest expense on the Bonds of such Series over the next succeeding 180 days. Each Bond Interest Term will end on either a day that immediately precedes a Business Day or on the day immediately preceding the maturity date for such Series of Bonds.

The remarketing agent will announce, by no later than 9:30 a.m., New York City time, on the first day of each Bond Interest Term, a list of ranges of possible Bond Interest Terms and related BIT Rates. The Bond Interest Term and the BIT Rate for each Bond need not be the same for any two Bonds, even if determined on the same date. In determining the number of days in each Bond Interest Term, the remarketing agent will take into account the following factors: (i) existing short-term, tax-exempt market rates and indices of such short-term rates; (ii) the existing market supply and demand for short-term tax-exempt securities; (iii) existing yield curves for short-term and long-term tax-exempt securities for obligations of credit quality comparable to the Bonds of such Series; (iv) general economic conditions; (v) industry economic and financial conditions that may affect or be relevant to the Bonds of such Series; (vi) the Bond Interest Terms of other Bonds of such Series; and (vii) such other facts, circumstances and conditions pertaining to financial markets as the remarketing agent, in its sole discretion, determines to be relevant.

The BIT Rate for each Bond Interest Term for each Bond in a Commercial Paper Interest Rate Period will be the rate of interest per annum determined by the remarketing agent to be the minimum

interest rate that, if borne by such Bond for such Bond Interest Term, would enable the remarketing agent to sell such Bond on the effective date of such rate at a price (without regard to accrued interest) equal to the principal amount thereof.

If for any reason the remarketing agent does not determine the required Bond Interest Term and associated BIT Rate or if a Bond Interest Term and/or associated BIT Rate is held by a court of law to be invalid or unenforceable, such Bond Interest Term will be 30 days, provided that, if the last day so determined is not a day immediately preceding a Business Day, such Bond Interest Term will end on the first day immediately preceding the Business Day next succeeding such last day or, if such last day would be after the day immediately preceding the Maturity Date for such Series, such Bond Interest Term will end on the day immediately preceding such Maturity Date, and such BIT Rate will equal the BMA Index on the first day of such Bond Interest Term.

During a Commercial Paper Interest Rate Period, the "Interest Payment Date" will be the day next succeeding the last day of each Bond Interest Term.

ARS Interest Rate Period. During an ARS Interest Rate Period with respect to a Series of Bonds, the Bonds of such Series will bear interest at an Auction Rate for the applicable Auction Period.

"Auction Rate" means the rate of interest to be borne by a Series of Bonds during each Auction Period, which rate results from the implementation of the Auction Procedures. Pursuant to the Auction Procedures, (i) if a Series of Bonds in an ARS Interest Rate Period is no longer maintained in book-entry form, the Auction Period for such Series will be a seven-day Auction Period and the Auction Rate for such Series will equal the ARS Maximum Rate, (ii) if a default in the due and punctual payment of principal, premium or interest with respect to a Series of Bonds in an ARS Interest Rate Period has occurred, the Auction Rate for such Series will equal the lesser of 15% or the maximum interest rate permitted by law, (iii) if the conditions to adjusting the percentages used by the Trustee to calculate the Auction Rate for a Series of Bonds in an ARS Interest Rate Period have not been satisfied, the Auction Rate to be in effect for such Series of Bonds until the next succeeding Interest Payment Date will equal the ARS Maximum Rate, (iv) except as contemplated above by (i), (ii) and (iii), if the Auction Agent has failed to determine the Auction Rate for any Auction Period, the new Auction Period for any Series of Bonds will be the same as the preceding Auction Period and the Auction Rate for the new Auction Period for such Series will be the same as the Auction Rate for such Series for the preceding Auction Period, and (v) in the event of a failed conversion from an ARS Interest Rate Period, such Series of Bonds will bear interest at the ARS Maximum Rate for the next succeeding Auction Period, which shall have the same length as the Auction Period in effect for such Series of Bonds prior to such attempted conversion, and, thereafter, at the Auction Rates and for Auction Periods determined in accordance with the Auction Procedures.

"Auction Date" means, with respect to any Series of Bonds in an ARS Interest Rate Period, the Business Day immediately preceding the first day of each Auction Period, other than (i) each Auction Period commencing after the ownership of such Series of Bonds is no longer maintained in book-entry form, (ii) each Auction Period commencing after the occurrence and during the continuance of a default in the due and punctual payment of principal, premium or interest with respect to a Series of Bonds, or (iii) any Auction Period commencing less than two Business Days after the cure or waiver of a default in the due and punctual payment of principal, premium or interest with respect to a Series of Bonds.

"Auction Period" means:

(i) with respect to a Series of Bonds in a seven-day Auction Period, a period, generally of seven days, beginning on and including the day following the last day of the prior Auction Period or any

day except Sunday or Saturday and ending on and including the sixth day thereafter (unless such day is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day), and

(ii) with respect to a Series of Bonds in a 35-day Auction Period, any of a period, generally of 35 days, beginning on and including the day following the last day of the prior Auction Period or any day except Sunday or Saturday and ending on and including the thirty-fourth day thereafter (unless such day is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day);

provided, however, that in the event of a conversion of a Series of Bonds from another Interest Rate Period to an ARS Interest Rate Period, the initial Auction Period with respect to such Series of Bonds following such conversion shall begin on and include the Conversion Date.

During an ARS Interest Rate Period, the "Interest Payment Date" will be the Business Day immediately following each Auction Period for a Series of Bonds.

Long-Term Interest Rate Period. The initial Long-Term Interest Rate Period and the initial Long-Term Interest Rate with respect to each Series of Bonds is shown on the cover page hereof.

The Long-Term Interest Rate will be determined by the remarketing agent on a Business Day no later than the effective date (the "Long-Term Conversion Date") of such Long-Term Interest Rate Period. Each Long-Term Interest Rate Period will end on either the day immediately prior to the maturity date of such Series of Bonds or a day that both immediately precedes a Business Day and is at least 181 days after the effective date thereof.

If Hospitals has not made a timely election prior to the end of any Long-Term Interest Rate Period to convert the Bonds of any Series to bear interest at a Daily Interest Rate, a Weekly Interest Rate, another Long-Term Interest Rate, an Auction Rate or BIT Rates, the next succeeding Interest Rate Period for such Bonds will be a Weekly Interest Rate Period until adjusted otherwise.

The Long-Term Interest Rate will be the rate of interest per annum determined by the remarketing agent to be the minimum interest rate that, if borne by the Bonds of the applicable Series, would enable such remarketing agent to sell such Bonds at a price (without regard to accrued interest) equal to the principal amount thereof.

If for any reason the remarketing agent does not determine a Long-Term Interest Rate on or prior to the first day of such Long-Term Interest Rate Period, the Bonds will bear interest at a Weekly Interest Rate and will continue to bear interest at a Weekly Interest Rate until adjusted otherwise.

During a Long-Term Interest Rate Period that is 270 days or fewer, the "Interest Payment Date" will be the day next succeeding the last day of such Long-Term Interest Rate Period. During a Long-Term Interest Rate Period that is more than 270 days, the "Interest Payment Date" will be each April 1 and October 1, provided that the first Interest Payment Date for any Long-Term Interest Rate Period will be at least 90 days from the first day of such period.

Adjustment to Interest Rate Periods. Hospitals at any time may elect to adjust any Series of Bonds to an alternate Interest Rate Period at the end of the initial Interest Rate Period, and such Series of Bonds will be subject to the alternate Interest Rate Period. The written election must specify the proposed effective date of the adjustment to the alternate Interest Rate Period, which, in the case of an adjustment from one Long-Term Interest Rate Period to another Long-Term Interest Rate Period, shall be the day

immediately following the last day of the then-current Long-Term Interest Rate Period. In the case of an adjustment to a Long-Term Interest Rate Period, the written election also must specify (A) the duration of such Long-Term Interest Rate Period (which may not be less than 181 days and may not end later than the Maturity Date of the Series E Bonds) and (B) the last day of such Long-Term Interest Rate Period. Hospitals' direction also must be accompanied by a letter of Bond Counsel stating that it expects to deliver a Favorable Opinion of Bond Counsel on the effective date of the adjustment to an alternate Interest Rate Period.

Notice of an adjustment to an alternate Interest Rate Period or the establishment of another Long-Term Interest Rate Period must be given by the Trustee by first-class mail not less than 30 days prior to the proposed effective date of such Interest Rate Period. While the Bonds are registered in the name of Cede & Co., such notice will be given only to DTC and not to any Beneficial Owner of the Bonds. Such notice will state (i) that the interest rate on the Bonds of the applicable Series will be adjusted to a Daily Interest Rate, a Weekly Interest Rate, the Applicable ARS Rate, a Long-Term Interest Rate or a BIT Rate, as appropriate, unless Bond Counsel fails to deliver to the Trustee, Hospitals, the Guarantors, the remarketing agent, the Broker-Dealer (if any) and the Authority a Favorable Opinion of Bond Counsel on the proposed effective date of such adjustment; (ii) the proposed effective date of such alternate Interest Rate Period; (iii) that the Bonds of the applicable Series are subject to mandatory tender for purchase on such proposed effective date of the new Interest Rate Period; (iv) in the case of an adjustment to a Long-Term Interest Rate Period, the Long-Term Interest Rate to be effective on the date of adjustment and the Long-Term Interest Rate Period to commence on such date of adjustment; (v) the applicable Purchase Price on such date; and (vi) the place of delivery for purchase of the Bonds.

If notice of an adjustment has been mailed to the Holders of any Series of Bonds and Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel on the effective date of the new Interest Rate Period, as herein described, or if other conditions precedent to such adjustment have not been satisfied, the Interest Rate Period shall not be adjusted and such Bonds (except Bonds in an ARS Interest Rate Period) shall continue to be subject to mandatory tender for purchase on the date that would have been the effective date of such adjustment. In such event, if such Bonds were bearing interest at the Daily Interest Rate, the Weekly Interest Rate or the BIT Rate, then such Bonds shall bear interest at the Daily Interest Rate, the Weekly Interest Rate or the BIT Rate, as the case may be, as in effect immediately prior to such proposed adjustments in the Interest Rate Period. If such Bonds were bearing interest at the Long-Term Interest Rate and Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel, (i) such Bonds will continue to bear interest at the Long-Term Interest Rate for a Long-Term Interest Rate Period of the same duration as in effect immediately prior to such proposed adjustment if the Long-Term Interest Rate Period immediately prior to such proposed adjustment was one year or less, or (ii) such Bonds will bear interest at a Long-Term Interest Rate for a Long-Term Interest Rate Period of one year if the Long-Term Interest Rate Period immediately prior to such proposed adjustment was more than one year. If such Bonds were bearing interest at the Long-Term Interest Rate and any other condition precedent to adjustment is not satisfied, such Bonds will be adjusted to bear interest at a Weekly Interest Rate. If such Bonds were bearing interest at the Auction Rate and any condition precedent to adjustment is not satisfied, such Bonds will not be subject to mandatory tender for purchase and will bear interest at the ARS Maximum Rate for the next succeeding Auction Period, which shall have the same length as the Auction Period in effect for such Series of Bonds prior to such attempted conversion, and, thereafter, at the Auction Rates and for Auction Periods determined in accordance with the Auction Procedures.

Hospitals may rescind its election to adjust the Interest Rate Period with respect to a Series of Bonds by delivering a notice to that effect to the Trustee, the remarketing agent, the Tender Agent (if any), the Liquidity Facility Provider (if any), the Authority, the Auction Agent (if any) and the Broker-Dealer (if any) by 10:00 a.m., New York City time, on the third Business Day preceding the effective date of any Conversion. If Hospitals rescinds its election to adjust the Interest Rate Period, the Interest Rate

Period will not be converted and the Bonds of such Series will continue to bear interest at the Daily Interest Rate, the Weekly Interest Rate, the BIT Rates, the Auction Rate or the Long-Term Interest Rate, as the case may be, as in effect immediately prior to such proposed adjustment; provided that (i) if the Series of Bonds is being adjusted from the ARS Interest Rate Period, such Bonds will bear interest for the initial Auction Period following such proposed adjustment (which shall have the same length as the Auction Period immediately preceding the proposed adjustment) at the ARS Maximum Rate and, thereafter, at Auction Rates determined in accordance with the Auction Procedures, and (ii) if the Bonds are being converted from a Long-Term Interest Rate Period, such Bonds shall be converted to bear interest at a Weekly Interest Rate as of the date that would have been the effective date of the proposed adjustment. In any event, if notice of an adjustment has been mailed to the Holders of such Series and Hospitals rescinds its election to effect such adjustment, then the Bonds of such Series (except Bonds bearing interest at an Auction Rate, which will not be subject to mandatory tender) will continue to be subject to mandatory tender for purchase on the date which would have been the effective date of the adjustment.

Payment of Interest. Interest on each Series of Bonds will become due and payable on the Interest Payment Dates for the applicable Series of Bonds in each year to and including the respective maturity date for (or earlier redemption of) such Bonds. Payment of interest on a Bond will be made on each Interest Payment Date for unpaid interest accrued during the Interest Rate Period to the Holder of record on the applicable Record Date, which (i) with respect to any Bonds bearing interest at a Daily Interest Rate, a Weekly Interest Rate, a BIT Rate or a Long-Term Interest Rate of 270 days or fewer, the Business Day immediately preceding the related Interest Payment Date, (ii) with respect to any Bonds, the Purchase Date for such Bonds, (iii) with respect to any Bonds bearing interest at a Long-Term Interest Rate of more than 270 days, the fifteenth day of the month immediately preceding the month in which such Interest Payment Date falls or, in the event that an Interest Payment Date occurs less than 15 days after the first day of a Long-Term Interest Rate Period, such first day and (iv) with respect to any Bonds bearing interest at an Auction Rate, the second Business Day next preceding each ARS Interest Payment Date. No interest rate on the Bonds may exceed the lesser of 15% per annum or the maximum rate permitted by law.

Purchase of the Bonds

Tenders of the Bonds Are Subject to DTC Procedures. As long as the book-entry system is in effect with respect to the Bonds, all tenders for purchase and deliveries of the Bonds tendered for purchase or subject to mandatory tender under the provisions of the Indenture shall be made pursuant to DTC's procedures as in effect from time to time, and none of the Authority, Hospitals, the Guarantors, the Trustee or the remarketing agent shall have any responsibility for or liability with respect to the implementation of such procedures. For a description of the tender procedures through DTC, see APPENDIX D – "BOOK-ENTRY SYSTEM."

No Purchase of Bonds on Demand of Holder During Long-Term Interest Rate Period. So long as a Long-Term Interest Rate Period is in effect with respect to any Series of Bonds, such Bonds will not be subject to optional tender for purchase. Each Series of Bonds will be subject to mandatory tender upon adjustment to a different Interest Rate Period, as described below.

Optional Tender for Purchase During Daily Interest Rate Period and Weekly Interest Rate Period. During any Daily Interest Rate Period or Weekly Interest Rate Period for a Series of Bonds, any Eligible Bond of such Series will be purchased from the Holder thereof at the option of such Holder on any Business Day at a Purchase Price equal to the principal amount thereof plus accrued interest, if any, upon delivery by such Holder to the Tender Agent at its Corporate Trust Office of an irrevocable written notice that states the name and Series designation of the Bond, the principal amount of the Bond and the

date on which such Bond is to be purchased. In the case of Bonds bearing interest at a Daily Interest Rate, the purchase date may be the same Business Day as the notice, if the notice is delivered no later than 11:00 a.m., New York City time. In the case of Bonds bearing interest at a Weekly Interest Rate, the purchase date shall be a Business Day at least seven days after the date of the delivery of such notice to the Tender Agent. Any notice delivered to the Tender Agent after 11:00 a.m., New York City time, in the case of Bonds bearing interest at a Daily Interest Rate, and 4:00 p.m., New York City time, in the case of Bonds bearing interest at a Weekly Interest Rate, shall be deemed to have been received by the Tender Agent on the next succeeding Business Day. For payment of such Purchase Price on the date specified in such notice, such Bond must be delivered at or prior to 12:00 noon, New York City time, in the case of Bonds bearing interest at a Daily Interest Rate, and 10:00 a.m., New York City time, in the case of Bonds bearing interest at a Weekly Interest Rate, on the date specified in such notice to the Tender Agent at its Corporate Trust Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or the Holder's duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

Mandatory Tender for Purchase on Day Next Succeeding Last Day of Each Bond Interest Term. On the day next succeeding the last day of each Bond Interest Term with respect to an Eligible Bond (unless such day is the first day of a new Interest Rate Period with respect to such Bonds, in which case such Bond will be subject to mandatory tender for purchase as described in the next paragraph), such Bond will be purchased from the Holder thereof at a Purchase Price equal to the applicable principal amount thereof, if such Bond is delivered to the Tender Agent on or prior to 10:00 a.m., New York City time, on such day, or if delivered after 10:00 a.m., New York City time, on the next succeeding Business Day, provided, however, that in any event, such Bond will not bear interest at the BIT Rate after the last day of the applicable Bond Interest Term. The Purchase Price of any Bond so purchased will be payable only upon surrender of such Bond to the Tender Agent at its Corporate Trust Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or by the Holder's duly authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

Mandatory Tender for Purchase on First Day of Each Interest Rate Period. Eligible Bonds will be subject to mandatory tender for purchase on the first day of each Interest Rate Period with respect to such Bonds or, except Bonds bearing interest at an Auction Rate, on the day that would have been the first day of an Interest Rate Period for such Bonds had there been no occurrence of an event that resulted in the interest rate on such Bonds not being adjusted, at a Purchase Price equal to the principal amount of such Bonds subject to mandatory tender. Payment of the Purchase Price of any Bond to be purchased as provided in this paragraph will be made in immediately available funds on such Purchase Date upon delivery of such Bond to the Tender Agent at its Corporate Trust Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or by the Holder's duly-authorized attorney with the signature of such Holder guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange, at or prior to 10:00 a.m., New York City time, on the date specified for such delivery in this paragraph.

Mandatory Tender Upon Termination or Expiration of Liquidity Facility (if Liquidity Facility is Provided). As described herein, Hospitals is not required to provide a Liquidity Facility for the Bonds. If a Liquidity Facility with respect to a Series of Bonds is delivered to the Tender Agent in accordance with the provisions of the Loan Agreement, the Bonds of such Series will be subject to mandatory tender for purchase prior to the Noticed Termination Date or the Expiration Date for such Liquidity Facility at a Purchase Price, payable in immediately available funds, equal to the principal amount thereof, plus accrued interest, if any. The Purchase Price of any Bond so purchased as described in this paragraph will be payable only upon surrender of such Bond to the Tender Agent at its Corporate Trust Office,

accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder or by such Holder's duly authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange, at or prior to 10:00 a.m., New York City time, on the date specified for such delivery in a notice provided to the Holder by the Trustee. If a Liquidity Facility is delivered to the Tender Agent, it is expected to provide that it would immediately terminate upon the occurrence of certain events of default specified therein without notice or mandatory tender.

Effect of Election to Tender or Mandatory Tender for Purchase of Bond. The giving of notice by a Holder of a Bond of its election to have its Bond purchased will constitute the irrevocable tender for purchase of such Bond regardless of whether such Bond is delivered to the Tender Agent for purchase on the relevant Purchase Date. If funds in the amount of the Purchase Price of any Bond subject to mandatory tender for purchase but not delivered to the Tender Agent are available for payment to such Holder on the date and at the time specified, from and after the date and time of that required delivery, (i) such Bond shall be deemed to be purchased and shall no longer be deemed to be Outstanding under the Indenture, (ii) interest shall no longer accrue on such Bond; and (iii) funds in the amount of the Purchase Price of such Bond will be held by the Tender Agent for the benefit of the Holder thereof, to be paid on delivery (and proper endorsement) of such Bond to the Tender Agent at its Corporate Trust Office.

Liquidity for Payment of the Purchase Price

Funds for the purchase of the Bonds that have been tendered for purchase, whether at the option of the Holders or pursuant to the mandatory tender requirements described herein, will be provided, first, from the proceeds of the remarketing of such Bonds and then, to the extent remarketing proceeds are insufficient to provide all funds required to purchase such Bonds, from funds provided by Hospitals pursuant to the Loan Agreement and the Guarantors pursuant to the Guarantee Agreement. **The obligation to purchase the Bonds upon optional or mandatory tender is not initially supported by a Liquidity Facility or by a covenant of Hospitals or the Guarantors to maintain levels of liquid assets, although the Loan Agreement provides that Hospitals at its sole option may deliver one or more Liquidity Facilities to the Tender Agent at any time with respect to any Series of Bonds.**

Redemption

Optional Redemption. While any Daily Interest Rate or Weekly Interest Rate is in effect with respect to a Series of Bonds, the Bonds of such Series are subject to optional redemption prior to their stated maturity, at the option of the Authority (which option shall be exercised upon request of Hospitals), in whole or in part, in such amounts as may be specified by Hospitals, on any date at the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium.

While any BIT Rate is in effect with respect to a Series of Bonds, the Bonds of such Series are subject to redemption prior to their stated maturity, at the option of the Authority (which option shall be exercised upon request of Hospitals), in whole or in part, in such amounts as may be specified by Hospitals, on the day succeeding the last day of the Bond Interest Term relating to such BIT Rate at the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium.

While any Auction Rate is in effect with respect to a Series of Bonds, the Bonds of such Series are subject to redemption prior to their stated maturity, at the option of the Authority (which option shall be exercised upon request of Hospitals), in whole or in part, in such amounts as may be specified by Hospitals, on any Interest Payment Date at the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium.

The Bonds will not be subject to optional redemption between the date of issuance and the initial respective Mandatory Tender Dates shown on the cover page hereof. After the initial Long-Term Interest Rate Period and while any Series of Bonds bear interest at a Long-Term Interest Rate, the Bonds of such Series will be subject to redemption prior to their stated maturity, at the option of the Authority (which option shall be exercised upon request of Hospitals), in whole or in part, in such amounts as may be specified by Hospitals, on the first day of such Long-Term Interest Rate Period at the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium, and thereafter, during the periods specified below (or, if approved by Bond Counsel, such other period or such other redemption prices) in whole or in part on any date, at the redemption prices (expressed as a percentage of principal amount) indicated, plus accrued interest, to the date fixed for redemption:

Length of Long-Term Interest Rate Period (expressed in years)	Redemption Price
greater than 15	Upon and after 10 years at 102% declining by 1% every year to 100%
less than or equal to 15 and greater than 10	Upon and after 7 years at 102% declining by 1% every year to 100%
less than or equal to 10	Not subject to redemption

Notice of Redemption of the Bonds. Notice of redemption will be mailed by the Trustee, in the case of Bonds bearing interest at a Long-Term Interest Rate, no less than 30 days nor more than 60 days, in the case of the redemption of Bonds bearing interest at a Daily Interest Rate, a Weekly Interest Rate or a BIT Rate, no less than 10 days and, in the case of Bonds bearing interest at Auction Rates, no less than 25 days prior to the redemption date, to the respective Holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee, to the remarketing agent, the Broker-Dealer (if any) and the Auction Agent (if any) and to one or more securities information services specified by Hospitals.

Failure by the Trustee to give notice to any one or more of the securities information services or securities depositories or the insufficiency of any such notice shall not affect the sufficiency of the proceedings for redemption. Failure by the Trustee to mail notice of redemption as described herein to any one or more of the respective Holders of any Bonds designated for redemption shall not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed. Notice of redemption of Bonds shall be given by the Trustee, at the expense of Hospitals, for and on behalf of the Authority. As of the date of redemption, interest on the Bonds so called for redemption shall cease to accrue from and after the date fixed for redemption thereof, if, on the date fixed for redemption, sufficient moneys for the redemption of such Bonds, together with interest to the date fixed for redemption, are held by the Trustee for such purposes. Said Bonds shall cease to be entitled to any benefit or security under the Indenture after the date of redemption, and Holders of said Bonds shall have no rights in respect thereof except to receive payment of the Redemption Price plus accrued interest to the date fixed for redemption from funds held by the Trustee for such payment.

Any notice of redemption may be rescinded by written notice given to the Trustee by Hospitals no later than five Business Days prior to the date specified for redemption. The Trustee shall give notice of such rescission as soon thereafter as practicable in the same manner and to the same persons as notice of such redemption was given.

SECURITY FOR THE BONDS

Loan Agreement and Guarantee Agreement

Each Series of Bonds is a limited obligation of the Authority, payable solely from payments made by Hospitals pursuant to the Loan Agreement or by the Guarantors pursuant to the Guarantee Agreement. The obligations of Hospitals and the Guarantors to make such payments are absolute and unconditional. No property or revenues of Hospitals or the Guarantors has been pledged as security for the Bonds. No reserve fund will be established under the Indenture with respect to the Bonds.

Only Hospitals is obligated to make Loan Repayments under the Loan Agreement, and only the Guarantors are obligated to make payments under the Guarantee Agreement. None of the other Health Plan Organizations, the other subsidiaries of Health Plan, Inc. or of Hospitals or any of the Permanente Medical Groups has any obligation to make payments with respect to the Bonds. The ability of Health Plan, Inc. to cause the other Health Plan Organizations to transfer moneys to it to satisfy its obligations under the Guarantee Agreement may be limited significantly or prohibited by the laws of the states in which the other Health Plan Organizations conduct operations. The legal right and practical ability of the Trustee to enforce its rights and remedies against Hospitals under the Loan Agreement and the Guarantors under the Guarantee Agreement and related documents could be limited by laws relating to bankruptcy, insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditors' rights. See "BONDHOLDERS' RISKS—Factors That Could Affect the Enforceability of the Loan Agreement and the Guarantee Agreement" herein.

Pursuant to the Loan Agreement and the Guarantee Agreement, Hospitals and the Guarantors have agreed to comply with various financial covenants. Compliance with these covenants is measured against the combined financial position and results of operations of Hospitals, the Guarantors and their subsidiaries, although only Hospitals is obligated to make payments under the Loan Agreement and only the Guarantors are obligated to make payments under the Guarantee Agreement. The application of the financial covenants to such combined results and financial position may affect, positively or negatively, Hospitals' and the Guarantors' ability to comply with such covenants. In particular, Hospitals and the Guarantors agree that they will not create, assume or suffer to exist any security interest on any property or revenues of any Affiliated Corporation, other than Permitted Encumbrances, unless the obligations of Hospitals under the Loan Agreement shall be secured prior to or equally and ratably with such security interest. Permitted Encumbrances include liens incurred in connection with certain outstanding indebtedness of the Affiliated Corporations, including Sale and Leaseback Transactions, and, within certain limitations, liens securing future indebtedness of the Affiliated Corporations, including Sale and Leaseback Transactions. Hospitals and the Guarantors also agree not to dispose of any of their assets (including cash) or permit any Affiliated Corporation to dispose of any of its assets (including cash) in any Fiscal Year with a net book value in excess of ten percent (10%) of Consolidated Net Tangible Assets (as defined) unless any assets in excess of such limitation are disposed of at a price equal to their fair market value and Hospitals or such Guarantor within one hundred twenty (120) days of such disposition applies (or causes an Affiliated Corporation to apply) the net proceeds of such sale, lease or disposition to either the redemption of long-term Indebtedness of Hospitals or the Guarantors or of any other Affiliated Corporation or the acquisition of additional assets. Other than these covenants and the other covenants described in APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS," there are no covenants that restrict the activities of Hospitals or the Guarantors.

Other

THE BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF OR A PLEDGE

OF THE FAITH AND CREDIT OF THE STATE OF CALIFORNIA OR ANY SUCH POLITICAL SUBDIVISION, OTHER THAN THE AUTHORITY, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR UNDER THE INDENTURE. NEITHER THE STATE OF CALIFORNIA NOR THE AUTHORITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OR PURCHASE PRICE OF THE BONDS, OR THE PREMIUM OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT AND THE INDENTURE, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR PURCHASE PRICE OF OR THE PREMIUM OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.

PLAN OF FINANCE

A portion of the proceeds from the sale of the Bonds and a portion of the proceeds from the sale of the Additional Bonds will be used by Hospitals to finance the cost of certain capital improvements and equipment acquisitions at certain health facilities and related facilities and support service centers owned and operated by Hospitals or Health Plan, Inc. (the "Project").

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Bonds will be applied approximately as set forth below:

Sources of Funds:	
Bond Proceeds	$750,000,000
Total Sources of Funds	$750,000,000
Uses of Funds:	
Project Costs	$745,659,375
Costs of Issuance[(1)]	4,340,625
Total Uses of Funds	$750,000,000

(1) Includes legal, printing, rating agency, accounting, Trustee and Authority fees, underwriting discount and other miscellaneous costs of issuance.

CONTINUING DISCLOSURE

Since the Bonds are limited obligations of the Authority, payable solely from amounts received from Hospitals and the Guarantors, financial or operating data concerning the Authority is not material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds, and the Authority is not providing any such information. Hospitals and the Guarantors have undertaken all responsibilities for any continuing disclosure to Holders of the Bonds, as described below, and the Authority shall have no liability to the Holders of the Bonds or any other person with respect to Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "Rule").

Hospitals and the Guarantors have covenanted for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to Hospitals and the Guarantors by not later than six months following the end of Hospitals' and the Guarantors' fiscal year (which currently is December 31) (the "Annual Report"), commencing with the report for the fiscal year ending December 31, 2004 (due on or before June 30, 2005) and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by Hospitals and the Guarantors with each Nationally Recognized Municipal Securities Information Repository and with a repository designated by the State of California, if any, as the state depository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission (the "State Repository"). As of the date of this Official Statement, there is no State Repository. The notices of material events will be filed by Hospitals and the Guarantors with the State Repository, if any, and with the Municipal Securities Rulemaking Board or each Nationally Recognized Municipal Securities Information Repository. See APPENDIX E – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with the Rule. Hospitals and the Guarantors have never failed to comply in all material respects with any previous undertaking with regard to said Rule to provide annual reports or notices of material events.

Hospitals and the Guarantors additionally have covenanted that they will provide (i) not later than 60 days after the end of each fiscal quarter (except the fourth fiscal quarter), unaudited financial information for the Credit Group for such fiscal quarter, including a balance sheet, a cash flow statement and a consolidated statement of operations, to any Bondholder that requests such information from Hospitals at least two (2) Business Days prior to the end of such fiscal quarter, and (ii) not later than June 30 of each year, the Annual Report to any Bondholder that requests such Annual Report not later than two (2) Business Days prior to the date of filing of the Annual Report with each Nationally Recognized Municipal Securities Information Repository. Any Bondholder who requests such information will continue to receive the quarterly reports and the Annual Reports until such Bondholder requests to no longer receive such information. See APPENDIX E – "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

BONDHOLDERS' RISKS

The purchase of the Bonds involves certain investment risks that are discussed throughout this Official Statement. Accordingly, each prospective purchaser of the Bonds should make an independent evaluation of all of the information presented in this Official Statement in order to make an informed investment decision. Certain of these risks are described below. The risks discussed herein are not intended to be definitive or exhaustive.

General

The Bonds are payable solely from payments received under the Indenture, which consist primarily of payments to be made by Hospitals pursuant to the Loan Agreement and payments from the Guarantors pursuant to the Guarantee Agreement. No representation or assurance can be made that revenues will be realized by Hospitals in amounts sufficient to make the Loan Repayments or by the Guarantors in amounts sufficient to make payments under the Guarantee Agreement and, thus, in amounts sufficient to pay maturing principal of and premium, if any, and interest on the Bonds. Due to the relationships among the members of the Credit Group and the other Health Plan Organizations (including financial guarantees and commitments described under "BONDHOLDERS' RISKS—Kaiser Permanente's Integrated Delivery System and the Managed Care Industry"), industry, competitive and other factors described herein that may adversely affect the other Health Plan Organizations also may adversely affect the Credit Group.

The future financial condition of the Credit Group and the other Health Plan Organizations could be adversely affected by, among other things, legislation (see "BONDHOLDERS' RISKS—Federal and State Legislation and Regulation" below), regulatory actions, increased competition from other health care providers, changing demand for health care services, technological developments and demographic changes, management decisions, changes in the Permanente Medical Groups' arrangements with their respective Health Plan Organizations, confidence of physicians and the public in Hospitals and the Health Plan Organizations, economic trends and events, malpractice claims and other litigation, changes in the rates, timing and methods of payment for the services of health care providers, as well as increased costs and changes in government regulations, including Internal Revenue Service ("IRS") policy regarding tax exemption. There can be no assurance that the financial condition or results of operations of any member of the Credit Group, Hospitals' ability to make payments under the Loan Agreement, or the Guarantors' ability to make payments under the Guarantee Agreement will not be adversely affected by the factors described herein.

Kaiser Permanente's Integrated Delivery System and the Managed Care Industry

Kaiser Permanente integrates the institutional, payor and professional components of medical care in a unified delivery model through the relationships among Hospitals, the Health Plan Organizations and the Permanente Medical Groups (described under "INTRODUCTORY STATEMENT—Kaiser Permanente"). Establishment and maintenance of such an integrated delivery system can be capital intensive and may create certain business and legal liabilities for the entities that together comprise the health system. Hospitals and Health Plan, Inc. have entered into a guarantee agreement under which they guarantee all of the obligations of each other and of substantially all of the other Health Plan Organizations. Hospitals and some of the Health Plan Organizations have invested and may continue to invest material amounts of money or other resources in related entities. These investments are primarily loans but also include, in limited cases, equity investments. In some cases, Hospitals and Health Plan, Inc. provide a financial guarantee for the debt of a related entity or may have an ongoing financial commitment to provide growth capital or support operating deficits, which may be substantial on an annual or aggregate basis. While many benefits may be derived from such alliances in an integrated system, many risks also are involved, and, therefore, invested capital is subject to loss. As a result of these guarantees and commitments, risks that may adversely affect the results of operations or financial condition of the other Health Plan Organizations may have a corresponding adverse effect on Hospitals and/or Health Plan, Inc.

All integrated delivery systems carry with them the potential for legal or regulatory risks in varying degrees. Questions of federal or state tax exemption may arise (see "BONDHOLDERS' RISKS—Tax-Exempt Status of Hospitals and the Health Plan Organizations" below). Other legal and regulatory areas of risk include fraud and abuse laws, employment and managed care liability, particularly in the current atmosphere of frequent and often unpredictable changes in federal and state legal requirements regarding the delivery of health care and the practice of medicine. There can be no assurance that such issues and risks will not adversely affect the results of operations or financial condition of the Credit Group or the other Health Plan Organizations.

The Health Plan Organizations and the Permanente Medical Groups historically have functioned in close cooperation, with mutually exclusive working and contractual relationships, and the Health Plan Organizations and Permanente Medical Groups continue to function in this way. Although management of Hospitals and the Health Plan Organizations believes that these relationships will continue, there can be no assurance that the relationships will continue or, if they do, that they will continue in their present form. The failure to maintain or a significant adverse change in the relationship between any of the Health Plan Organizations and any of the Permanente Medical Groups could adversely affect the business, financial condition and results of operations of Hospitals and the Health Plan Organizations.

In a prepaid integrated delivery system such as Kaiser Permanente, dues paid by individual members and groups may not cover the actual cost of providing the contracted-for services. In addition, there typically is a delay, which can be significant, between the announcement of rate increases and the receipt of funds reflecting such increases. The failure to obtain and maintain dues rates that adequately cover health care costs or to obtain anticipated rate increases in a timely manner could have an adverse effect on the ability of Hospitals to make Loan Repayments and the Guarantors to make payments under the Guarantee Agreement and could otherwise adversely affect the financial condition or results of operations of the other Health Plan Organizations. In addition, the number of members who enroll in the Health Plan Organizations, including Health Plan, Inc., is difficult to predict on an annual basis. A decline in the membership of Health Plan, Inc. and/or the other Health Plan Organizations could have a material adverse effect on the business, financial condition and results of operations of Hospitals and the Health Plan Organizations.

The managed health care industry is very competitive. See "BONDHOLDERS' RISKS—Competition" below. To remain competitive, managed care companies must be capable of attracting and maintaining members, which may require, in certain circumstances, that Health Plan, Inc. or the other Health Plan Organizations aggressively price their products. There is no assurance that Health Plan, Inc. or the other Health Plan Organizations will retain their membership contracts or obtain other similar contracts in the future or that the number of members serviced under contracts will remain stable or increase. Failure to retain contracts or members under such contracts could result in a reduction of Hospitals', Health Plan, Inc.'s or the other Health Plan Organizations' competitive position and revenues. Failure to obtain adequate members' dues or reimbursement from government payors could adversely affect the Credit Group's results of operations and financial condition. For information concerning membership trends, see "THE CREDIT GROUP—Membership" herein.

As a consequence of the above factors, the effect of the managed care environment on the financial condition of the Credit Group is difficult to predict and may be different in the future than that reflected in the financial statements contained in this Official Statement. See "THE CREDIT GROUP—Management's Discussion of Financial Position and Analysis and Results of Operations" herein and APPENDIX A – "COMBINED FINANCIAL STATEMENTS OF KAISER FOUNDATION HEALTH PLAN, INC. AND SUBSIDIARIES AND KAISER FOUNDATION HOSPITALS AND SUBSIDIARIES."

Competition

Managed care organizations operate in a highly competitive industry that has undergone significant change in recent periods as a result of business consolidations, new strategic alliances, aggressive marketing practices by competitors and other market pressures. Increased competition from a wide variety of potential sources, including, but not limited to, other hospitals, inpatient and outpatient health care facilities, clinics, physicians, large insurers, health maintenance organizations, preferred provider organizations, physician hospital organizations, physician services organizations, third party administrators and others, may adversely and increasingly affect the revenues of the Credit Group and the other Health Plan Organizations. Existing and potential competitors may not be subject to various regulations and restrictions applicable to the Credit Group and the other Health Plan Organizations, and may be more flexible in their ability to adapt to competitive opportunities and risks. Competition may arise from new sources not currently anticipated or prevalent. While the effect of such actions is uncertain, it can be expected to increase competition in the health care field generally, and the business, financial condition and results of operations of the Credit Group and the other Health Plan Organizations could be adversely affected thereby.

The managed care industry is subject to continuing changes in how services are provided and how providers are selected and paid. Increased enrollment in prepaid health care plans as a result of health care reform or other reasons and increased participation by physicians in group practices, among other factors, may attract new entrants into the managed care industry and result in increased competition for the Credit Group and the other Health Plan Organizations. There can be no assurance that the Credit Group and the other Health Plan Organizations will be able to compete effectively, that additional competitors will not enter the market, or that such competition will not make it more difficult to develop, consolidate and manage integrated health care delivery networks on terms beneficial to the Credit Group and the other Health Plan Organizations. In addition, nontraditional competitors such as for-profit health care systems may be evaluating entry into the markets in which the Credit Group and the other Health Plan Organizations provide health care. The entry of one or more for-profits could have an impact on the revenues and profitability of the Credit Group and the other Health Plan Organizations. For-profit enterprises may have access to capital at a lower cost or on more favorable terms than Kaiser Permanente and other nonprofit health care systems. In addition, these for-profit providers might not be subject to all of the restrictions to which the Credit Group and the other Health Plan Organizations are subject as a result of their tax-exempt status. See "BONDHOLDERS' RISKS—Tax-Exempt Status of Hospitals and the Health Plan Organizations" herein.

Additionally, scientific and technological advances, new procedures, drugs and appliances, preventive medicine, occupational health and safety and outpatient health care delivery may reduce revenues of the Credit Group and the other Health Plan Organizations in the future. Technological advances in recent years have accelerated the trend toward the use by hospitals and other health care providers of sophisticated and costly equipment and services for diagnosis and treatment. The acquisition and operation of certain equipment or services may continue to be a significant factor in hospital and other provider utilization, but the ability of the Credit Group and the other Health Plan Organizations to offer such equipment or services may be subject to the availability of equipment or specialists, governmental approval or the ability to finance such acquisitions or operations.

State Budgets

Since early 2001, many states, including states in which Health Plan Organizations operate, have faced severe financial challenges, which may continue for several years. Such states experienced an economic recession in 2001 and a sluggish recovery in 2002 and 2003 accompanied by large stock market declines, with attendant declines in capital gains realizations, and significant employment reductions. These adverse economic factors have resulted in a serious erosion of general fund tax revenues, including personal and corporate income tax receipts. For example, the state of California, where over 75% of Health Plan Organizations members reside, in particular, faces a significant gap between the expected level of tax and other continuing revenues and projected expenditures under current programs for the fiscal year 2004-05. These factors have resulted in a shortfall between the revenues and spending demands for the relevant fiscal years of such states. It is expected that such shortfall for the current and upcoming fiscal years ultimately will be closed with a combination of expenditure reductions, debt issuance and certain budgetary actions, such as fund transfers, expenditure deferrals and fund shifts.

These financial challenges facing such states may negatively affect Hospitals and the Health Plan Organizations in a number of ways, including but not limited to, a greater number of indigent patients who are unable to pay for their care. See "BONDHOLDERS' RISKS—Indigent Care" herein. In addition, such states may seek to generate revenue by increasing tax rates, changing the treatment of income currently treated as tax-exempt, limiting or decreasing enrollment in publicly subsidized programs in which Health Plan Organizations participate, such as Medicare or Medicaid, decreasing the state work force, decreasing the reimbursement rates for publicly subsidized programs and/or increasing the frequency of regulatory investigations and resulting penalty actions.

Federal and State Legislation and Regulation

The Credit Group and the other Health Plan Organizations are subject to a wide variety of federal, state and local regulatory actions and legislative and policy changes that could have a significant impact on such entities. Federal, state and local legislative bodies have broad discretion in altering or eliminating programs that contribute significantly to the revenues of the Credit Group and the other Health Plan Organizations, including but not limited to the Medicare and Medicaid programs. Recently, for example, a comprehensive Medicare reform bill was enacted that includes prescription drug coverage for senior citizens and modifications to the methods by which private health plans providing Medicare coverage will contract with the government to provide that coverage in the future. There can be no assurance that, as implemented, Medicare reform would not have a material adverse effect on the business, financial condition and results of operations of the Credit Group or the other Health Plan Organizations. In addition, federal, state and local legislative entities may enact legislation that imposes significant new burdens on the operations of the Credit Group and the other Health Plan Organizations. Changes in applicable laws and regulations are continually being considered, and the interpretation of existing laws and rules also may change periodically. There can be no assurance that future health care legislation or other changes in the administration or interpretation of governmental health care programs or policies will not have a material adverse effect on the business, financial condition and results of operations of the Credit Group or the other Health Plan Organizations.

Health care, as one of the largest industries in the United States, continues to attract much legislative interest and public attention. During the past two decades, an increasing number of legislative proposals have been introduced or proposed in Congress and in certain state legislatures that would effect significant changes in the health care system, either nationally or at the state level. There can be no assurance that future health care legislation or other changes in the administration or interpretation of governmental health care programs will not have a material adverse effect on the business, financial condition and results of operations of the Credit Group or the other Health Plan Organizations.

Fraud and Abuse Enforcement

General. Health care fraud and abuse laws have been enacted at the federal and state levels to regulate both the provision of services to government program beneficiaries and the methods and requirements for submitting claims for services rendered to such beneficiaries. Under these laws, individuals and organizations can be penalized for various activities, including submitting claims for services that are not provided, billed in a manner other than as actually provided, not medically necessary, provided by an improper person, accompanied by an illegal inducement to utilize or refrain from utilizing a service or product, or billed in a manner that does not comply with applicable government requirements. Congress has extended the scope of certain fraud and abuse laws to include non-governmental private health care plans.

Federal and state governments have a range of criminal, civil and administrative sanctions available to penalize and remediate health care fraud and abuse, including exclusion of the provider from participation in the Medicare/Medicaid programs, civil money penalties, and suspension of payments. Fraud and abuse cases may be prosecuted by one or more government entities and/or private individuals, and more than one of the available penalties may be imposed for each violation.

Laws governing fraud and abuse apply to virtually all individuals and entities with which a health care provider does business. Fraud and abuse prosecutions can have a material adverse effect on such entities and potentially a material adverse impact on the financial condition of other entities in the integrated health care delivery system of which that entity is a part.

Criminal Fraud and Abuse Liability. Both individuals and organizations are subject to prosecution under the criminal fraud and abuse statutes. The prosecutions usually focus on individuals, but corporations sometimes are prosecuted as well. Many cases against corporations are settled without indictment. The sentencing of organizations for federal health care crimes is governed by the U.S. Sentencing Guidelines, which permit the imposition of substantial fines but which permit the fine to be reduced significantly if the provider had in place at the time of the crime an effective corporate compliance program and/or accepts responsibility for its actions. See "BONDHOLDERS' RISKS—Fraud and Abuse Enforcement—Compliance Program" herein.

Criminal False Claims Act. The criminal False Claims Act ("criminal FCA") makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government. Violation of the criminal FCA can result in imprisonment for up to five years and/or a fine of the greater of twice the gross gain or loss from the offense, or $250,000 for an individual or $500,000 for an organization. To the extent the government cannot prove criminal intent or meet its burden of proving a false claim beyond a reasonable doubt, the same conduct can typically be prosecuted under civil statutes, notably the civil FCA (described below), that can be used to prosecute reckless conduct.

Anti-Kickback Law. The federal Anti-Kickback Law is a criminal statute that prohibits anyone from knowingly or willfully soliciting, receiving, offering or paying any remuneration, directly or indirectly, overtly or covertly, in cash or in kind, in return for a referral (or to induce a referral) for any item or service that is covered by any federal or state health care program. The Anti-Kickback Law applies to many persons and entities with which a health plan or hospital does business. In recent years, it has been aggressively enforced.

Violation of the Anti-Kickback Law is a felony, subject to a maximum fine of $250,000 for each criminal act, imprisonment for up to five years and exclusion from the Medicare and Medicaid programs. The Office of the Inspector General ("OIG"), the enforcement arm of the Department of Health and Human Services ("DHHS"), also can initiate an administrative exclusion of a provider from the Medicare and Medicaid programs. In addition, civil monetary penalties of $10,000 per item or service in noncompliance ($50,000 in some cases) and an "assessment" of three times the amount claimed may be imposed for some violations.

The outcome of any government efforts to enforce the Anti-Kickback Laws against health care providers is difficult to predict. Health care providers may act to reduce their financial exposure for Anti-Kickback violations through prompt repayment of sums received as a result of inaccurate claims, prompt voluntary reporting to the government of illegal arrangements and the implementation of effective corporate compliance programs. See "BONDHOLDERS' RISKS—Fraud and Abuse Enforcement—Compliance Program" herein.

Civil Fraud and Abuse Liability. Unlike criminal statutes that require the government to prove that the health care provider knowingly committed the criminal act or intended to violate the law, civil statutes may be violated simply by the provider's participation in a prohibited financial arrangement or knowledge that its submission of claims are not in full compliance with the law.

Civil False Claims Act. The civil False Claims Act ("civil FCA") allows the United States government to recover significant damages from persons or entities that submit fraudulent claims for payment to any federal agency. The government, through the United States Attorney's Office or the Department of Justice, also may file a civil FCA action. The civil FCA also permits individuals to initiate actions on behalf of the government in lawsuits called *qui tam* actions. These *qui tam* plaintiffs, or "whistleblowers," can share in damages recovered by the government. The civil FCA has become one of the government's primary weapons against health care fraud.

Referral Laws. In addition to the federal laws referenced above, federal and state laws regulate and to some extent prohibit referrals by physicians to hospitals with which they may have a financial relationship, usually consisting of an ownership interest or a compensation arrangement. While such laws can have an impact upon such hospital's ability to transact business with physicians, the law also has a broad set of exemptions that protects many of the arrangements among the Health Plan Organizations, between the Health Plan Organizations and physicians, between Hospitals and the Health Plan Organizations, and between Hospitals and physicians.

Federal law restricts the referral of certain specified services if the physician and the entity receiving the referral have a financial interest. Hospitals does not have a compensation arrangement with any physician (except certain hospital-based physicians or residents), and, therefore, management of the Credit Group believes that the terms of the federal anti-referral laws do not apply to Hospitals' interactions with physicians (as physicians do not have any ownership interest in Hospitals). Health Plan, Inc. and the other Health Plan Organizations have compensation arrangements with physicians, but there is an exemption from the federal anti-referral laws for services provided to enrollees of federally qualified health maintenance organizations and to organizations under contract to the Centers for Medicare and Medicaid Services ("CMS").

Various states, including California, have adopted laws that restrict or prohibit referrals between physicians and entities with which they have financial relationships. These laws are similar to but differ in some respects from the federal anti-referral laws. However, these laws also incorporate exceptions or exemptions from the laws similar to those conferred by federal law. Management of the Credit Group believes that the relationships between physicians and Hospitals and between physicians and the Health Plan Organizations would be subject to the same protections as discussed above.

These laws in some respects are vague, and it is impossible to ascertain if every transaction would be exempt from the operation of these laws or their respective penalties. Hospitals and the Health Plan Organizations believe that they are in compliance with these laws.

Enforcement Activity. In the current regulatory climate, it is anticipated that many hospitals and physician groups will be subject to an investigation, audit or inquiry regarding billing practices or false claims. From time to time, Hospitals or a Health Plan Organization has been the subject of government investigations, audits or inquiries. Hospitals or a Health Plan Organization may also be the subject of such investigations, audits or inquiries in the future. For example, in the past several years, Health Plan, Inc. received subpoenas from the Department of Justice related to the government's investigation of drug purchase agreements. Health Plan, Inc. is cooperating with the government in these investigations.

The cost of defending an enforcement action, the time and management attention consumed thereby and the facts of a particular case may dictate settlement. Therefore, regardless of the merits of a particular case or cases, Hospitals and/or the affected Health Plan Organization could experience materially adverse settlement costs, as well as materially adverse costs associated with implementation of any settlement agreement. Prolonged and publicized investigations could be damaging to the reputation, business and credit of the Credit Group, regardless of the outcome, and could have material adverse consequences on the financial condition of the Credit Group.

Compliance Program. The vision of the Health Plan, Inc. and Hospitals Compliance, Ethics, and Integrity Program ("Compliance Program") is to strengthen Kaiser Permanente by fostering a work environment that promotes honesty and fairness in its dealings, integrity in its decisions, ethics in its actions, and compliance with the law. Compliance is defined as the systematic adherence to federal, state, and local laws and regulations, licensing requirements, and accreditation standards. The mission of the Compliance Program is compliance risk reduction. The Compliance Program strives to hold employees

and business partners to high standards of ethics and integrity upon which members and communities can rely.

The Chief Compliance Officer of Health Plan, Inc. and Hospitals reports directly to, and seeks guidance from, the Chief Executive Officer and the Audit and Compliance Committee of the Health Plan, Inc. and Hospitals Board of Directors. Regional Compliance Officers have dual reporting to the Chief Compliance Officer and Regional President or designee. The primary objectives of the Compliance Program are to identify and mitigate or eliminate specific compliance risks and, ultimately, reduce overall compliance risk to the organization. In carrying out the mission of compliance risk reduction, the Compliance Program uses a framework for a comprehensive compliance management system that is based on recommendations from the U.S. Department of Health and Human Services Office of the Inspector General. The framework incorporates elements fundamental to an effective Compliance Program in three phases; plan, do, and check.

∉ In the "plan" phase, a compliance infrastructure is developed by establishing compliance accountabilities, compliance resources, compliance plans, compliance committees, and relations with external agencies.

∉ In the "do" phase, compliance is integrated into operations through analysis of compliance requirements, compliance policies, standards and metrics, compliance procedures and controls, compliance training, compliance monitoring and reporting.

∉ In the "check" phase, compliance effectiveness is validated by performing independent compliance risk assessments and audits.

In addition to utilizing a compliance management system framework to achieve the Compliance Program mission and vision, ethics and integrity initiatives are integral to the program. This includes overseeing the code of conduct, developing ethics and integrity policies and procedures, providing compliance and ethics training, maintaining a national hotline to report compliance and ethics concerns, and requiring periodic disclosures of conflicts of interest from the Health Plan, Inc. and Hospitals Board of Directors, senior leaders, and other key individuals in positions of authority.

The Compliance Program provides strategic direction, coordination, and oversight of compliance activities throughout the organization. Compliance programs exist at all levels of the organization, comprising a network of compliance professionals across all business units, each with unique understanding and insight of compliance risk. These unique perspectives, represented in National Compliance planning and reporting forums, are essential for achieving the vision and mission of the Compliance Program. One of the reasons management has implemented the Compliance Program is to reduce Hospitals' and the Health Plan Organizations' exposure to violations of the criminal FCA or the civil FCA, Anti-Kickback or other criminal or civil violations. Federal law recognizes effective compliance programs can significantly reduce exposure to civil and criminal penalties. However, because the government's enforcement efforts presently are widespread within the industry, there can be no assurance that the Compliance Program will significantly reduce or eliminate the exposure of Hospitals and the Health Plan Organizations. Enforcement authorities are in a position to compel settlements by providers charged with fraud and abuse violations by withholding or threatening to withhold Medicare, Medicaid and/or similar payments and/or by threatening criminal action. In addition, the cost of defending such an action, the time and management attention consumed thereby and the facts of a particular case may dictate settlement. Therefore, regardless of the merits of a particular case or cases, the affected entity could experience materially adverse settlement or judgment costs.

Other Statutory and Regulatory Sources of Liability for Health Care Providers

Health care providers are subject to prosecution under a variety of federal laws in addition to those discussed in the previous paragraphs, notably the following:

HIPAA. The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") established criminal sanctions for health care fraud and applies to all health care benefit programs, whether public or private. HIPAA also provides punishment of a health care provider for knowingly and willfully embezzling, stealing, converting or intentionally misapplying any money, funds, securities, premiums, credits, property, or other assets of a health care benefit program. A health care provider convicted of health care fraud would be subject to mandatory exclusion from the Medicare program.

Pursuant to HIPAA, DHHS has finalized regulations addressing the confidentiality and security of individuals' health information. Disclosure of protected health information is prohibited unless expressly permitted under the provisions of the regulations or authorized by the patient. HIPAA established civil monetary penalties for violations of the privacy and security laws and additionally established criminal penalties for knowingly and illegally obtaining or using individually identifiable health information. Such penalties range from $50,000 and/or imprisonment for up to one year to an amount not to exceed $250,000 and/or imprisonment for up to ten years if the information was obtained or used with the intent to sell, transfer or use such information for commercial advantage, personal gain or malicious harm.

Hospitals and the Health Plan Organizations comply with the HIPAA privacy rules, which became effective April 14, 2003. Hospitals and the Health Plan Organizations have appointed a national privacy officer and privacy officers in each of the regions to oversee their privacy practices and monitor HIPAA privacy compliance. Hospitals and the Health Plan Organizations have also instituted new policies and procedures throughout the organization to support and comply with the HIPAA privacy rules. As required by HIPAA, Hospitals and the Health Plan Organizations have provided the Kaiser Permanente notice of privacy practices to the households of its members. The notice includes information about the rights of the members and the practices of Hospitals and the Health Plan Organizations in handling the protected health information of its members. Hospitals and the Health Plan Organizations are developing the processes necessary to meet the compliance deadlines for electronic data interchange transactions, code sets, employer identifier standards and security standards. Hospitals and the Health Plan Organizations are in the process of coming into compliance with the HIPAA security rules that become effective April 21, 2005.

EMTALA. The Emergency Medical Treatment and Active Labor Act ("EMTALA") is a federal civil statute that requires hospitals with emergency rooms to treat or conduct an appropriate medical screening for emergency conditions (including active labor) on all patients and to stabilize a patient's emergency medical condition before releasing, discharging or transferring the patient to another hospital. A hospital that violates EMTALA is subject to civil penalties of up to $50,000 per offense and exclusion from the Medicare and Medicaid programs. In addition, the hospital is liable for any claim by an individual who has suffered harm as a result of such violation.

Medicare

Hospitals and the Health Plan Organizations are qualified to receive payment for services under the Medicare program. Over 23% of the total operating revenues of the Credit Group for the fiscal year ended December 31, 2003 were derived from the Medicare program. The requirements for receipt of Medicare payment are subject to change, and, in order to remain qualified for the program, it may be

necessary for Hospitals and the Health Plan Organizations to make changes from time to time in their facilities, equipment, personnel, billing processes, policies and services.

Medicare is administered by the CMS. Medicare consists of two primary parts: Part A, which covers inpatient hospitalization, skilled nursing facility care and home health agency care, and Part B, which covers physician and other outpatient services. Part C of Medicare established the Medicare+Choice program, under which managed care plans such as the Health Plan Organizations may contract with CMS to provide care to Medicare beneficiaries in exchange for a prepaid, capitated, payment set by CMS. In so doing, the managed care plan assumes full financial risk on a prospective basis for the provision of all Medicare-covered services. The Health Plan Organizations have a number of Medicare+Choice contracts, including two demonstration groups, with CMS. As of December 31, 2003, there were approximately 658,303 Health Plan, Inc. members enrolled in these contracts, including the demonstration groups. The Health Plan Organizations also have managed care contracts with CMS under which they are paid on a cost basis. As of December 31, 2003, there were approximately 20,103 Health Plan, Inc. members enrolled in these cost-based contracts.

A great majority of the Health Plan Organizations' Medicare revenue derives from these managed care contracts. Most of Hospitals' Medicare revenue derives from payments made by the Health Plan Organizations to Hospitals for services provided to members enrolled in the Health Plan Organizations' Medicare+Choice contract with CMS. Hospitals also receives less than 1% of its Medicare revenue directly from CMS for providing services to (1) Health Plan Organization members enrolled in the cost-based managed care contracts, (2) Medicare-eligible Health Plan Organization members not enrolled in a Medicare contract, and (3) Medicare beneficiaries who are not Health Plan Organization members. This revenue is based on the same DRG payment schedule used to pay other hospitals that bill Medicare on a fee-for-service basis. There is no guarantee that DRG rates, as they change from time to time, particularly as they may be increased or decreased to account for direct and indirect medical education payments, transfer payments, bad debt reimbursement, and disproportionate share hospitals, will cover the actual costs of providing services to these Medicare cost-based members and non-member patients.

The prepaid capitation payments from CMS under the Health Plan Organizations' Medicare+Choice contracts involve greater risk than Medicare fee-for-service payments or the cost-based Medicare managed contract with CMS. However, the Health Plan Organizations have significant experience and expertise in providing comprehensive medical care to commercial (*i.e.* non-Medicare) members in return for prepaid capitated payments. The major difference with the Medicare+Choice contract is that the capitation payment rates are set by CMS rather than the marketplace and are non-negotiable. These rates vary greatly by geographic area, and the variations do not necessarily correspond with variations in the Health Plan Organizations' costs to provide or arrange care for Medicare+Choice members. In addition, year-to-year rate stability can be a problem because CMS may over- or under-forecast the financial factors that make up the rates and may make adjustments to future years' rates to correct for errors in previous forecasts. Therefore, rate increases may not necessarily synchronize with increases in general medical inflation. Congress has been very active in this area, enacting legislation changing Medicare managed care payments frequently during the last five years. This volatile legislative atmosphere makes it difficult to forecast CMS capitation methodologies and rates and, thus, Medicare revenue with certainty. Nevertheless, lobbying efforts by the managed care industry, by beneficiary advocacy groups, and providers, to stabilize and ensure the viability of Medicare managed care plans and the desire of many in Congress to offer Medicare beneficiaries alternatives to the original Medicare fee-for-service program have tended to keep Congress and CMS from making extreme changes in capitation payment rates and have inclined both bodies to adopt legislative and regulatory mitigating efforts when prior legislation has resulted in unintended negative consequences to the Medicare managed care industry.

Tax-Exempt Status of Hospitals and the Health Plan Organizations

Maintenance of the Tax-Exempt Status of the Credit Group Members and the Other Health Plan Organizations. The tax-exempt status of the outstanding tax-exempt debt issued for the benefit of the Credit Group and the other Health Plan Organizations presently depends upon maintenance by each of the Credit Group members and the other Health Plan Organizations of its status as an organization described in section 501(c)(3) of the Code. The maintenance of such status is contingent on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable and educational purposes and their avoidance of transactions that may cause their earnings or assets to inure to the benefit of private individuals. As these general principles were developed primarily for public charities that do not conduct large-scale technical operations and business activities, they often do not adequately address the myriad of operations and transactions entered into by a modern health care organization. Although traditional activities of health care providers, such as medical office building leases, have been the subject of interpretations by the IRS in the form of Private Letter Rulings, many activities or categories of activities have not been addressed in any official opinion, interpretation or policy of the IRS.

In recent years, the IRS has issued a number of formal and informal statements of policy and interpretation that have increased uncertainty over the IRS's position on a wide variety of activities commonly undertaken by health care organizations. As a result, tax-exempt health care providers currently are subject to an increased degree of scrutiny and enforcement activity by the IRS.

In recent years, the IRS has increased the frequency and scope of its audit and other enforcement activity regarding tax-exempt health care organizations. If the IRS were to find that Hospitals, any Guarantor or any of the Health Plan Organizations has participated in activities in violation of certain regulations or rulings, the tax-exempt status of such entity could be in jeopardy. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit health care corporations, it could do so in the future. Loss of tax-exempt status by Hospitals, any Guarantor or any of the Health Plan Organizations potentially could result in loss of tax exemption of the tax-exempt debt of the Credit Group members, and defaults in covenants regarding the tax-exempt debt and other obligations likely would be triggered. Loss of tax-exempt status also could result in substantial tax liabilities on income of the Credit Group members or the affected Health Plan Organization. For these reasons, loss of tax-exempt status of Hospitals, any Guarantor or any of the Health Plan Organizations could have a material adverse effect on the financial condition of the Credit Group and the other Health Plan Organizations.

In lieu of revocation of exempt status, the IRS may impose penalty excise taxes on certain "excess benefit transactions" involving 501(c)(3) and 501(c)(4) organizations and "disqualified persons." An excess benefit transaction is one in which a disqualified person or entity receives more than fair market value from the exempt organization or pays the exempt organization less than fair market value for property or services, or shares the net revenues of the tax-exempt entity. A disqualified person is a person (or an entity) who is in a position to exercise substantial influence over the affairs of the exempt organization during the five years preceding an excess benefit transaction. The statute imposes excise taxes on the disqualified person and any "organization manager" who knowingly participates in an excess benefit transaction. The intermediate sanctions rules do not penalize the exempt organization itself, so there would be no impact on Hospitals, the Guarantors and the other Health Plan Organizations or the tax status of the Bonds if an excess benefit transaction were subject to IRS enforcement.

In a number of recent cases, the IRS has imposed substantial monetary penalties on tax-exempt hospitals in lieu of revoking their tax-exempt status. In such cases, the IRS and such exempt hospitals entered into "closing agreements" with respect to the hospitals' alleged violations of certain informal

physician recruiting guidelines applied by the IRS. The closing agreements require such hospitals to make substantial tax payments to the IRS.

Since 1990, the IRS has been conducting audits of large tax-exempt health care organizations. To qualify for the audit program (the "Audit Program"), a taxpayer must have at least $500 million in assets or $1 billion in gross receipts. Such audits are conducted by teams of revenue agents, often take years to complete and require the expenditure of significant staff time by both the IRS and taxpayers. Revenue agents often occupy office space on the taxpayer's premises for the duration of the audit. The audits are led by senior Tax Exempt and Government Entities Division revenue agents who examine a wide range of possible issues, including the community benefit basis of exemption, private inurement and private benefit, partnerships and joint ventures, retirement plans and employee benefits, employment taxes, tax-exempt bond financing, political contributions and unrelated business taxable income.

The Credit Group and the other Health Plan Organizations qualify for the Audit Program. There is no assurance that Hospitals, any Guarantor or any other Health Plan Organization will not be the subject of the Audit Program in the future. The Credit Group and the other Health Plan Organizations believe that they have properly complied with the tax laws. Nevertheless, because of the complexity of the tax laws and the presence of issues about which reasonable persons can differ, an audit pursuant to the Audit Program could result in additional taxes, interest and penalties. Such an audit ultimately could affect the tax-exempt status of Hospitals, any Guarantor or any other Health Plan Organization as well as the exclusion from gross income for federal income tax purposes of the interest payable on the tax-exempt debt of such entity.

State Income Tax Exemption and Local Property Tax Exemption. It is likely that the loss by Hospitals, any Guarantor or any other Health Plan Organization of federal tax exemption would also trigger a challenge to the state tax exemption of such entity. Depending on the circumstances, such event could have a material adverse effect on the financial condition of the Credit Group and the other Health Plan Organizations.

In recent years, state, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt health care providers with respect to real property tax exemptions. In some cases, particularly where such authorities are dissatisfied with the amount of services provided to indigents, the real property tax-exempt status of the health care providers has been questioned. A substantial portion of the real property of the Credit Group and the other Health Plan Organizations is exempt from real property taxation. An investigation or audit could lead to a challenge that ultimately could affect the real property tax exemption of the Credit Group and the other Health Plan Organizations.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of not-for-profit corporations. There can be no assurance that future changes in the laws and regulations of state or local governments will not materially adversely affect the operations and financial condition of the Credit Group and the other Health Plan Organizations by requiring any of them to pay income or local property taxes.

Unrelated Business Income. In recent years, the IRS and state, county and local tax authorities have been undertaking audits and reviews of the operations of tax-exempt hospitals with respect to their exempt activities and the generation of unrelated business taxable income ("UBTI"). The Credit Group and other Health Plan Organizations participate in activities that may generate UBTI. An investigation or audit could lead to a challenge that could result in taxes, interest and penalties with respect to unreported UBTI and in some cases ultimately could affect the tax-exempt status of the Credit Group and the other

Health Plan Organizations, as well as the exclusion from gross income for federal income tax purposes of the interest payable on the tax-exempt debt of such entities.

Maintenance of Tax-Exempt Status of Interest on the Bonds

The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds, limitations on the investment earnings of bond proceeds prior to expenditure, a requirement that certain investment earnings on bond proceeds be paid periodically to the United States, and a requirement that the issuers file an information report with the IRS. The Credit Group covenanted in certain of the documents referred to herein that they will comply with such requirements. Future failure by the Credit Group to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Bonds as taxable, retroactively to the date of issuance. The Authority has covenanted in certain of the documents referred to herein that it will not take any action or refrain from taking any action that would cause interest on the Bonds to be included in gross income for federal income tax purposes.

IRS officials have recently indicated that more resources will be invested in audits of tax-exempt bonds in the charitable organization sector. The Bonds may be, from time to time, subject to audits by the IRS. The Credit Group believes that the Bonds properly comply with the tax laws. In addition, Bond Counsel will render an opinion with respect to the tax-exempt status of the Bonds, as described under the caption "TAX MATTERS." The Credit Group has not sought to obtain a private letter ruling from the IRS with respect to the Bonds, and the opinion of Bond Counsel is not binding on the IRS. There is no assurance that an IRS examination of the Bonds will not adversely affect the market value of the Bonds. See "TAX MATTERS" herein.

Indigent Care

Tax-exempt health care providers often treat large numbers of indigent patients who are unable to pay for their medical care. These health care providers may be susceptible to economic and political changes which could increase the number of indigents or their responsibility for caring for this population. General economic conditions which affect the number of employed individuals who have health coverage will similarly affect the ability of patients to pay for their care. Similarly, changes in governmental policy, which may result in coverage exclusions under local, state and federal health care programs (including Medicare, Medi-Cal and Medicaid) may increase the frequency of indigent care by such hospitals and other providers. It also is possible that future legislation could require that tax-exempt health care providers maintain minimum levels of indigent care as a condition to federal income tax exemption or local property tax exemption. In sum, such potential additional indigent care commitments of the Credit Group and the other Health Plan Organizations could have a material adverse effect on the financial condition of such entity.

Labor Relations

Collective Bargaining. Health care providers often are large employers with a wide diversity of employees. Increasingly, employees of health care providers are becoming unionized, and many health care providers have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade and support personnel. The Credit Group and the other Health Plan Organizations have employees covered by collective bargaining agreements.

In 1997, Kaiser Permanente entered into a National Labor Management Partnership Agreement ("Partnership Agreement") with eight international unions and 26 local unions. In 2000, Kaiser Permanente and the Coalition of Kaiser Permanente Unions concluded a national bargaining agreement ("National Agreement"). This National Agreement is a supplement to the local collective bargaining agreements of unions participating in the Partnership Agreement (the "Partnership Unions"). The National Agreement extended most expiration dates of the Partnership Union contracts by five years. These contracts will expire in 2005. Management expects to renegotiate these agreements upon or prior to their expiration in 2005. While management is not predicting a problem, it cannot predict whether there will be difficulty renewing the agreements, and the process could result in a labor stoppage. If that occurs, it could have a material adverse impact on the business, financial condition and results of operations of Hospitals and the Health Plan Organizations. See "THE CREDIT GROUP—Employees."

Health Care Worker Classification. Health care providers, like all businesses, are required to withhold income taxes from amounts paid to employees. If the employer fails to withhold the tax, the employer becomes liable for payment of the tax imposed on the employee. On the other hand, businesses are not required to withhold federal taxes from amounts paid to a worker classified as an independent contractor. The IRS has established criteria for determining whether a worker is an employee or an independent contractor for tax purposes. Because misclassification of workers as independent contractors has led to significant annual losses from social security and unemployment taxes, the IRS, through the Employment Tax Examination Program, has assessed many millions of dollars in back taxes and penalties against a wide variety of businesses and has forced the reclassification of hundreds of thousands of workers.

The Credit Group and the other Health Plan Organizations believe they currently correctly classify workers as employees or independent contractors for tax purposes. However, if workers are incorrectly classified, the effect on the result of operations of the affected Credit Group member or Health Plan Organization may be material and adverse.

Staffing. Effective January 1, 2004, the California Department of Health Services implemented nurse staffing ratios for all patient care areas. In July 2001, Hospitals and Health Plan, Inc. endorsed a proposed minimum ratio of one nurse to every four patients in general medical and surgical wards, which is more stringent than the ratios announced by the Department of Health Services. Once implementation on the general and medical surgical wards has been completed, Hospitals and Health Plan, Inc. will complete staffing ratios across all hospital units at ratios endorsed by the UNAC/SEIU Nurse Alliance which are the same or more stringent than the ratios announced by the Department of Health Services and ratios mandated by other regulations. Management estimates an up-front cost increase of approximately $140 million to $200 million in additional salaries. Management believes that compliance with the ratios will not have a material adverse effect on the Credit Group.

In recent years, the health care industry has suffered from a scarcity of nursing and other qualified health care technicians and personnel. A significant factor underlying this trend includes a decrease in the number of persons entering the nursing profession. This may be expected to intensify in the future, aggravating the shortage of nursing personnel. Management cannot predict whether this trend will continue, but, if it does, it could have a material adverse impact on the business, financial condition and results of operations of Hospitals and the Health Plan Organizations.

Licensing, Surveys, Investigations and Audits

Health facilities, including those of Hospitals and the Health Plan Organizations, are subject to numerous licensing, certification and accreditation requirements. These include, but are not limited to, requirements relating to government health program participation and payment (such as Medicare), state

licensing agencies, private payors, the Joint Commission for Accreditation of Healthcare Organizations ("JCAHO") and the National Committee on Quality Assurance ("NCQA"). Renewal and continuation of certain licenses, certifications and accreditation status are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative activity or response by Hospitals or the Health Plan Organizations. These activities generally are conducted in the normal course of business of health facilities. Adverse findings or determinations by the applicable licensing, certification or accreditation bodies could result in a loss or reduction in Hospitals' or the Health Plan Organizations' licensure, certification or accreditation, termination of participation in Medicare, Medicaid or other government health programs, reduction in the payment or reimbursement received, or repayment of amounts previously remitted and, consequently, could have a material adverse effect on Hospitals' ability to make the Loan Repayments or the Guarantors' ability to make payments pursuant to the Guarantee Agreement.

Following NCQA's investigation of Health Plan Ohio's discovery, confirmation, and self-report of the use of altered documents during an NCQA review in May 2003, NCQA revoked Health Plan Ohio's accreditation in July 2003. However, NCQA allowed Health Plan Ohio to reschedule an accreditation survey in October 2003, six months after the original survey, rather than requiring Health Plan Ohio to wait one year for resurvey. This decision was based in part upon Health Plan Ohio's timely report of the issue to NCQA, as well as Health Plan Ohio's thorough review and corrective action plan. Health Plan Ohio underwent NCQA survey on October 6-8, 2003 and was subsequently awarded Excellent accreditation status for both the Commercial and Medicare products.

See "THE CREDIT GROUP—Accreditations" below for further discussion of the accreditation status of Health Plan Organizations.

Management believes that Hospitals' and the Health Plan Organizations' facilities are in substantial compliance with current applicable federal, state, local agency and accreditation review body regulations and standards and that they will be able to renew or maintain currently held licenses, certifications and accreditation status. The requirements for licensure, certification and accreditation are subject to change and, in order to remain qualified, it may be necessary for Hospitals or the Health Plan Organizations to effect changes in their facilities, equipment, personnel, services and manner of doing business. See "THE CREDIT GROUP—Facilities" below.

Environmental Laws and Regulations

Health care providers such as Hospitals and the Health Plan Organizations are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, provider operations of facilities and properties owned or operated by providers. Among the types of regulatory requirements faced by health care providers are: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos, polychlorinated biphenyls and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospital; requirements for training employees in the proper handling and management of hazardous materials and wastes; and other requirements.

In their role as owners and/or operators of properties or facilities, Hospitals and the Health Plan Organizations may be subject to liability for investigating and remedying any hazardous substances that have come to be located on the property, including any such substances that may have migrated off the property. Management is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues or any instance of contamination which, if determined adversely to Hospitals or the Health Plan Organizations, would have a material adverse effect on the

financial condition or results of operations of Hospitals or the Health Plan Organizations. However, there can be no assurance that Hospitals or the Health Plan Organizations will not encounter such risks in the future, and such risks could have a material adverse effect on the business, financial condition and results of operations of Hospitals and the Health Plan Organizations.

Earthquakes

Several of Hospitals' and Health Plan, Inc.'s facilities are located near active earthquake faults. A significant earthquake in California could result in claims that exceed the limits of insurance coverage and could result in material damage and temporary or permanent cessation of operations at one or more of Hospitals' or Health Plan, Inc.'s facilities. Hospitals and Health Plan, Inc. maintain earthquake insurance coverage for their facilities to the extent that the capacity is available in the market at reasonable premium rates from insurers that maintain strong credit ratings. Such insurance is fully subscribed in the aggregate amount of $125 million which includes a deductible for such coverage of $25 million in California and $3 million outside of California. However, the property insurance market as to earthquake coverage is volatile, and, as a result, Hospitals' and Health Plan, Inc.'s insurance coverage may change after the date of this Official Statement. Additionally, the Credit Group has granted priority in any earthquake insurance proceeds realized by Hospitals and Health Plan, Inc. to a creditor, to the extent that the facility leased from such creditor is damaged in an earthquake. Any insurance proceeds remaining after repairs to such leased facility would be divided among the Credit Group's other facilities damaged by such earthquake.

Senate Bill 1953 was adopted in California in 1994 and requires general acute care hospitals in California to comply with certain hospital seismic safety standards by January 1, 2008 and with further standards by January 1, 2030 or cease using noncompliant hospital buildings for acute care hospital services by those dates. The January 1, 2008 compliance date may be extended to January 1, 2013 under certain conditions. Senate Bill 1801 adopted in California in 2000 provides a five-year extension for hospital buildings that comply with certain eligibility requirements promulgated by the Office of Statewide Health Planning and Development and that commit to meeting initial seismic safety standards by January 1, 2013.

Hospitals is preparing to be compliant with Senate Bill 1953 and Senate Bill 1801. Hospitals anticipates that the aggregate costs for building new hospitals and complying with Senate Bill 1953 and Senate Bill 1801 will be approximately $4 billion. The result of Hospitals' ongoing strategy regarding review of utilization of its inpatient facilities, including possible closure and contracting and partnership arrangements with other providers, could cause such aggregate costs to be less than currently projected. Management does not anticipate that compliance with Senate Bill 1953 or Senate Bill 1801 will have a material adverse effect on Hospitals' business, financial condition or results of operations. However, there can be no assurance that future hospital seismic safety standards legislation or other changes in the administration or interpretation of governmental seismic safety programs will not have a material adverse effect on the business, financial condition and results of operations of Hospitals.

Bankruptcy

In the event of bankruptcy of a member of the Credit Group, the rights and remedies of the Bondholders are subject to various provisions of the federal Bankruptcy Code. If a member of the Credit Group were to file a petition in bankruptcy, payments made by that member during the 90-day (or perhaps one-year) period immediately preceding the filing of such petition may be avoidable as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of such member's liquidation. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the

Credit Group member and its property and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property, as well as various other actions to enforce, maintain or enhance the rights of the Trustee. If the bankruptcy court so ordered, the property of the Credit Group member, including accounts receivable and proceeds thereof, could be used for the financial rehabilitation of such member.

Such Credit Group member could file a plan for the reorganization of its debts in any such proceeding, which could include provisions modifying or altering the rights of creditors generally or any class of them, secured or unsecured. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and, with certain exceptions, discharges all claims against the debtor to the extent provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are conditions that the plan be feasible and that it shall have been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the class cast votes in its favor. Even if a class of creditors does not accept the plan, it may be confirmed if at least one impaired class accepts the plan and the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

In addition, the obligations of Hospitals and the Guarantors under the Loan Agreement and the Guarantee Agreement are not secured by a lien on or security interest in any assets or revenues of Hospitals and the Guarantors. In the event of a bankruptcy of Hospitals or the Guarantors, Bondholders would be unsecured creditors and would be in an inferior position to any secured creditors and probably on a parity with other unsecured creditors.

In the event of bankruptcy of Hospitals or a Guarantor, there is no assurance that certain covenants, including tax covenants, contained in the Loan Agreement or other documents would survive. Accordingly, a bankruptcy trustee could take action that would adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Factors That Could Affect the Enforceability of the Loan Agreement and the Guarantee Agreement

The legal right and practical ability of the Trustee (as assignee) to enforce its rights and remedies against Hospitals under the Loan Agreement and against the Guarantors under the Guarantee Agreement may be limited by laws relating to bankruptcy, insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditors' rights. In addition, the Trustee's ability to enforce such terms will depend upon the exercise of various remedies specified by such documents, which in many instances may require judicial actions that often are subject to discretion and delay, may not otherwise be readily available, or may be limited by certain legal principles.

There exists common law authority and authority under certain statutes for the ability of the courts to terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes. Such court action may arise on the court's own motion or pursuant to a petition of the state Attorney General or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

The various legal opinions delivered concurrently with the issuance of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings, policy and decisions affecting available remedies, and by bankruptcy, reorganization or other

laws of general application affecting the enforcement of creditors' rights or the enforceability of certain remedies or document provisions.

Relationship of Hospitals and Health Plan, Inc. to their Subsidiaries

Hospitals, Health Plan, Inc., the other Health Plan Organizations and several other subsidiaries of Hospitals and Health Plan, Inc. (including HAMI and HPAMI) are nonprofit corporations with Hospitals and Health Plan, Inc. acting as the direct or indirect sole corporate member of their respective subsidiaries. As such, Hospitals' and Health Plan, Inc.'s relationships to their subsidiaries are ones of control, not ownership. As only Hospitals and the Guarantors have an obligation to make payments under the Loan Agreement and the Guarantee Agreement, respectively, none of the revenues or assets of their subsidiaries are available to creditors of Hospitals and the Guarantors, including the Holders of the Bonds.

Health maintenance organizations are required by state law to meet minimum capital and deposit and/or reserve requirements in each state and are restricted from paying dividends to their parent corporations or repaying intercompany loans or advances under certain circumstances from time to time. Several states increased minimum net worth requirements, pursuant to National Association of Insurance Commissioners risk-based capital proposals. Regulations in these and other states may be changed in the future to further increase net worth requirements. Such increases could require Hospitals and Health Plan, Inc. to contribute additional funds to the other Health Plan Organizations. Any adverse change in governmental regulation or in the regulatory climate in any state could materially impact the Health Plan Organizations operating in that state.

Pursuant to the Guarantee Agreement, the Guarantors have agreed to comply with various financial covenants. Compliance with these covenants is measured against the combined financial position and results of operations of Hospitals, the Guarantors and their subsidiaries, although only the Guarantors are obligated to make payments under the Guarantee Agreement. The application of the financial covenants to such combined results and financial position may affect, positively or negatively, the Guarantors' ability to comply with such covenants. In particular, the Guarantors have agreed that they will not create, assume or suffer to exist any security interest on any property or revenue of any Affiliated Corporation (as defined in APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS"), other than Permitted Encumbrances, unless the obligations of the Guarantors under the Guarantee Agreement shall be secured prior to or equally and ratably with such security interest. Permitted Encumbrances include liens incurred in connection with certain outstanding indebtedness of the Affiliated Corporations, including Sale and Leaseback Transactions, and, within certain limitations, liens securing future indebtedness of the Affiliated Corporations, including Sale and Leaseback Transactions. The Guarantors also have agreed not to dispose of any of their assets (including cash), or permit any Affiliated Corporation to dispose of any of its assets (including cash), in any Fiscal Year with a net book value in excess of ten percent (10%) of Consolidated Net Tangible Assets unless any assets in excess of such limitation are disposed of at a price equal to their fair market value and the Guarantors within one hundred twenty (120) days of such disposition, apply (or cause an Affiliated Corporation to apply) the net proceeds of such sale, lease or disposition to either the redemption of long-term Indebtedness of such Guarantor or of any other Affiliated Corporation or the acquisition of additional assets (as all such terms are defined in APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS"). Other than these covenants and the other covenants described under "SECURITY FOR THE BONDS" in the forepart of this Official Statement, there are no covenants that restrict the activities of the Guarantors. See also APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS."

Professional Liability Claims and General Liability Insurance

In recent years, the number of professional and general liability suits and the dollar amounts of damage recoveries have increased nationwide, resulting in substantial increases in malpractice insurance premiums, higher deductibles and generally less coverage. Professional liability and other actions alleging wrongful conduct and seeking punitive damages are often filed against health care providers. Litigation also may arise from the corporate and business activities of Health Plan, Inc., the Guarantors and their subsidiaries or from Hospitals' and the Health Plan Organizations' activities related to medical staff peer review or the denial of medical staff privileges. As with professional liability, many of these risks are financed through a combination of self-insurance and purchased insurance. The Credit Group, the other Health Plan Organizations and their subsidiaries currently maintain coverage for managed care, professional and general liability through programs of purchased insurance, self-insurance and reinsurance. Excess coverage for professional and general liability and for managed care liability has been secured with insurers or reinsurers. Property insurance is also a combination of purchased insurance, self-insurance and reinsurance. The property insurance secured by the Credit Group and the other Health Plan Organizations includes earthquake protection. While management considers reserves for asserted and unasserted claims and insurance adequate, there can be no assurance that current reserves and insurance limits are sufficient or adequate to cover potential future claims. As malpractice, directors' and officers' liability and general liability insurance continues to become more difficult to obtain, the Credit Group is unable to predict the extent of availability, extent of coverage or cost of such insurance in the future.

Risks Related to Variable Rate Obligations

Increased Interest Rates. Certain outstanding obligations of the Credit Group, such as the Bonds, are variable rate obligations, the interest rates on which could rise. Such interest rates vary on a periodic basis and may be converted to a fixed interest rate. This protection against rising interest rates is limited, however, because the Credit Group would be required to continue to pay interest at the variable rate until it is permitted to convert the obligations to a fixed rate pursuant to the terms of the applicable transaction documents.

Remarketing Risk. Certain outstanding obligations of the Credit Group contain tender provisions that require the Credit Group to purchase obligations upon short notice. Although the Credit Group has entered into remarketing agreements in connection with all of the transactions and has entered into liquidity agreements in connection with some of the transactions to provide for the remarketing or payment of such obligations, the performance or financial condition of the remarketing agents, the banks and, with regard to the transactions for which the Credit Group has not entered into a liquidity agreement, the Credit Group would affect the marketability and remarketing or payment of such obligations. In addition, if the Credit Group is required to provide liquidity for the payment of any such obligations for which the Credit Group has not entered into a liquidity agreement, the cash reserves of the Credit Group will be affected until such obligations are successfully remarketed.

Investments

The members of the Credit Group have significant holdings in a broad range of investments. Market fluctuations will affect the value of those investments and those fluctuations may be and have historically been, at times, material. For a discussion of the Credit Group's investments, see "THE CREDIT GROUP—Management's Discussion of Financial Position and Analysis and Results of Operations."

Major Disruption

In the event of the occurrence of a man-made or natural disaster, the operations of healthcare providers, including the Credit Group members, may be adversely affected. Such an occurrence may increase the demand for member services beyond the levels previously experienced, may increase the proportion of patients who are unable to pay fully for the cost of their care and may disrupt the operations of certain health care facilities by either directly or indirectly causing an abnormally high demand for health care services.

Other Risk Factors

In the future, the following factors, among others, may adversely affect the operations of health care providers, including the Credit Group, or the market value of the Bonds, to an extent that cannot be determined at this time.

(1) Adoption of legislation that would establish a national health program or mandatory charity care requirements.

(2) Adoption of a so-called "flat tax" federal income tax, a reduction in the marginal rates of federal income taxation or replacement of the federal income tax with another form of taxation, any of which might adversely affect the market value of the Bonds.

THE CREDIT GROUP

Health Care Services

Kaiser Permanente has its origins in the prepaid health care delivery system established to serve workers and their families during the construction of the Grand Coulee Dam, starting in 1938. Later, Kaiser Permanente expanded to serve workers and their families at the World War II Henry J. Kaiser shipyards in Richmond, California, and in the Portland-Vancouver area of Oregon and Washington, as well as at the Kaiser Steel Mill in Fontana, California.

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 member's rights and the member's relationship to the Health Plan Organizations are purely contractual; members have no proprietary interest in Hospitals' or the Health Plan Organizations' assets. 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 provides certain support services to Hospitals and the respective Permanente Medical Groups. In addition to performing functions such as enrollment, data processing, accounting, purchasing and transportation services, most Health Plan Organizations operate prescription pharmacies at non-hospital locations.

Each Health Plan Organization contracts with Hospitals to provide or arrange hospital services. Under the hospital service agreements, the respective Health Plan Organizations pay Hospitals the amounts required, after taking into account Hospitals' other revenue, to satisfy Hospitals' ordinary operating expenses, the cost of arranged services, and debt service and to provide capital for the replacement and expansion of facilities. Hospitals operates community hospitals, and staff privileges may be granted to practitioners who qualify for medical staff membership and/or clinical privileges. In the

Mid-Atlantic States, Colorado, Georgia and Ohio regions, Hospitals 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. Although Health Plan, Inc. and Health Plan Northwest operate hospitals, local community hospitals and other hospitals also are utilized to provide a portion of members' hospital care.

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. Each of the exclusive medical service agreements is for a term of one or more years, renewable upon mutual agreement, or remains in effect until terminated. The compensation paid to the Permanente Medical Groups is negotiated at arm's length and in consideration of the provision of professional medical and related administrative services. In some cases, additional compensation is budgeted but is paid only if and to the extent that certain financial, member satisfaction, quality and other goals are met. Permanente Medical Groups are principally organized as professional corporations (one is a partnership) and are responsible for their own physician recruitment, selection and staffing patterns. In California, the responsibilities of the two Permanente Medical Groups include employment of allied health professional and administrative personnel. In the other Kaiser Permanente regions, most of these personnel are employed by the respective Health Plan Organization. The Permanente Medical Groups derive substantially all of their professional income from serving Kaiser Permanente members.

As with many health care providers, Hospitals and the Health Plan Organizations plan for and evaluate on a continuing basis potential acquisitions and divestitures of and affiliations with health care facilities and other organizations as part of Hospitals' and the Health Plan Organizations' overall strategic planning and development process. As part of their ongoing planning and property management functions, Hospitals and the Health Plan Organizations review the use, compatibility, business and financial viability of many of their facilities and business operations and from time to time may pursue changes in the use or disposition of their facilities, other assets or business operations. Hospitals and the Health Plan Organizations continue to evaluate all aspects of their operations in order to improve operating and financial performance, while maintaining Kaiser Permanente's traditional focus on delivering nonprofit integrated health care through the coordination of services by Hospitals, the Health Plan Organizations and the Permanente Medical Groups. As part of this process, Hospitals and Health Plan, Inc. continuously evaluate and may sell or dispose of all or part of each subsidiary Health Plan Organization. Further, as a result of any acquisition or disposition, the assets and operations of Hospitals and the Health Plan Organizations may change from time to time.

Hospitals and Health Plan, Inc. continuously evaluate ways to improve the effectiveness and efficiency of their operations, including administrative and support services. Currently, Hospitals and the Health Plan Organizations are evaluating the use of shared service organization structures for various administrative activities and beginning the process to transition to some shared service organization structures for some administrative activities, including claims administration. The analysis of potential costs and benefits associated with such a restructuring has been finalized, and it is expected that such restructuring will produce savings.

In 2002, Health Plan, Inc. and Hospitals re-evaluated their clinical information system project (the "Clinical Information System"), an online, outpatient medical record and clinical in-basket that supports ancillary services, order entry and results, and adopted design changes to this project. As a result of this re-evaluation, in February 2003, Hospitals entered into a license agreement with Epic Systems Corporation ("Epic") to use and deploy Epic's suite of software. The Epic software provides Kaiser Permanente with the capability to support scheduling, registration, clinical functions (documentation, order entry, results reporting, decision support), and patient billing on both an inpatient and outpatient basis and inpatient pharmacy. The project is now known as KP HealthConnect (formerly

known as the Automated Medical Record system). Management anticipates that the implementation of KP HealthConnect will take approximately four years and that the aggregate costs will exceed approximately $2.0 billion. Management expects to fund such costs from operations. Important progress towards the implementation of KP HealthConnect was made in 2003. For the fiscal year ended December 31, 2003, approximately $157 million was spent on the implementation of KP HealthConnect. Health Plan, Inc. and Hospitals will continually evaluate the implementation of KP HealthConnect; however, there can be no assurance of the success of such implementation.

Membership

Organizations participating in Kaiser Permanente provide medical, hospital and other health care services to over 8.2 million members (subscribers and their dependents), as of December 31, 2003, living primarily in the greater metropolitan areas of San Francisco, Sacramento, Los Angeles, San Diego, San Jose, Fresno, Bakersfield, Portland (Oregon), Denver, Cleveland, Honolulu, Washington, D.C., Baltimore and Atlanta. Approximately 79% of the Kaiser Permanente members are enrolled in Health Plan, Inc., which serves members in California and Hawaii. The remaining Kaiser Permanente members are enrolled in one of the other Health Plan Organizations.

Most Kaiser Permanente members enroll under a membership agreement between their employer and one of the Health Plan Organizations. Services are provided principally at facilities owned by Hospitals and the Health Plan Organizations. 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 under contracts with one of the Permanente Medical Groups.

Membership is available without regard to sex, race, religion, or ethnic background, and membership is broadly representative of the various age, social and income groups within the geographic areas served by Kaiser Permanente.

Increased competition from a wide variety of potential sources, including but not limited to other health maintenance organizations, insurance companies, inpatient and outpatient health care facilities, clinics, physicians and others, could adversely affect the membership and/or revenues of Hospitals and the Health Plan Organizations. Existing and potential competitors may not be subject to various restrictions applicable to Hospitals and Health Plan, Inc., and competition may arise in the future from new sources not currently anticipated or prevalent. See “BONDHOLDERS’ RISKS” herein.

The following table shows the membership of each Health Plan Organization and the general geographic areas served as of December 31, 2003:

	Number of Members	Percentage of Total Members
Health Plan, Inc.		
Northern California		
San Francisco Bay, Sacramento and Fresno Areas	3,160,964	38.5%
Southern California		
Los Angeles, San Diego and Bakersfield Areas	3,057,750	37.2
Hawaii		
The Islands of Kauai, Oahu and Maui; portions of the Island of Hawaii	235,192	2.8
Sub-Total — Health Plan, Inc.	6,453,906	78.5
Other Health Plan Organizations		
Mid-Atlantic States		
Washington, D.C. and Baltimore Areas	503,363	6.1
Northwest		
Portland and Salem, Oregon; Vancouver and Longview-Kelso, Washington Areas	435,174	5.3
Colorado		
Denver, Boulder and Colorado Springs Areas	409,141	5.0
Georgia		
Atlanta Area	269,585	3.3
Ohio		
Cleveland and Akron Areas	145,767	1.8
Sub-Total — Other Health Plan Organizations	1,763,030	21.5
Total	8,216,936	100.0%

The membership of Health Plan, Inc. and the other Health Plan Organizations at December 31, 1999 through December 31, 2003, as well as the annual percentage change from period to period, were as follows:

As of December 31,	Health Plan, Inc. Membership	Other Health Plan Organizations Membership	Total Membership	Percentage Change
2003	6,453,906	1,763,030	8,216,936	(1.8%)
2002	6,567,050	1,800,506	8,367,556	1.4
2001	6,433,296	1,818,806	8,252,102	1.5
2000	6,260,026	1,869,876	8,129,902	(2.8)
1999	6,145,835	2,221,549	8,367,384	(2.2)

Medicare plans had 761,895 enrollees in 1999, 803,811 enrollees in 2000, 827,513 enrollees in 2001, 853,031 enrollees in 2002 and 857,395 enrollees in 2003.

Employees

As of December 31, 2003, Hospitals, Health Plan, Inc. and the other Health Plan Organizations had more than 85,000 employees, a majority of which were represented by local labor unions and covered by collective bargaining agreements. As of December 31, 2003, more than 11,000 physicians were

primarily associated with the Permanente Medical Groups. HAMI and HPAMI currently have no employees.

In 1997, Kaiser Permanente entered into the Partnership Agreement with eight international unions and 26 local unions. In 2000, Kaiser Permanente and the Coalition of Kaiser Permanente Unions concluded the National Agreement, which is a supplement to the local collective bargaining agreements of the Partnership Unions. The National Agreement extended most expiration dates of Partnership Union contracts by five years, and the contracts currently are scheduled to expire in 2005. The Partnership Agreement covers approximately 78,000 Kaiser Permanente employees. The parties to the Partnership Agreement are pursuing approaches to building positive relationships and promoting stable labor relations.

Through the Partnership Agreement, physicians, management and labor work together to meet shared goals of service excellence and market leading performance by specifically promoting cooperation, union and employee involvement and performance. The Partnership Agreement addresses, among others, issues of joint staffing and flexibility, patient and employee safety, a union commitment to increase the membership of Health Plan, Inc. and the other Health Plan Organizations and improved retention of such members.

Financial Information of the Credit Group (Unaudited)

The financial information of the Credit Group included in this Official Statement is presented on a combined basis solely for the Credit Group because only the members of the Credit Group are obligated to make payments with respect to the Bonds and such information is unaudited. None of the other Health Plan Organizations or other subsidiaries of Hospitals and Health Plan, Inc. has an obligation to make payments with respect to the Bonds. In the Loan Agreement and the Guarantee Agreement, Hospitals and the Guarantors, respectively, have agreed to certain financial covenants that are measured against the combined results of operations and financial position of Hospitals and Health Plan, Inc. See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS." The application of financial covenants to such combined results and financial position may positively or negatively affect Hospitals' and the Guarantors' ability to comply with such covenants.

The financial information included in this Official Statement is qualified by reference to and should be read in conjunction with the combined financial statements and related notes and other information included in APPENDIX A – "COMBINED FINANCIAL STATEMENTS OF KAISER FOUNDATION HEALTH PLAN, INC. AND SUBSIDIARIES AND KAISER FOUNDATION HOSPITALS AND SUBSIDIARIES" and under "THE CREDIT GROUP—Management's Discussion of Financial Position and Analysis and Results of Operations" herein.

Capitalization. The following table sets forth the capitalization of the Credit Group at December 31, 2003 and as adjusted to reflect the issuance of the Bonds and the Additional Bonds and the defeasance in early 2004 of approximately $1,070 million in tax-exempt bonds issued for the benefit of the Credit Group without reflecting any expenses to be incurred by the Credit Group in connection with such transactions.

	December 31, 2003[(1)]	
	Actual	**As Adjusted**
	(Unaudited) (in millions)	
Long-Term Debt (including current portion)		
Unsecured Debt:		
The Bonds	$ –	$ 750
The Additional Bonds	–	850
Other Tax-Exempt Revenue Bonds	2,090	1,020
Taxable Debt Securities	118	118
Other Unsecured Debt	312	312
Total Long-Term Debt	2,520	3,050
Net Worth	8,263	8,263
Total Capitalization	$10,783	$11,313
Percent Long-Term Debt to Total Capitalization	23.4%	27.0%

(1) Excludes commitments of the Credit Group totaling up to $274 million under two financing agreements that are treated as operating leases and are discussed in the footnotes to the financial statements. See "THE CREDIT GROUP—Management's Discussion of Financial Position and Analysis and Results of Operations—Liquidity and Capital Resources" herein, and APPENDIX A – "COMBINED FINANCIAL STATEMENTS OF KAISER FOUNDATION HEALTH PLAN, INC. AND SUBSIDIARIES AND KAISER FOUNDATION HOSPITALS AND SUBSIDIARIES," hereto.

Summarized Combined Information for Operations and Changes in Net Worth. The following summarized combined information for operations and changes in net worth of the Credit Group (unaudited) for the three years ended December 31, 2003, 2002 and 2001 have been derived from the audited combined financial statements of Health Plan, Inc. and Subsidiaries and Hospitals and Subsidiaries. The audited combined statements and additional information for the years ended December 31, 2003 and 2002, are included in APPENDIX A – "COMBINED FINANCIAL STATEMENTS OF KAISER FOUNDATION HEALTH PLAN, INC. AND SUBSIDIARIES AND KAISER FOUNDATION HOSPITALS AND SUBSIDIARIES" hereto. The combined financial statements of Health Plan, Inc. and Subsidiaries and Hospitals and Subsidiaries for the years ended December 31, 2003 and 2002, have been audited by their independent auditors, as stated in the independent auditors' report included therein.

The following summarized combined information for operations and changes in net worth of the Credit Group for the three years ended December 31, 2003 is unaudited and is presented for purposes of additional information and analysis. Certain subsidiaries not considered a part of the Credit Group are not combined but are shown on the equity method and are reflected in "Equity in net income of subsidiaries" on the following table.

THE CREDIT GROUP

SUMMARIZED COMBINED INFORMATION FOR OPERATIONS AND CHANGES IN NET WORTH (Unaudited)
(In millions)

	Year Ended December 31,		
	2003	2002[1]	2001[1]
Revenues:			
Members' dues	$13,578	$11,405	$9,845
Contract revenue from Health Plan Organizations	868	894	888
Medicare	4,874	4,720	4,221
Co-pays, deductibles, fees and other	1,247	1,039	895
Total operating revenues	20,567	18,058	15,849
Expenses:			
Medical services	8,824	7,791	6,509
Hospital services	6,769	5,892	5,455
Outpatient pharmacy and optical services	2,353	2,139	1,841
Other benefit costs	1,292	1,284	1,075
Total medical and hospital services	19,238	17,106	14,880
Health plan administration	465	378	328
Software impairments and other charges	3	532	25
Total operating expenses	19,706	18,016	15,233
Income before equity in net income of subsidiaries	861	42	616
Equity in net income of subsidiaries	157	124	106
Operating income	1,018	166	722
Other Income and Expense:			
Investment income – net	192	102	99
Interest expense	(214)	(198)	(140)
Total other income and expense	(22)	(96)	(41)
Net Income	996	70	681
Additional minimum pension liability	470	(470)	–
Changes in unrealized gains on marketable securities	439	(132)	(64)
Grant contributions received and transfers of capital	57	2	11
Net worth at beginning of period	6,301	6,831	6,203
Net worth at end of period	$8,263	$6,301	$6,831

(1) Certain reclassifications were made in the 2002 and 2001 presentations to conform with the 2003 presentation.

Summarized Combined Information for Cash Flows. The following summarized combined information for cash flows of the Credit Group (unaudited) for the three years ended December 31, 2003, have been derived from the audited combined financial statements of Health Plan, Inc. and Subsidiaries and Hospitals and Subsidiaries. The audited combined financial statements and additional information for the years ended December 31, 2003 and 2002, are included in APPENDIX A – "COMBINED FINANCIAL STATEMENTS OF KAISER FOUNDATION HEALTH PLAN, INC. AND SUBSIDIARIES AND KAISER FOUNDATION HOSPITALS AND SUBSIDIARIES" hereto. The combined financial statements of Health Plan, Inc. and Subsidiaries and Hospitals and Subsidiaries for the years ended December 31, 2003 and 2002, have been audited by their independent auditors, as stated in the independent auditors' report included therein.

The following summarized combined information for cash flows of the Credit Group for the three years ended December 31, 2003 is unaudited and is presented for purposes of additional information and

analysis. Certain subsidiaries not considered a part of the Credit Group are not combined but are shown on the equity method and are reflected in "Investments in subsidiaries" on the following table.

THE CREDIT GROUP
SUMMARIZED COMBINED INFORMATION FOR CASH FLOWS (Unaudited)
(In millions)

	Year Ended December 31,		
	2003	**2002**	**2001**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$996	$70	$681
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation and amortization	821	721	693
Software impairments and other charges	3	532	25
Provision for postretirement benefits	205	133	127
Amounts paid for postretirement benefits	(29)	(25)	(21)
Changes in assets and liabilities:			
Accounts receivable	(84)	68	21
Other current assets	24	(64)	(95)
Investments in subsidiaries	(298)	25	26
Other assets	(513)	345	55
Accounts payable and accrued expenses	191	46	48
Medical claims payable	(43)	38	111
Due to associated medical groups	(110)	125	16
Payroll and related charges	140	111	52
Due to affiliated organizations	157	153	78
Medicare payment received in advance	(18)	51	43
Other liabilities	106	303	91
Additional minimum pension liability	470	(470)	–
NET CASH PROVIDED FROM OPERATING ACTIVITIES	2,018	2,162	1,951
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to land, buildings, equipment and software	(1,582)	(1,287)	(976)
Proceeds from sale of land, buildings and equipment	1	3	11
Marketable securities	(847)	(1,444)	(1,128)
Physicians' retirement plan liability	85	76	56
NET CASH USED IN INVESTING ACTIVITIES	(2,343)	(2,652)	(2,037)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Long-term borrowings	213	500	275
Long-term affiliate debt	303	–	–
Debt repayments	(34)	(15)	(135)
Prepayment of debt	(231)	(36)	(57)
Debt issuance and related costs	2	4	6
Intercompany transfer of capital	–	–	(8)
Grant contributions received	57	2	19
NET CASH PROVIDED FROM FINANCING ACTIVITIES	310	455	100
NET CHANGE IN CASH AND EQUIVALENTS	(15)	(35)	14
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	37	72	58
CASH AND EQUIVALENTS AT END OF PERIOD	$ 22	$ 37	$ 72

Selected Financial Ratios. The table below sets forth selected financial data (unaudited) derived from the additional information of the Credit Group and other sources of information.

	As of or for the Years Ended December 31,		
	2003	2002	2001
		(in millions)	
Income Before Interest Expense and Depreciation and Amortization	$2,031	$ 989	$1,514
Total Scheduled Debt Service[(1)]	$ 266	$ 232	$ 287
Debt Service Coverage (times)[(2)]	7.6x	4.3x	5.3x
Net Worth	$8,263	$6,301	$6,831
Total Debt (including short-term portion of long-term debt)[(3)]	$2,520	$2,269	$1,817
Total Debt as % of Total Capitalization[(4)]	23.4%	26.5%	21.0%

(1) Total interest and principal payments, including prepayments and redemptions (excluded from table amounts shown above), were $497 million, $268 million and $344 million in 2003, 2002 and 2001, respectively.

(2) Defined as Income Before Interest Expense and Depreciation, divided by Total Scheduled Debt Service.

(3) Excludes commitments of the Credit Group totaling up to $274 million under two financing agreements that are treated as operating leases and are discussed in the footnotes to the balance sheet. See "THE CREDIT GROUP—Management's Discussion of Financial Position and Analysis and Results of Operations—Liquidity and Capital Resources" herein, and APPENDIX A – "COMBINED FINANCIAL STATEMENTS OF KAISER FOUNDATION HEALTH PLAN, INC. AND SUBSIDIARIES AND KAISER FOUNDATION HOSPITALS AND SUBSIDIARIES," hereto.

(4) Defined as Total Debt divided by the sum of Net Worth plus Total Debt.

Management's Discussion of Financial Position and Analysis and Results of Operations

The following discussion sets forth certain information with respect to the financial characteristics of the Credit Group that is useful for an understanding of its financial statements (unaudited) and related notes included elsewhere in this Official Statement. The following should be read in conjunction with the financial statements and related notes and other information included in APPENDIX A – "COMBINED FINANCIAL STATEMENTS OF KAISER FOUNDATION HEALTH PLAN, INC. AND SUBSIDIARIES AND KAISER FOUNDATION HOSPITALS AND SUBSIDIARIES."

Overview. Kaiser Permanente focuses on providing affordable health care services to its members. In 2003, membership in Kaiser Permanente declined 1.8% from the previous year. Membership losses are attributable, in part, to a weak economy, lack of breadth of product line and rising health care costs. In Kaiser Permanente's view, the delivery of the benefits of Kaiser Permanente medicine to a larger membership and, perhaps to retain current membership levels requires, among other things, broadening its product line to include cost-sharing products. Kaiser Permanente is developing such products and intends to have a programwide portfolio of cost-sharing products in future years. All members will continue to receive Kaiser Permanente's comprehensive health care but will have additional options to the ways members can pay.

The following table shows operating revenue sources and operating expenses as a percentage of total revenues for the Credit Group (unaudited) for the periods indicated:

	Year Ended December 31,		
	2003	2002[(1)]	2001[(1)]
Revenues:			
Members' dues	66.0%	63.2%	62.1%
Contract revenue from Health Plan Organizations	4.2	5.0	5.6
Medicare	23.7	26.1	26.6
Co-pays, deductibles, fees and other	6.1	5.7	5.7
Total Operating Revenues	100.0%	100.0%	100.0%
Expenses:			
Medical services	42.9%	43.1%	41.0%
Hospital services	32.9	32.6	34.4
Outpatient pharmacy and optical services	11.4	11.9	11.6
Other benefit costs	6.3	7.1	6.8
Health plan administration	2.3	2.1	2.1
Software impairments and other charges	0.0	3.0	0.2
Total Operating Expenses	95.8%	99.8%	96.1%
Income before equity in net income of subsidiaries	4.2%	0.2%	3.9%

(1) Certain reclassifications were made in the 2002 and 2001 presentations to conform with the 2003 presentation.

Selected Policies. *Use of Estimates.* The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts. Allowance for uncollectible accounts receivable, Medicare reserves, incurred but not reported medical claims, physicians' retirement plan liabilities, prepaid pension assets, accrued pension liabilities, postretirement liabilities, loss contract accruals, self-insured professional, general and workers' compensation liabilities, divestiture reserves, software and other asset impairments represent significant estimates. Actual results could differ materially from those estimates. With respect to employee benefit plans, as occurs from time to time, negotiations with labor partners may result in changes to compensation and benefits. These changes are reflected in the financial statements as appropriate when agreements are finalized.

Sources of Operating Revenue. The majority of the operating revenues of the Credit Group consist of members' dues, which are the monthly prepaid amounts charged by Health Plan, Inc. for individual and group coverage. Most membership contracts provide for co-pays, deductibles and other fees (nominal fixed charges at the point of service) in lieu of higher monthly dues. Dues rates for Medicare members are related to benefits not covered by Medicare. Payment for most Medicare members (Medicare+Choice members) is prepaid and does not vary with utilization. Payment for professional services for other Medicare members is based on cost, and payment for hospital services is a predetermined amount based on diagnosis. For the year ended December 31, 2003, approximately 10% of all members were Medicare enrollees.

Items of Operating Expense. Medical services expenses is the largest operating expense category and consists of all physician costs, both inpatient and outpatient, the costs of medical office operations and all outpatient ancillary services. The second largest operating expense category is hospital services (approximately 33% of total operating revenues), which includes inpatient acute and mental health care and inpatient ancillary services. Outpatient pharmacy and optical expenses are the cost of drugs and eyeglasses, as well as the expenses connected with operating pharmacies and optical departments. Other benefit costs are those incurred for membership services such as ambulance services, care in skilled

nursing facilities, renal dialysis, home health services and dental programs. Health plan administration expenses are those associated with enrollment, membership record-keeping, dues billing and collection, claims processing and other membership services.

Equity in Net Income of Subsidiaries. Earnings of the other Health Plan Organizations and subsidiaries are consolidated as part of the audited combined financial statements of Health Plan, Inc. and Subsidiaries and Hospitals and Subsidiaries. For purposes of the Credit Group's financial statements, the results of operations, financial position and cash flows of the other Health Plan Organizations and Subsidiaries have been presented using the equity method of accounting in accordance with accounting principles generally accepted in the United States.

Results of Combined Operations – Year ended December 31, 2003 to year ended December 31, 2002. Net income improved by $926 million from $70 million in 2002 to $996 million in 2003 due primarily to rate improvement relative to cost trends, operational efficiency gains and a reduction in software impairment and other charges in 2003. Cash provided from operations decreased from $2,162 million in 2002 to $2,018 million in 2003, a decrease of $144 million, or 7%, which was primarily due to additional funding of the defined benefit pension plan (see "—Pension Fund Obligations" below).

Total operating revenues increased 14% from $18,058 million in 2002 to $20,567 million in 2003. Approximately $2,173 million of the increase in total revenues was due to an increase in members' dues from $11,405 million in 2002 to $13,578 million in 2003. Approximately $154 million, or 6%, of the increase in total revenues for 2003 compared to 2002 was due to an increase in Medicare revenues from $4,720 million in 2002 to $4,874 million in 2003. Medicare revenue increased as a result of a 0.6% growth in Medicare membership coupled with a 2.7% increase in Medicare reimbursement rates.

Total operating expenses increased 9% from $18,016 million in 2002 to $19,706 million in 2003. Medical services expenses increased 13% from $7,791 million in 2002 to $8,824 million in 2003. Hospital services expenses were $6,769 million in 2003 compared to $5,892 million in 2002, an increase of 15%. Like much of the health care industry, the Credit Group experienced increased costs due to rising unit costs for medical services and products.

Results of Combined Operations – Year ended December 31, 2002 to year ended December 31, 2001. Net income declined by $611 million from $681 million in 2001 to $70 million in 2002 due primarily to software impairment charges relating to Hospitals' and Health Plan, Inc.'s Clinical Information System. In 1997, Hospitals and Health Plan, Inc. began developing a Clinical Information System. During 2002, Hospitals and Health Plan, Inc. re-evaluated the Clinical Information System and adopted design changes. Management determined that the carrying value of the Clinical Information System was not fully recoverable, and approximately $435 million of Clinical Information System and other capitalized software costs were written off. Cash provided from operations increased from $1,951 million in 2001 to $2,162 million in 2002, an increase of $211 million or 11%.

Total operating revenues increased 14% from $15,849 million in 2001 to $18,058 million in 2002 due to higher premiums and increased membership. Approximately $1,560 million of the increase in total revenues was due to an increase in members' dues from $9,845 million in 2001 to $11,405 million in 2002. Approximately $499 million, or 23%, of the increase in total revenues for 2002 compared to 2001 was due to an increase in Medicare revenues from $4,221 million in 2001 to $4,720 million in 2002. Medicare revenue increased as a result of a 3% growth in Medicare membership coupled with increased Medicare reimbursement rates.

Total operating expenses increased 18% from $15,233 million in 2001 to $18,016 million in 2002. Medical services expenses increased 20% from $6,509 million in 2001 to $7,791 million in 2002.

Hospital services expenses were $5,892 million in 2002 compared to $5,455 million in 2001, an increase of 8%. Like much of the industry, the Credit Group experienced increased costs due to rising unit costs for medical services and products.

Pension Fund Obligations. Hospitals and the Health Plan Organizations sponsor a defined benefit pension plan covering substantially all of their employees. The defined benefit plan for Hospitals and the Health Plan Organizations has significant holdings in a broad range of investments. Contributions to the plan and the impact of funding on the operations and financial position of the Credit Group are affected by participant demographics including compensation, the plan benefits, portfolio performance and the assumptions used. Actuarial assumptions include discount rates used in determining the funding and accounting obligations of the plans. Changes in the portfolio performance and the FAS 87 discount rate had a significant impact on net pension expense and net worth in 2002 and 2003.

As of December 31, 2002, the fair value of plan assets, the projected benefit obligation and the accumulated benefit obligation were $1,729 million, $2,879 million and $2,161 million, respectively. The provisions of FAS 87 required Hospitals and the Health Plan Organizations to record an additional minimum pension liability of $432 million, which is equal to the amount by which the accumulated benefit obligation exceeds the fair market value of plan assets. The additional liability may be offset by an intangible asset to the extent of previously unrecognized prior service costs. This amount was $132 million for Hospitals and the Health Plan Organizations. The remaining $470 million was recorded as a reduction to net worth.

As of December 31, 2003, the fair value of plan assets, the projected benefit obligation and the accumulated benefit obligation were $2,676 million, $3,518 million and $2,639 million, respectively. Hospitals and the Health Plan Organizations contributed $676 million to the plan in 2003. This amount included a $161 million contribution for fiscal year 2002. As a result of the 2003 contribution, the $470 million reduction to net worth recorded in 2002 was reversed in 2003. No contributions were made to the plan in fiscal year 2002. There will be no contributions made in 2004 for fiscal year 2003.

Portfolio performance for the year ending December 31, 2004 and the discount rate used in determining the projected benefit obligation will impact what reduction, if any, must be made to net worth at December 31, 2004. Management is currently unable to determine whether such a reduction will be necessary.

Financial Position. The Credit Group's assets increased $2,884 million, or 18%, from $15,744 million as of December 31, 2002 to $18,628 million as of December 31, 2003. The increase in assets resulted from a growth in marketable securities coupled with a net increase in land, buildings, equipment and software. At December 31, 2003, cash and short-term marketable securities for the Credit Group totaled $4,277 million, an increase of $994 million from December 31, 2002.

Current liabilities increased by $433 million from $3,943 million as of December 31, 2002 to $4,376 million as of December 31, 2003. This represents a year over year increase of 11%, which is in line with year over year increases in operating costs of 9%.

It has been the practice of Health Plan, Inc. to designate as long-term certain marketable securities. The amounts of securities so designated at December 31, 2003 and 2002 were $3,583 million and $3,306 million, respectively. It is management's intention that such securities are available to satisfy long-term obligations, such as the liabilities for physicians' retirement plan, which liabilities totaled $1,503 million at December 31, 2003 and $1,418 million at December 31, 2002.

The Credit Group is substantially self-insured for professional, workers' compensation and general liability. Amounts accrued for the payment of actual and estimated claims for self-insured risks totaled approximately $1,034 million at December 31, 2003.

As of December 31, 2003, the Credit Group's long-term debt was $2,516 million, as compared to $2,232 as of December 31, 2002. In August 2003, approximately $213 million of tax-exempt bonds issued for the benefit of the Credit Group were used to advance refund $220 million of previously outstanding bond obligations.

In early 2004, the Credit Group caused approximately $1,070 million of tax-exempt bonds issued for the benefit of the Credit Group to be defeased with internally generated funds. The Credit Group's obligations under the corresponding loan and guarantee agreements have been cancelled.

At December 31, 2003, the combined net worth of the Credit Group was $8,263 million, an increase of $1,962 million from December 31, 2002, due to $996 million in net income, the reversal of the $470 million additional minimum pension liability, a $439 million change in unrealized gains and losses on marketable securities and $57 million in grant contributions received.

Liquidity and Capital Resources. The Credit Group's primary sources of cash are dues premium revenue from members, revenue from the Medicare program and supplemental revenue for premium co-payments and non-covered services. The primary uses of cash include health care costs and other benefits, capital expenditures, investments and interest and principal payments on long-term debt. The Credit Group's investment policies are designed to provide liquidity, preserve capital and maximize yield. The boards of directors of Hospitals and Health Plan, Inc. set and monitor policies regarding the credit quality of both short- and long-term investments of the Credit Group. Liquidity and capital resources maintained by the Credit Group are sufficient to meet applicable regulatory financial stability and net worth requirements.

Marketable securities of the Credit Group, stated at fair value, at December 31, 2003 (in millions) included:

Marketable Securities – Current	
U.S. treasury and government agencies	$1,009
Other investment in debt instruments	3,246
Total	$4,255
Marketable Securities – Noncurrent	
Equity	$1,853
U.S. treasury and government agencies	879
Other investment in debt instruments	851
Total	$3,583

Operating activities provided cash totaling $2,018 and $2,162 million for the years ended December 31, 2003 and 2002, respectively. The decline of $144 million, or 7%, was primarily due to additional funding of the defined benefit pension plan (see "—Pension Fund Obligations" above).

Investing activities used cash totaling $2,343 million in 2003 as compared to $2,652 million in 2002. The cash used in 2003 and 2002 was attributable primarily to capital expenditures and a build-up

of marketable securities. For the year ended December 31, 2003, capital expenditures (including capitalized interest) totaled $1,582 million compared to $1,287 million for the year ended December 31, 2002. The ratio of cash provided from operations to capital expenditures was 128% for the year ended December 31, 2003, and 168% for the year ended December 31, 2002. Management periodically evaluates the capital needs of Health Plan, Inc. and Hospitals and makes recommendations with respect to capital expenditures to the board of directors of Health Plan, Inc. and Hospitals. Management expects an increase over the next three years in capital expenditures, which management expects will be funded through a combination of cash provided from operations and borrowings. Cash used to purchase marketable securities was $847 million in 2003 and $1,444 million in 2002.

Financing activities provided cash totaling $310 million in 2003 as compared to $455 million in 2002. The primary sources of cash from financing activities in 2003 was long term affiliate debt of $303 million and the issuance of $213 million of tax-exempt bonds. The primary source of cash from financing activities in 2002 was the issuance of $500 million of tax-exempt bonds to finance construction of medical facilities.

At December 31, 2003, the Credit Group maintained committed bank lines of credit of $500 million. At December 31, 2003, there were no borrowings outstanding under the lines of credit.

At December 31, 2003 and 2002, the Credit Group had a current ratio of 1.27, as compared to 1.14 at December 31, 2002.

The Credit Group has entered into various agreements with two special purpose entities to acquire, develop, construct, finance and lease medical facilities and administrative offices. The two special purpose entities incurred debt in the original aggregate principal amount of approximately $315 million, all of which currently is outstanding, in connection with these transactions, including the 1800 Harrison Bonds described below. The assets and obligations of these special purpose entities are not reported on the balance sheet of the Credit Group. These agreements contain combined commitments of up to $274 million in the event the Credit Group does not renew its various options under the agreements. See notes to combined financial statements in APPENDIX A – "COMBINED FINANCIAL STATEMENTS OF KAISER FOUNDATION HEALTH PLAN, INC. AND SUBSIDIARIES AND KAISER FOUNDATION HOSPITALS AND SUBSIDIARIES," hereto for additional disclosures.

In 2002, Hospitals entered into an arrangement with a financial institution whereby that organization has the right, but not the obligation, to put to Hospitals certain bonds with a face amount of $168 million with various maturity dates running through 2032 at a fixed interest rate of 8.75%. During a period of 120 days that begins on November 15, 2012, Hospitals has the option to terminate this arrangement. Hospitals receives a fee for this arrangement, which it records as non-operating income.

The Credit Group has entered into an interest rate swap agreement in a notional amount of $60 million to convert fixed rate debt to variable rate debt.

Other Financing. Within several weeks of the issuance of the Bonds, certain bonds (the "1800 Harrison Bonds") previously issued for the benefit of 1800 Harrison Foundation (the "Corporation") in the original aggregate principal amount of $110 million, all of which currently is outstanding, are expected to be advance refunded. The proceeds from the sale of the 1800 Harrison Bonds were used to finance medical and administrative facilities that are leased to Health Plan, Inc. The current term of such lease is five years and is scheduled to expire January 2009, although the lease includes a series of five-year options running through 2029. In the event that Health Plan, Inc. elects not to extend the lease or exercise its option to purchase the facilities, Health Plan, Inc. has guaranteed that it will pay to the Corporation the minimum residual value of the facilities of $90 million. The obligations of Health Plan,

Inc. under the lease agreement and the purchase agreement are guaranteed by Hospitals, HPAMI and HAMI.

Governance

Hospitals and Health Plan, Inc., 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 *ex officio* members who are elected each year). The other Health Plan Organizations, all nonprofit corporations, also are non-stock corporations, and Health Plan, Inc. is the sole corporate member of the other Health Plan Organizations. All or a majority of the directors of the other Health Plan Organizations are elected by the board of directors of Health Plan, Inc.

Hospitals and Health Plan, Inc. are the sole corporate members of HAMI and HPAMI, respectively, and appoint their boards of directors. Members of the boards of directors of Hospitals and Health Plan, Inc. and their principal business affiliations are as follows:

George C. Halvorson
Chairman, Chief Executive Officer and President
Kaiser Foundation Hospitals and Kaiser Foundation Health Plan, Inc.

Barbara D. Blum
President
BDB Investment Partnership

Christine Cassel, M.D., MACP
Dean and Vice President for Medical Affairs
Oregon Health & Science University

Thomas W. Chapman
President and Chief Executive Officer
The HSC Foundation

Daniel P. Garcia
Chief Compliance Officer
Kaiser Foundation Hospitals and Kaiser Foundation Health Plan, Inc.

J. Neal Purcell
Retired Vice Chairman and Head of National Audit Practice Operations
KPMG International

Robert L. Ridgley
Retired Chairman of the Board and Chief Executive Officer
Northwest Natural Gas Company

Cynthia Ann Telles, Ph.D.
Director of Spanish Speaking Psychosocial Clinic of the Neuropsychiatric Institute and Hospital and Associate Clinical Professor
UCLA School of Medicine

Barry L. Williams
President
Williams Pacific Ventures, Inc.

There are five vacancies on the board of directors of Hospitals and Health Plan, Inc.

Certain members of senior management and administration of Hospitals and Health Plan, Inc. are as follows:

GEORGE C. HALVORSON, Chairman, Chief Executive Officer and President. Mr. Halvorson was named Chairman and Chief Executive Officer of Hospitals and Health Plan, Inc. in May 2002. Previously, Mr. Halvorson was the President and Chief Executive Officer of HealthPartners. He joined

HealthPartners in 1986 and, prior to joining HealthPartners, held several senior management positions with Blue Cross and Blue Shield of Minnesota. He was also President of Senior Health Plan and President of Health Accord International. Mr. Halvorson has more than 30 years of health care management experience. He holds an undergraduate degree in English, history and political science from Concordia College in Moorhead, Minnesota.

RAYMOND J. BAXTER, Senior Vice President, Community Benefit, joined Hospitals and Health Plan, Inc. in 2002. Prior to joining Hospitals and Health Plan, Inc., Dr. Baxter led The Lewin Group. He received his bachelor's degree, master's degree of public administration and doctoral degree from Princeton University.

ROBERT E. BRIGGS, Senior Vice President and Chief Financial Officer, joined Hospitals and Health Plan, Inc. in December 2001. Prior to joining Hospitals and Health Plan, Inc., he was the Pillsbury Company's Senior Vice President and Chief Financial Officer. He received his bachelor's degree from Temple University, a Master of Arts from the University of Arizona and his MBA degree from the University of Chicago.

ROBERT M. CRANE, Senior Vice President, Research and Policy Development, joined Hospitals and Health Plan, Inc. in 1983. Prior to joining Hospitals and Health Plan, Inc., Mr. Crane worked for the New York State Department of Health. He received his bachelor's degree from the College of Wooster and his master's degree in business and public administration from Cornell University.

J. CLIFFORD DODD, Senior Vice President, Chief Information Officer/Chief Administrative Officer, joined Hospitals and Health Plan, Inc. in 2002. Prior to joining Hospitals and Health Plan, Inc., Mr. Dodd served as President and Chief Executive Officer of Latis Networks, Inc. He received his bachelor's degree from Ohio State University.

LOUISE L. LIANG, M.D., Senior Vice President, Quality and Clinical Systems Support, joined Hospitals and Health Plan, Inc. in 2002. Prior to joining Hospitals and Health Plan, Inc., Dr. Liang served as chair of the board of directors of the Institute for Healthcare Improvement. She received her medical degree from Georgetown University School of Medicine.

LESLIE A. MARGOLIN, Senior Vice President, Health Plan and Hospital Operations, joined Hospitals and Health Plan, Inc. in March 1998. Prior to joining Hospitals and Health Plan, Inc., Ms. Margolin served as President of CIGNA HealthCare of California and General Manager of CIGNA's Southern California health care operations. She received her bachelor's degree from Connecticut College, her law degree from Hofstra University and a master of law degree in labor and employment relations law from New York University.

THOMAS R. MEIER, Vice President and Treasurer, joined Hospitals and Health Plan, Inc. in September 1999. Prior to joining Hospitals and Health Plan, Inc., Mr. Meier worked at GATX Capital as Vice President Portfolio Management-Air Group. Before GATX Capital, Mr. Meier was Director, Investor Relations and Assistant Treasurer of APL, Limited. Mr. Meier graduated from California State University, Hayward, with a bachelor's degree in business administration and accounting.

ARTHUR M. SOUTHAM, M.D., Senior Vice President, Product and Market Management, joined Hospitals and Health Plan, Inc. in May 2001. Prior to joining Hospitals and Health Plan, Inc., he was President and Chief Executive Officer of Health Systems Design Corporation. He received a bachelor's degree in neurosciences from Amherst College, his M.D. degree and a master's degree in

Public Health from the University of California, Los Angeles, and his MBA degree from Pepperdine University.

BERNARD J. TYSON, Senior Vice President, Communications and External Relations, joined Hospitals and Health Plan, Inc. in 1985 at the San Francisco Medical Center. Prior to his current role, Mr. Tyson was the Chief Operating Officer of Regions Outside California of Hospitals and Health Plan, Inc. Mr. Tyson received both his bachelor's degree in Health Care Management and his MBA degree in Health Science Administration from Golden Gate University.

STEVE ZATKIN, Senior Vice President, General Counsel and Secretary, joined Hospitals and Health Plan, Inc. in 1978. Prior to joining Hospitals and Health Plan, Inc., Mr. Zatkin worked as a consultant to various committees of the Assembly of the California Legislature with jurisdiction over health-related legislation. He received his bachelor's degree and his master's degree in public affairs from the University of California, Berkeley and a law degree from the University of the Pacific's McGeorge School of Law.

Facilities

Hospitals owns and operates 27 licensed hospitals (including three licensed hospitals with multiple campuses) that include approximately 7,400 licensed acute care patient beds, and Hospitals and the Health Plan Organizations own and operate approximately 445 medical office buildings and other outpatient facilities.

In Northern California, hospital facilities are located in Fremont/Hayward, Fresno, Oakland/Richmond, Redwood City, Sacramento/Roseville, San Francisco, San Rafael, Santa Clara, Santa Rosa, San Jose, South Sacramento, South San Francisco, Vallejo and Walnut Creek. In Southern California, hospitals are located in Anaheim, Baldwin Park, Bellflower, Fontana, Harbor City, Los Angeles, Panorama City, Riverside, San Diego, West Los Angeles and Woodland Hills. Hospitals also are located in Clackamas County, Oregon, and Honolulu, Hawaii.

Hospitals, Health Plan, Inc. and the other Health Plan Organizations continually evaluate the use of their hospitals and other facilities and operations. It is possible that some facilities may be sold or closed and that new ones will be added from time to time.

Accreditations

As of February 1, 2004, the Northern California region of Health Plan, Inc., the Southern California region of Health Plan, Inc., the Hawaii region of Health Plan, Inc., Health Plan Northwest, Health Plan Colorado, Health Plan Ohio and Health Plan Georgia have an Excellent Accreditation status from NCQA for their Commercial Product and Medicare Products. Health Plan MAS holds a Commendable Accreditation status for both the Commercial and Medicare Products. Health Plan Georgia has a Commendable Accreditation status for their Point of Service Product. As of January 1, 2004, all of Hospitals' hospitals, except for three, earned Accredited with Full Standards Compliance from JCAHO, which is the highest accreditation a hospital can achieve from JCAHO. The three hospitals mentioned above earned Accredited with Requirements for Improvement from JCAHO, which is the second highest accreditation a hospital can achieve from JCAHO. These three hospitals are working with JCAHO, and it is anticipated they will be elevated to Accredited with Full Standards Compliance no later than May 2004.

As of December 31, 2002 (the most recent date for which such figures are available), approximately 86% of Kaiser Permanente's physicians were board-certified, as compared to the American Medical Association national average of 70%.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under section 103 of the Code and is exempt from state of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Bond Counsel expects to deliver an opinion at the time of issuance of the Bonds substantially in the form set forth in Appendix C hereto.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority, Hospitals, the Guarantors and certain affiliates of Health Plan, Inc. have made certain representations and have covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

In addition, Bond Counsel has relied, among other things, on the opinion of counsel to Hospitals, the Guarantors and certain affiliates of Health Plan, Inc. regarding the current qualification of Hospitals, the Guarantors and certain affiliates of Health Plan, Inc. as organizations described in section 501(c)(3) of the Code. Bond Counsel has also relied upon representations of Hospitals, the Guarantors and certain affiliates of Health Plan, Inc. concerning Hospitals', the Guarantors' and certain affiliates of Health Plan, Inc.'s "unrelated trade or business" activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor counsel to Hospitals, the Guarantors and certain affiliates of Health Plan, Inc. has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor counsel to Hospitals, the Guarantors and certain affiliates of Health Plan, Inc. can give or has given any opinion or assurance about the future activities of Hospitals, the Guarantors and certain affiliates of Health Plan, Inc., or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the IRS. Failure of Hospitals, the Guarantors and certain affiliates of Health Plan, Inc. to be organized and operated in accordance with the IRS's requirements for the maintenance of their status as organizations described in section 501(c)(3) of the Code may result in interest payable with respect to the Bonds being included in federal gross income, possibly from the date of the original issuance of the Bonds.

The interest rate mode and certain requirements and procedures contained or referred to in the Indenture, the Loan Agreement, the Guarantee Agreement, the Tax Agreement, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from state of California personal income taxes, the

ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent the Beneficial Owner from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or Hospitals, the Guarantors and certain affiliates of Health Plan, Inc., or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority, Hospitals, the Guarantors and certain affiliates of Health Plan, Inc. have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, Hospitals, the Guarantors and certain affiliates of Health Plan, Inc. or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, Hospitals, the Guarantors and certain affiliates of Health Plan, Inc. and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in, the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority or Hospitals, the Guarantors and certain affiliates of Health Plan, Inc. legitimately disagree, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Authority, Hospitals, the Guarantors, certain affiliates of Health Plan, Inc. or the Beneficial Owners to incur significant expense.

APPROVAL OF LEGALITY

Legal matters incident to the issuance of the Bonds are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, as Bond Counsel. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain other legal matters will be passed upon for the Authority by Orrick, Herrington & Sutcliffe LLP, counsel to the Authority, for Hospitals and the Guarantors by their General Counsel, and for the Underwriters by their counsel, Sidley Austin Brown & Wood LLP, San Francisco, California, which also undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

INDEPENDENT AUDITORS

The combined financial statements of Health Plan, Inc. and Subsidiaries and Hospitals and Subsidiaries, as of December 31, 2003 and 2002 and for the years then ended, included in Appendix A have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report included in Appendix A.

LITIGATION

The Credit Group

There is no controversy or litigation of any nature now pending against Hospitals or any Guarantor or, to the knowledge of their respective officers, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds, any proceedings of Hospitals or any Guarantor taken concerning the issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds. There can be no assurance, however, that future litigation will not have a material adverse effect on Hospitals and the Health Plan Organizations.

The Authority

To the knowledge of the officers of the Authority, there is no controversy or litigation of any nature now pending against the Authority seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds, any proceedings of the Authority taken concerning the issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, or the existence or powers of the Authority relating to the issuance of the Bonds.

RATINGS

The Credit Group has received long-term ratings of "A" and "A," respectively, from Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies ("Standard & Poor's") and Fitch Ratings ("Fitch") for all Series of Bonds and short-term ratings of "A-1" and "F1," respectively, from Standard & Poor's and Fitch for the Series E Bonds. The members of the Credit Group have furnished to Standard & Poor's and Fitch certain information and materials concerning the Bonds and themselves. No application was made to any other rating agency for the purpose of obtaining additional ratings on the Bonds. Any explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions made by the rating agencies themselves. There is no assurance that the ratings mentioned below will remain in effect for any given period of time or that they might not be lowered or withdrawn entirely by the rating agencies, if in their judgment circumstances so warrant. Any such downward change in or withdrawal of the ratings might have an adverse effect on the market price or marketability of the Bonds.

UNDERWRITING

The Bonds are being purchased by J.P. Morgan Securities Inc. (the "Representative"), as the Representative of the Underwriters. The Underwriters have agreed to purchase the Bonds at a purchase price of $746,550,000 (consisting of the aggregate principal amount of the Bonds of $750,000,000, less

an underwriter's discount of $3,450,000). The Purchase Contract for the Bonds provides that the Underwriters will purchase all of the Bonds, if any are purchased, and contains the agreements of Hospitals and the Guarantors to indemnify the Underwriter and the Authority against certain liabilities. The Purchase Contract for the Series Bonds also provides that the fees of counsel for the Underwriters will be paid by Hospitals.

The initial public offering price of the Bonds set forth on the inside cover page may be changed without notice by the Underwriters.

MISCELLANEOUS

The foregoing and subsequent summaries or descriptions of provisions of the Bonds, the Indenture, the Loan Agreement and the Guarantee Agreement and all references to other materials not purporting to be quoted in full are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof, and reference is made to said documents for full and complete statements of their provisions. The appendices attached hereto are a part of this Official Statement. Copies, in reasonable quantity, of the Indenture, the Loan Agreement and the Guarantee Agreement may be obtained during the offering period upon request directed to the Underwriters and, thereafter, upon request directed to the corporate trust office of the Trustee.

The information contained in this Official Statement has been compiled or prepared from information obtained from Hospitals, the Guarantors, and official and other sources deemed to be reliable and, while not guaranteed as to completeness or accuracy, is believed to be correct as of the date of this Official Statement. The Authority furnished only the information contained under the headings "THE AUTHORITY" and "LITIGATION—The Authority" and, except for such information, makes no representation as to the adequacy, completeness or accuracy of this Official Statement or the information contained herein. Any statements involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

This Official Statement has been delivered by the Authority and approved by Hospitals and by the Guarantors. The Trustee has not participated in the preparation of this Official Statement. This Official Statement is not to be construed as a contract or agreement among any of the Authority, Hospitals, the Guarantors and the purchasers or Holders of the Bonds.

CALIFORNIA STATEWIDE COMMUNITIES
DEVELOPMENT AUTHORITY

By: /s/ Norma Lammers
Member

Approved:

KAISER FOUNDATION HOSPITALS
KAISER FOUNDATION HEALTH PLAN, INC.
KAISER HOSPITAL ASSET MANAGEMENT, INC.
KAISER HEALTH PLAN ASSET MANAGEMENT, INC.

By: /s/ Thomas R. Meier
Authorized Representative

Appendix A

KAISER FOUNDATION HEALTH PLAN, INC. AND SUBSIDIARIES AND KAISER FOUNDATION HOSPITALS AND SUBSIDIARIES

Combined Financial Statements as of and for the Years Ended December 31, 2003 and 2002 and Independent Auditors' Report and Additional Information

KAISER FOUNDATION HEALTH PLAN, INC. AND SUBSIDIARIES AND KAISER FOUNDATION HOSPITALS AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
COMBINED FINANCIAL STATEMENTS:	
KAISER FOUNDATION HEALTH PLAN, INC. AND SUBSIDIARIES AND KAISER FOUNDATION HOSPITALS AND SUBSIDIARIES:	
Independent Auditors' Report	A-1
Combined Balance Sheets	A-2
Combined Statements of Operations and Changes in Net Worth	A-3
Combined Statements of Cash Flows	A-4
Notes to Combined Financial Statements	A-5
ADDITIONAL INFORMATION:	
KAISER FOUNDATION HEALTH PLAN, INC., KAISER HEALTH PLAN ASSET MANAGEMENT, INC., KAISER FOUNDATION HOSPITALS AND KAISER HOSPITALS ASSET MANAGEMENT, INC. (OBLIGATED GROUP):	
Summarized Combined Balance Sheets	A-22
Summarized Combined Statements of Operations and Changes in Net Worth	A-23
Summarized Combined Statements of Cash Flows	A-24

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INDEPENDENT AUDITORS' REPORT

To the Boards of Directors
Kaiser Foundation Health Plan, Inc. and Subsidiaries
and Kaiser Foundation Hospitals and Subsidiaries
Oakland, California

We have audited the accompanying combined balance sheets of Kaiser Foundation Health Plan, Inc. and Subsidiaries ("Health Plans") and Kaiser Foundation Hospitals and Subsidiaries ("Hospitals"), both of which are under common management and governance, as of December 31, 2003 and 2002, and the related combined statements of operations and changes in net worth and of cash flows for the years then ended. These combined financial statements are the responsibility of management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such combined financial statements present fairly, in all material respects, the combined financial position of Health Plans and Hospitals as of December 31, 2003 and 2002, and the combined results of their operations and their combined cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic combined financial statements of Health Plans and Hospitals taken as a whole. The additional information on pages A-22 through A-24 is presented for the purpose of additional analysis of the basic combined financial statements rather than to present the financial position, results of operations, and cash flows of the Obligated Group, and is not a required part of the basic combined financial statements. This additional information is the responsibility of the management. Such additional information has been subjected to the auditing procedures applied in our audits of the basic combined financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic combined financial statements taken as a whole.

Deloitte & Touche LLP

March 1, 2004

KAISER FOUNDATION HEALTH PLAN, INC. AND SUBSIDIARIES AND KAISER FOUNDATION HOSPITALS AND SUBSIDIARIES

COMBINED BALANCE SHEETS
DECEMBER 31, 2003 AND 2002 (In millions)

	2003	2002
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	$ 44	$ 65
Marketable securities	4,693	3,696
Accounts receivable-net	879	805
Other	647	673
Total current assets	6,263	5,239
MARKETABLE SECURITIES	3,591	3,313
LAND, BUILDINGS, EQUIPMENT AND SOFTWARE - NET	8,531	7,810
OTHER ASSETS	716	297
TOTAL ASSETS	$ 19,101	$ 16,659
LIABILITIES AND NET WORTH		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 1,113	$ 906
Medical claims payable	727	751
Due to associated medical groups	275	421
Payroll and related charges	840	668
Medicare payments received in advance	483	498
Other	1,098	930
Current installments on long-term debt	4	37
Total current liabilities	4,540	4,211
LONG-TERM DEBT	2,225	2,251
PHYSICIANS' RETIREMENT PLAN LIABILITY	1,503	1,418
OTHER LONG-TERM LIABILITIES	2,570	2,478
TOTAL LIABILITIES	10,838	10,358
NET WORTH	8,263	6,301
TOTAL LIABILITIES AND NET WORTH	$ 19,101	$ 16,659

See notes to combined financial statements.

KAISER FOUNDATION HEALTH PLAN, INC. AND SUBSIDIARIES AND KAISER FOUNDATION HOSPITALS AND SUBSIDIARIES

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET WORTH YEARS ENDED DECEMBER 31, 2003 AND 2002 (In millions)

	2003		2002	
REVENUES:				
Members' dues	$ 17,816	70.4%	$ 15,209	67.7%
Medicare	5,847	23.1	5,850	26.0
Copays, deductibles, fees and other	1,659	6.5	1,419	6.3
Total operating revenues	25,322	100.0	22,478	100.0
EXPENSES:				
Medical services	11,931	47.1	10,626	47.3
Hospital services	6,862	27.1	6,017	26.8
Outpatient pharmacy and optical services	3,097	12.3	2,827	12.6
Other benefit costs	1,697	6.7	1,675	7.4
Total medical and hospital services	23,587	93.2	21,145	94.1
Health Plan administration	729	2.9	665	3.0
Software impairments and other charges	8	0.0	526	2.3
Total operating expenses	24,324	96.1	22,336	99.4
OPERATING INCOME	998	3.9	142	0.6
OTHER INCOME AND EXPENSE:				
Investment income - net	92	0.4	13	0.1
Interest expense	(94)	(0.4)	(85)	(0.4)
Total other income and expense	(2)	0.0	(72)	(0.3)
NET INCOME	996	3.9%	70	0.3%
CHANGE IN ADDITIONAL MINIMUM PENSION LIABILITY	470		(470)	
CHANGE IN UNREALIZED GAINS/LOSSES ON MARKETABLE SECURITIES	439		(132)	
GRANT CONTRIBUTIONS RECEIVED	57		2	
CHANGE IN NET WORTH	1,962		(530)	
NET WORTH AT BEGINNING OF YEAR	6,301		6,831	
NET WORTH AT END OF YEAR	$ 8,263		$ 6,301	

See notes to combined financial statements.

KAISER FOUNDATION HEALTH PLAN, INC. AND SUBSIDIARIES AND KAISER FOUNDATION HOSPITALS AND SUBSIDIARIES

COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003 AND 2002 (In millions)

	2003	**2002**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 996	$ 70
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	902	810
Software impairments and other charges	8	526
Provision for postretirement benefits	250	159
Amounts paid for postretirement benefits	(34)	(28)
Changes in assets and liabilities:		
Accounts receivable	(74)	95
Other current assets	26	(78)
Other assets	(421)	154
Accounts payable and accrued expenses	207	34
Medical claims payable	(24)	48
Due to associated medical groups	(146)	169
Payroll and related charges	172	128
Medicare payments received in advance	(15)	42
Other liabilities	74	624
Additional minimum pension liability	470	(470)
Net cash provided from operating activities	2,391	2,283
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to land, buildings, equipment and software	(1,665)	(1,354)
Proceeds from sales of land, buildings, and equipment	4	9
Marketable securities	(836)	(1,509)
Physicians' retirement plan liability	85	76
Net cash used in investing activities	(2,412)	(2,778)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term borrowings	213	500
Debt repayments	(41)	(17)
Prepayment of debt	(231)	(36)
Grant contributions received	57	2
Debt issuance and related costs	2	4
Net cash provided from financing activities	-	453
NET CHANGE IN CASH AND EQUIVALENTS	(21)	(42)
CASH AND EQUIVALENTS AT BEGINNING OF YEAR	65	107
CASH AND EQUIVALENTS AT END OF YEAR	$ 44	$ 65
SUPPLEMENTAL CASH FLOWS DISCLOSURE - Cash paid for interest, net of capitalized amounts	$ 88	$ 73

See notes to combined financial statements.

KAISER FOUNDATION HEALTH PLAN, INC. AND SUBSIDIARIES AND KAISER FOUNDATION HOSPITALS AND SUBSIDIARIES

NOTES TO COMBINED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2003 AND 2002

1. DESCRIPTION OF BUSINESS

The accompanying combined financial statements include Kaiser Foundation Health Plan, Inc. and Subsidiaries ("Health Plans") and Kaiser Foundation Hospitals and Subsidiaries ("Hospitals"). Health Plans and Hospitals are primarily nonprofit corporations whose capital is available for charitable, educational, research, and related purposes. Health Plans are primarily federally qualified health maintenance organizations and are generally exempt from federal and state income taxes. Membership as of December 31, 2003 and 2002 was over 8.2 million and nearly 8.4 million, respectively. The principal operating subsidiary of Kaiser Foundation Hospitals is Kaiser Hospital Asset Management, Inc. ("KHAM"). The principal operating subsidiaries of Kaiser Foundation Health Plan, Inc. ("Health Plan, Inc.") in 2003 are:

Kaiser Foundation Health Plan of Colorado
Kaiser Foundation Health Plan of Georgia, Inc.
Kaiser Foundation Health Plan of the Mid-Atlantic States, Inc.
Kaiser Foundation Health Plan of the Northwest
Kaiser Foundation Health Plan of Ohio
Kaiser Health Plan Asset Management, Inc. ("KHPAM")

Previously, Health Plans and Hospitals adopted divestiture plans to close operations and sell assets of Kaiser Foundation Health Plan of Connecticut, Inc. and Community Health Plan, Inc. (collectively referred to as "Northeast"), Kaiser Foundation Health Plan of North Carolina ("North Carolina"), and Kaiser Foundation Health Plan of Kansas City, Inc. ("Kansas City"). See Note 3 for additional information.

Independent Medical Groups ("Medical Groups") cooperate with Health Plans and Hospitals in conducting the Kaiser Permanente Medical Care Program. Because the Medical Groups are independent associations, their operations are not included in the combined financial statements. Health Plans contract with Hospitals and the Medical Groups to provide or arrange hospital and medical services for members. Contract payments to the Medical Groups represent a substantial portion of the expenses for medical services reported in the combined statements of operations and changes in net worth.

Health Plans and Hospitals strive to improve the health and welfare of the communities they serve through their Direct Community Benefit Investment ("DCBI") programs. DCBI expenditures were $641 million, 2.5% of operating revenue in 2003, and $485 million, 2.2% of operating revenue in 2002. In addition to its direct expenditures, Health Plans and Hospitals encourage their personnel to be actively involved in community service activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The general purpose financial statements of Health Plans and Hospitals are presented on a combined basis due to the operational interdependence of these organizations and because their governing boards and management are the same. Combined financial statements

comprising different Health Plans and Hospitals related entities may be prepared when such presentation is meaningful in the circumstances. All significant intercompany balances and transactions have been eliminated.

Cash and equivalents include interest-bearing deposits purchased with an original maturity of three months or less.

Marketable securities include investments in equity, U.S. Treasury and government agencies and other debt securities and are reported at fair value. Health Plans and Hospitals have designated certain marketable securities for the physicians' retirement plan. These marketable securities are unrestricted assets of Health Plans and Hospitals. Realized gains and losses and interest and dividend income on marketable securities are included in investment income - net. Realized losses include writedowns of investments that are deemed impaired on an other than temporary basis. Unrealized gains and losses on marketable securities are included as a component of net worth. A portion of investment income which represents the expected return on the marketable securities designated for the physicians' retirement plan has been recorded as a reduction in the provision for physician retirement plan benefits and is excluded from investment income - net.

Land, buildings, equipment and software are stated at lower of cost less accumulated depreciation or, for assets deemed impaired, at recoverable value. Buildings, equipment and software are depreciated on a straight-line basis over the estimated useful lives of the various classes of assets, generally ranging from 3 to 33 years.

Management continually evaluates alternatives for delivering services which may affect the current and future utilization of existing and planned assets and could result in an adjustment to the carrying values of such land, buildings, equipment and software in the future. Management evaluates and records impairment losses based on expected utilization, projected net cash flows, and recoverable values.

Maintenance and repairs are expensed as incurred. Major improvements which increase the estimated useful life of an asset are capitalized. Upon the sale or retirement of assets, recorded cost and related accumulated depreciation are removed from the accounts, and any gain or loss on disposal is reflected in operations.

Medical Claims Payable **-** The cost of health care services is recognized in the period in which services are provided. Medical claims payable consists of unpaid health care expenses, which includes an estimate of the cost of services provided to Health Plan members by third party providers that have been incurred but not reported to Health Plan. The estimate for incurred but not reported claims is based on actuarial projections of costs using historical paid claims data. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate amount of paid claims is dependent on future developments, management is of the opinion that the reserves for claims are adequate to cover such claims.

Due to associated medical groups consists primarily of unpaid medical expenses owed to the Medical Groups for medical services provided to members under Medical Services Agreements with Health Plans. The cost of medical services is recognized by Health Plans in the period in which services are provided and is reflected as a component of medical and hospital services expenses.

Self-insured Risks - Annual costs associated with self-insured risks, primarily for professional, general and workers' compensation liabilities, are charged to operations based upon actual and estimated claims. The portion estimated to be paid during the next year is included in current liabilities. The estimate for incurred but not reported self-insured claims is based on actuarial projections of costs using historical claims data. Estimates are monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate payments for self-insured claims are dependent on future developments, management is of the opinion that the reserve for self-insured risks is adequate. Insurance coverage, in excess of the per occurrence self-insured retention, has been secured with insurers or reinsurers for specified amounts for professional and general liability. Decisions relating to the limit and scope of the self-insured layer and the amounts of excess insurance purchased are reviewed each year, subject to management's analysis of actuarial loss projections and the price and availability of acceptable commercial insurance.

Loss contracts accruals and the related expense are recognized when it is probable that expected future health care costs and maintenance costs under a group of existing contracts will exceed anticipated future premiums and reinsurance recoveries over the remaining lives of the contracts. The level at which contracts are grouped for evaluation purposes is generally by geographic region. The methods for making such estimates and for establishing the resulting reserves are continually reviewed and updated, and any adjustments resulting therefrom are reflected in current operations. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate outcome of loss contracts and the related expenses are dependent on future developments, management is of the opinion that the reserves for loss contracts are adequate to cover such claims and expenses.

Derivative financial instruments are utilized to manage interest costs and the risk associated with changing interest rates. Health Plans and Hospitals enter into interest rate swaps with high quality investment or commercial banks with significant experience with such instruments. The mark-to-market change in the fair value of the derivative instruments are recorded in the interest expense component of the statement of operations and changes in net worth. By policy, Health Plans and Hospitals do not enter into derivative financial instruments for trading or speculative purposes.

Revenue Recognition - Members' dues revenue includes premiums from employer groups and individuals. Medicare revenue includes premiums based on predetermined prepaid rates under Medicare risk contracts and revenue received from Medicare on a cost reimbursement basis. Revenue is recognized in the month in which the members are entitled to health care services. Premiums collected in advance are deferred and recorded as dues collected in advance or Medicare payments received in advance. A portion of Medicare revenue and revenues derived under contracts with the United States Office for Personnel Management ("USOPM") are subject to audit and possible retroactive adjustment. Provision has been made for estimated retroactive adjustments.

Grant contributions received are funds from the Federal Emergency Management Agency ("FEMA") designated for seismic improvements on certain hospital facilities in Southern California. Grant contributions are paid to Hospitals on a cost reimbursement basis and are recognized when qualifying expenditures are made and billed to FEMA.

Use of Estimates - The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts. Allowance for uncollectible accounts receivable, Medicare reserves, incurred but not reported medical claims, physicians' retirement plan liabilities, prepaid pension assets, accrued pension liabilities, postretirement liabilities, loss contract accruals, self-

insured professional, general and workers' compensation liabilities, divestiture reserves, and software and other asset impairments represent significant estimates. Actual results could differ materially from those estimates. With respect to employee benefit plans, as occurs from time to time, negotiations with labor partners may result in changes to compensation and benefits. These changes are reflected in the financial statements as appropriate when agreements are finalized.

Performance Indicator - Based on the combined statement of operations and changes in net worth classifications, "net income" is considered to be a performance indicator in accordance with the requirements of the *Health Care Organizations Audit and Accounting Guide* issued by the American Institute of Certified Public Accountants ("AICPA").

Reclassifications – Certain reclassifications have been made in the 2002 financial statements to conform with the 2003 presentation.

Recently Issued Accounting Standards **–** Statement of Financial Accounting Standards ("SFAS") No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits,* is effective for financial statements with fiscal years ending after December 15, 2003. This Statement retains the disclosure requirements contained in SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits,* which it replaces. It requires additional disclosures to those in the original SFAS No. 132 about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. These additional disclosures are effective for fiscal years ending after June 15, 2004. There was no material impact on Health Plans' and Hospitals' results of operations or financial condition upon adoption of the new Statement.

In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") No. 46, *Consolidation of Variable Interest Entities*. In December 2003, the FASB revised FIN No. 46 in FIN No. 46, Revised December 2003 ("FIN No. 46R"). FIN No. 46 as originally issued, and as revised by FIN No. 46R, establishes consolidation criteria for entities for which "control" is not easily discernable under Accounting Research Bulletin 51, *Consolidated Financial Statements*. During 2003, Health Plans and Hospitals adopted FIN No. 46 and 46R. There was no material impact on Health Plans' and Hospitals' results of operations or financial condition upon adoption of the new Interpretation.

3. SOFTWARE IMPAIRMENTS AND OTHER CHARGES

During 2003 and 2002, Health Plans and Hospitals recorded $8 million and $526 million of net charges related to software impairments, divestitures, loss contract accruals, and other asset impairments as follows (in millions):

	2003	2002
Software impairments	$ 9	$ 485
Divestiture adjustments	(12)	(1)
Loss contract adjustments	-	(6)
Other asset impairments	11	48
Total	$ 8	$ 526

Software Impairments - In 1997, Health Plans and Hospitals began developing a Clinical Information System ("CIS"). During 2002, Health Plans and Hospitals re-evaluated the project and adopted design changes. Management determined that the carrying value of the CIS was not fully recoverable and therefore approximately $435 million of CIS and other capitalized software costs were written off. In

addition, there were other software impairments for 2003 and 2002 of $9 million and $50 million, respectively.

Divestiture Adjustments - Health Plans adopted divestiture plans (“Divestiture Plans”) in 1999, associated with the closure of operations and the sale of assets in Northeast and North Carolina. Through these operations and their affiliated medical groups, Northeast and North Carolina provided services to members in the states of Connecticut, Massachusetts, New York, North Carolina and Vermont. All sales agreements, except certain real estate, were finalized in 1999. As part of the divestiture, Northeast and North Carolina continued to fulfill remaining contractual obligations under their membership contracts (see loss contract adjustments below). Medical operations in these regions were substantially terminated by December 31, 2000. Certain real estate properties remain to be sold and applicable impairment reserves have been recorded.

Effective December 31, 2000, Health Plans and Hospitals initiated a plan to close operations and sell assets of Kaiser Foundation Health Plan of Kansas City, Inc. (“Kansas City”). Through these operations and its affiliated medical group, Kansas City provided services to members in the states of Kansas and Missouri. All sales agreements, except certain real estate, were finalized in April 2001. As part of the divestiture, Kansas City continued to fulfill remaining contractual obligations under its membership contracts (see loss contract adjustments below). Medical operations in Kansas City were substantially terminated by March 2001.

The reserves related to divestitures are detailed as follows (in millions):

	Northeast	North Carolina	Kansas City	Total
Reserve balance at December 31, 2001	$ 56	$ 12	$ 11	$ 79
Reserve activity during 2002:				
Divestiture adjustments	(1)	-	-	(1)
Write-down of assets	(12)	-	(1)	(13)
Severance and benefit related costs	-	-	(1)	(1)
Other - net	(2)	5	(2)	1
Reserve balance at December 31, 2002	41	17	7	65
Reserve activity during 2003:				
Divestiture adjustments	-	(13)	1	(12)
Write-down of assets	(10)	-	(5)	(15)
Severance and benefit related costs	-	-	(1)	(1)
Other - net	6	12	(2)	16
Reserve balance at December 31, 2003	$ 37	$ 16	$ -	$ 53

Loss Contract Adjustments - In 2001 and prior years, Health Plans and Hospitals accrued amounts for loss contract reserves due to an expectation that certain health care and related costs to be incurred in future periods, under a group of then existing contracts in Northeast, North Carolina, and Kansas City, would exceed anticipated future premium revenues and reinsurance recoveries. Remaining reserves related to these loss contract accruals at December 31, 2003 and 2002 were $14 million for each year.

Other Asset Impairments - During 2003 and 2002, management evaluated the current and future utilization of existing and planned facilities and adjusted land, buildings, and equipment by $11 million and $48 million, respectively.

4. MARKETABLE SECURITIES

Marketable securities, stated at fair value, at December 31 (in millions) include:

	2003	2002
Marketable Securities - Current		
U.S. treasury and government agencies	$ 1,130	$ 1,150
Other investment in debt instruments	3,563	2,546
Total	$ 4,693	$ 3,696
Marketable Securities - Noncurrent		
Equity	$ 1,853	$ 1,501
U.S. treasury and government agencies	887	793
Other investment in debt instruments	851	1,019
Total	$ 3,591	$ 3,313

Investment income on marketable securities, at December 31 (in millions), is comprised of the following:

	2003	2002
Realized gains (losses) - net	$ 10	$ (34)
Interest and dividend income	216	178
Total investment income	226	144
Less investment income included in operating income	(134)	(131)
Investment income - net	$ 92	$ 13

The specific identification method is used to determine realized gains and losses. The net unrealized gains (losses) on marketable securities as of December 31, 2003 and 2002 totaled $395 million and $(46) million, respectively.

The following table shows marketable securities' gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in an unrealized loss position, at December 31, 2003 (in millions):

Description of Securities	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and government agencies	$ 337	$ 4	$ 17	$ 1	$ 354	$ 5
Other investment in debt instruments	604	4	91	1	695	5
Subtotal, debt securities	941	8	108	2	1,049	10
Equity	71	8	80	5	151	13
Total temporarily impaired securities	$ 1,012	$ 16	$ 188	$ 7	$ 1,200	$ 23

In its review of assets for impairment that is other than temporary, management generally follows the following criteria:

∉ Losses are recognized for known matters, such as bankruptcies, regardless of ownership period.

∉ Investments held over 9 months with a decrease of 30% or more are evaluated for impairment that is other than temporary.

For the years ended December 31, 2003 and 2002, Health Plans and Hospitals wrote down to fair market value certain investments. The write-downs totaled $3 million and $42 million, respectively, and were due to a decline in the fair value of the investments which, in the opinion of management, was considered to be other than temporary. The write-downs are included in investment income - net in the accompanying statement of operations and changes in net worth.

5. ACCOUNTS RECEIVABLE

Accounts receivable at December 31 (in millions) include:

	2003	2002
Patient services	$ 981	$ 914
Members' dues	301	343
Medicare	139	178
Other	191	158
Total	1,612	1,593
Less allowance for uncollectible accounts	(733)	(788)
Total	$ 879	$ 805

6. LAND, BUILDINGS, EQUIPMENT AND SOFTWARE

Land, buildings, equipment and software at December 31 (in millions) include:

	2003	2002
Land	$ 855	$ 822
Construction in progress	917	570
Buildings and improvements	9,920	9,500
Furniture, equipment and software	4,885	4,548
Total	16,577	15,440
Less accumulated depreciation	(8,046)	(7,630)
Total	$ 8,531	$ 7,810

Health Plans and Hospitals capitalize interest costs on borrowings incurred during the new construction or upgrade of qualifying assets. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. For 2003 and 2002, Health Plans and Hospitals capitalized $18 million and $19 million of interest, respectively, in connection with various capital projects.

7. OTHER ASSETS

Other current assets at December 31 (in millions) include:

	2003	2002
Inventories	$ 525	$ 554
Prepaid expenses	113	103
Other	9	16
Total	$ 647	$ 673

Other long-term assets at December 31 (in millions) include:

	2003	2002
Prepaid pension	$ 598	$ -
Intangible pension asset	-	132
Other	118	165
Total	$ 716	$ 297

8. OTHER LIABILITIES

Other current liabilities at December 31 (in millions) include:

	2003	2002
Self-insured risks	$ 421	$ 407
Dues collected in advance	311	243
Divestiture and loss contract accruals	67	79
Medicare reserves	105	22
Postretirement benefits	52	33
Other	142	146
Total	$ 1,098	$ 930

Other long-term liabilities at December 31 (in millions) include:

	2003	2002
Postretirement benefits	$ 1,322	$ 1,125
Self-insured risks	1,157	873
Accrued pension liability	-	432
Other	91	48
Total	$ 2,570	$ 2,478

9. LONG-TERM DEBT

Long-term debt at December 31 (in millions):

	2003	2002
Tax-exempt revenue bonds:		
4.25% to 7.15% fixed rate due through 2033	$ 1,215	$ 1,433
1.12% to 4.70% variable rate due through 2036	888	686
Other:		
9.55% Debentures due 2005	118	118
Others at various rates due through 2021	8	51
Total	2,229	2,288
Less current installments on long-term debt	(4)	(37)
Total	$ 2,225	$ 2,251

In August 2003, Hospitals issued $213 million of variable rate Revenue Bonds with various maturities through 2033. Hospitals used the proceeds of the bonds, together with other available funds, to refund in advance $220 million of previously outstanding bond obligations.

In 2003, Health Plans paid tax-exempt revenue bonds totaling $11 million prior to the scheduled maturities of such bonds.

In April 2002, Hospitals issued $500 million of fixed and variable rate Revenue Bonds with various maturities through 2036. Hospitals plans to use the proceeds of the bonds, together with other available

funds, to finance the cost of certain capital improvements and equipment acquisitions at certain health and related facilities and support service centers owned by Hospitals.

In 2002, Hospitals paid tax exempt revenue bonds totaling $36 million prior to the scheduled maturities of such bonds.

At the holder's option, repurchase of variable rate revenue bonds, totaling $888 million at December 31, 2003, may be required at earlier dates. Variable rates for these bonds are determined by market rates for similar obligations. Health Plans and Hospitals are in compliance with covenants in financing agreements, which generally relate to liquidity, total indebtedness and asset dispositions.

Scheduled principal payments for each of the next five years and thereafter (in millions):

2004	$ 4
2005	118
2006	22
2007	17
2008	27
Thereafter	2,041
Total	$ 2,229

At December 31, 2002, Health Plans and Hospitals had outstanding two interest rate swap agreements with notional principal amounts of $99.95 million and $60 million maturing in 2025 and 2033, respectively. Under the outstanding agreements, Health Plans and Hospitals receive interest payments at fixed rates of 5.07% and 4.93%, respectively, and pay interest at a variable rate based on the weekly BMA Municipal Swap Index (1.52% on December 31, 2002).

In March 2003, Health Plans and Hospitals terminated the interest rate swap agreement with a notional principal amount of $99.95 million. At December 31, 2003, Health Plans and Hospitals had outstanding one interest rate swap agreement with a notional principal amount of $60 million maturing in 2033. Under the outstanding agreement, Health Plans and Hospitals receive interest payments at a fixed rate of 4.93% and pay interest at a variable rate based on the weekly BMA Municipal Swap Index (1.14% on December 31, 2003).

Hospitals has bank lines of credit totaling $500 million which expire at various dates through May 2006. No amounts were outstanding under these bank lines at December 31, 2003 and 2002.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reported in the balance sheet for cash and equivalents, accounts receivable, accounts payable and accrued expenses, medical claims payable, payroll and related charges, and due to associated medical groups approximate fair value. Marketable securities are reported at fair value. The fair value of marketable securities are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. The fair value of long-term debt is based on current traded value. For certain debt issues that are not actively traded, fair value is determined based on interest rates currently available to Health Plans and Hospitals for debt with similar terms and remaining maturities. The carrying amount of long-term debt totaled $2.2 billion and $2.3 billion at December 31, 2003 and 2002. The estimated fair value of long-term debt was approximately $2.3 billion and $2.4 billion at December 31, 2003 and 2002.

The estimated fair values of the interest rate swap instruments have been determined using available market information and valuation methodologies, primarily discounted cash flows. At December 31, 2003 and 2002, the fair values of these interest rate swap agreements were recorded on the balance sheet at $3.2 million and $6.4 million, respectively. These amounts have been included in interest expense.

Judgment is required to develop estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts Health Plans and Hospitals could have realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have an effect on the estimated fair value amounts.

11. PHYSICIANS' RETIREMENT PLAN

Kaiser Foundation Health Plan, Inc. maintains a retirement plan that provides defined retirement and disability benefits for physicians associated with certain Medical Groups. Benefits are determined by length of service and level of compensation of each participant. The plan is unfunded and is not subject to the Employee Retirement Income Security Act of 1974.

The recorded physicians' retirement plan liability is approximately equal to the actuarial present value of projected plan benefits. Securities with a cost basis equal to the recorded liability have been designated to support the physicians' retirement plan liability.

Summary of changes in the physicians' retirement plan liability (in millions):

	2003	2002
Physicians' retirement plan liability at January 1	$ 1,418	$ 1,342
Provision	165	153
Benefits paid	(80)	(77)
Physicians' retirement plan liability at December 31	$ 1,503	$ 1,418

Provision for physicians' retirement plan for the years ended December 31 (in millions):

	2003	2002
Service costs	$ 57	$ 50
Interest cost	101	95
Other	7	8
Total provision	165	153
Expected return on assets - investment income included in operating expenses	(134)	(131)
Net provision	$ 31	$ 22

The expected return on assets is the portion of investment income that represents the expected return on marketable securities designated for the physician's retirement plan. This amount is recorded as a reduction in the expense for physician's retirement plan and is excluded from investment income – net.

The weighted average discount rate at January 1 used to calculate the provision and the December 31 projected benefit obligation was 6.75% in 2003 and 6.85% in 2002. The rate of salary progression used

to calculate the provision and the December 31 projected benefit obligation was 2% in 2003 and 2002, grading up to 4% to 6% in 2005.

12. PENSION PLANS

Defined Benefit Plan - Health Plans and Hospitals have a defined benefit pension plan covering substantially all their employees. Benefits are based on age at retirement, years of credited service, and average compensation for a specified period prior to retirement. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. There were no required employee contributions in 2003 and 2002. Employer contributions were $676 million in 2003. There were no employer contributions in 2002. Benefits paid totaled $69 million and $61 million in 2003 and 2002.

For financial reporting and funding purposes, the projected unit credit method is used. Substantially all pension fund assets are invested in fixed-income and equity securities.

Funded status of the plans at December 31 (in millions):

	2003	2002
Actuarial present value of accumulated plan benefits	$ 2,639	$ 2,161
Projected benefit obligation ("PBO")	$ 3,518	$ 2,879
Plan assets at fair value	2,676	1,729
PBO in excess of plan assets	(842)	(1,150)
Unrecognized net loss (gain) since transition	1,278	1,198
Unrecognized prior service cost - net	162	132
Accrued pension cost	$ 598	$ 180

Amounts recognized in the balance sheets at December 31 consist of (in millions):

	2003	2002
Prepaid pension cost included with other assets	$ 598	$ -
Accrued pension cost included with other liabilities	-	(432)
Intangible pension asset included with other assets	-	132
Additional minimum pension liability included in net worth	-	470
Net amount recognized at year end	$ 598	$ 170

Pension expense for the years ended December 31 (in millions):

	2003	2002
Service costs	$ 260	$ 153
Interest cost on PBO	198	150
Actual return on plan assets (income) loss	(341)	176
Net amortization and deferrals	140	(402)
Net pension expense	$ 257	$ 77

Actuarial assumptions used were as follows:

	2003	2002
Weighted average discount rate at January 1 for calculating pension expense	6.50%	7.25%
Weighted average discount rate for calculating December 31 PBO	6.25	6.50
Weighted average salary scale for calculating pension expense and December 31 PBO	4.0-6.0	4.0-6.0
Expected long-term rate of return on plan assets	8.50	9.00

The provisions of Financial Accounting Standards Board Statement No. 87, *Employers' Accounting for Pensions*, required Health Plans and Hospitals to record an additional minimum liability of $432 million at December 31, 2002. This liability represents the amount by which the accumulated benefit obligation exceeds the sum of the fair market value of plan assets and accrued amounts previously recorded. The additional liability may be offset by an intangible asset to the extent of previously unrecognized prior service cost. The intangible asset of $132 million at December 31, 2002 is included in other assets in the combined balance sheet. The remaining amount of $470 million is included as a component of net worth in the combined balance sheet at December 31, 2002.

Health Plans and Hospitals adopted a September 30 measurement date in 2001. As of the most recent measurement date, September 30, 2003, the plan was no longer underfunded based on the accumulated benefit obligation. Accordingly, Health Plans and Hospitals reversed the additional minimum pension liability recorded as of December 31, 2002, along with the corresponding intangible asset and net worth reduction.

Defined Contribution Plans - Health Plans and Hospitals have defined contribution plans for eligible employees. Employer contributions and costs are based on a percentage of covered employees' salaries. There were no required employee contributions in 2003 and 2002. Employer contributions for 2003 and 2002 were $76 million and $80 million, respectively.

Multiemployer Plans - Health Plans and Hospitals participate in defined benefit and defined contribution multiemployer union-administered pension plans that provide benefits to some union employees. Amounts charged to pension expense and contributed to the plans in 2003 and 2002 were $10 million and $9 million, respectively.

13. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Certain employees may become eligible for health care and life insurance benefits if they reach retirement while working for Health Plans and Hospitals. At Health Plans' and Hospitals' option, benefits may be changed.

The accrued liability for postretirement benefits at December 31 is as follows (in millions):

	2003	2002
Retirees	$ 582	$ 484
Fully eligible participants	591	359
Other active plan participants	1,116	939
Accumulated postretirement benefits obligation ("APBO") - unfunded	2,289	1,782
Unrecognized net gain (loss)	(813)	(550)
Unrecognized transition obligation	(102)	(74)
Accrued postretirement benefits liability	$ 1,374	$ 1,158

Postretirement benefits expense for the years ended December 31 (in millions):

	2003	2002
Service costs	$ 100	$ 64
Interest on APBO	117	86
Net amortization and deferrals	33	9
Postretirement benefits expense	$ 250	$ 159

The unrecognized transition obligation represents the excess of the APBO at January 1, 1993 over amounts previously accrued for this liability. Health Plans and Hospitals have elected to recognize the liability for the transition obligation over a twenty year period.

The employer contributions and benefits paid during 2003 and 2002 were $34 million and $28 million, respectively. There were no participant contributions in 2003 and 2002.

Actuarial assumptions used were as follows:

	2003	2002
Weighted average discount rate at January 1 for calculating postretirement benefits expense	6.50%	7.25%
Weighted average discount rate for calculating December 31 APBO	6.25	6.50

The following are the assumed health care cost trend rates for 2003 and 2002, which represents program-wide, weighted average expected increases:

	Basic and Major Medical	Prescription Drug	Dental and Vision	Part B Premium	Medicare Reimbursement
Initial trend rate - 2003	7.0%	13.0%	5.0%	4.9%	2.0%
Initial trend rate - 2002	8.0%	15.5%	5.0%	5.6%	2.0%
Ultimate trend rate	5.0%	5.0%	5.0%	5.0%	5.0%
First year at ultimate trend rate	2005	2008	N/A	2008	2006

Between initial and ultimate periods, rates generally increase for Medicare reimbursement, remain level for dental and vision, and gradually decrease for all other coverages.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act became law. The effects of this Act are not reflected in this disclosure. Specific authoritative guidance for the effects of the Act is pending. The issued guidance could require the sponsor to change previously reported information.

14. COMMITMENTS

Operating Leases - Health Plans and Hospitals lease primarily office space, medical facilities and equipment under various operating leases that expire through 2036. Certain leases contain rent escalation clauses and renewal options for additional periods. Rent expense totaled $247 million in 2003 and $214 million in 2002.

Health Plan, Inc. has a lease agreement with a special purpose entity ("Lessor") to lease a building under an initial term of five years and has options to extend the lease, in five-year increments, through January 1, 2029 and to purchase the building. The Lessor issued debt of $110 million. Kaiser Foundation Hospitals, KHPAM and KHAM have guaranteed the obligations of Health Plan, Inc. during the lease period. In the event Health Plan, Inc. elects not to extend the lease or exercise the purchase option, it has guaranteed the Lessor a minimum residual value of $90 million. The lease is accounted for as an operating lease. Accordingly, neither the asset nor related obligations are reported on the combined balance sheets of Health Plans and Hospitals. The lease commitments table below includes minimum lease payments of approximately $7 million per annum through 2008.

Health Plan, Inc., Kaiser Foundation Hospitals and KHPAM have agreements with a special purpose entity ("Lessor") in order to develop, construct, finance and lease several new medical facilities. The Lessor issued debt of $205 million. KHPAM, in its role as construction agent for the Lessor, is responsible for completing construction on each facility. In the event a project is terminated before completion, KHPAM is required to pay the amount of debt designated to finance such project. In the event KHPAM elects not to extend the lease or exercise the purchase option, it has guaranteed the Lessor a minimum residual value of $184 million. Health Plan, Inc., Kaiser Foundation Hospitals and KHAM have guaranteed the obligations of KHPAM to the Lessor during the construction and post-construction periods. The projects are accounted for as operating leases. Accordingly, neither the asset nor related obligations are reported on the combined balance sheets of Health Plans and Hospitals. The lease commitments table below includes minimum lease payments of up to $11 million per annum through 2009.

Purchase Commitments - Health Plans and Hospitals have entered into long-term agreements that require certain minimum purchases of goods and services. These commitments are at levels that are consistent with normal business requirements. Health Plans has committed to directing most of its purchasing volume for selected products through an outside agency and has committed to at least $1 billion in purchasing per annum by January 2004 through 2010. During 2003, Health Plans' total purchases through this outside agency were over $1 billion. Should the $1 billion level not be achieved, there might be financial penalties to Health Plans, which amounts would be determined through negotiation, mediation or arbitration. In management's judgment, there is a remote probability of material financial penalties under this contract.

Minimum commitments under operating leases, net of sublease income, and purchase commitments, excluding contracts which count towards the $1 billion per annum commitment noted above, extending beyond one year at December 31, 2003 are as follows (in millions):

	Leases	Purchases
2004	$ 221	$ 304
2005	194	115
2006	147	58
2007	111	45
2008	89	-
Thereafter	290	-
Total	$1,052	$ 522

During 2003 and 2002, Health Plans' and Hospitals' total purchases under these contracts with minimum purchase commitments were $268 million and $221 million, respectively.

Surety Instruments and Standby Letters of Credit - In the normal course of business Health Plans and Hospitals contract to perform certain financial obligations that require a guarantee from a third party. This guarantee creates a contingent liability to the entity that provides that guarantee. As of December 31, 2003 and 2002, Health Plans and Hospitals had entered into surety instruments and standby letters of credit that totaled $67 million and $665 million, respectively. Of these amounts, $6 million in 2003 and $425 million in 2002 are surety instruments and standby letters of credit that support self-insured workers' compensation programs in various States. An additional $162 million in 2002 provides surety to the Trustor of a pool of medical claims. Additional surety instruments and standby letters of credit totaling $61 million in 2003 and $78 million in 2002 have been issued for a variety of obligations including judicial appeals, construction projects, performance guarantees, employer taxes, and notaries.

Put Agreement – Third Party Debt - In 2002, Hospitals entered into an arrangement with a financial institution whereby that organization has the right, but not the obligation, to put to Hospitals certain bonds with a face amount of $168 million with various maturity dates through 2032 at a fixed interest rate of 8.75%. Hospitals receives a fee for this arrangement which it records as non-operating income. The arrangement with the financial institution also contains an embedded derivative element in that the underlying debt is fixed rate but Hospitals has agreed to take interest rate risk through a receive fixed/pay variable interest rate swap, where the variable rate of interest is based on the BMA rate. The financial organization has the option to terminate the embedded interest rate swap in 2012. Hospitals has the option to terminate this arrangement for a period of 120 days beginning November 15, 2012, whereby Hospitals would pay the financial organization an amount equal to 100% of the bonds that have not been defeased or redeemed. The right to put the bonds may occur when the bonds are in default. These bonds are being used by a third party to construct a new hospital with which a subsidiary of Hospitals has entered into a hospital service agreement for the provision of services to members of an operating subsidiary of Health Plan, Inc. The hospital service agreement provides that in the event of default on the debt subject to the put agreement, the subsidiary of Hospitals or its designee shall have the right to acquire the underlying hospital assets under certain terms. As of December 31, 2003 and 2002, the valuation of the derivative element of this arrangement is $3.0 million and $4.7 million, respectively. This amount has been recorded on the balance sheet as an asset and reflected in non-operating income. As of December 31, 2003 and 2002, there is no amount on the balance sheet relating to the put agreement.

Regulatory - Health Plans are required to periodically file financial statements with regulatory agencies in accordance with statutory accounting and reporting practices. Health Plans must comply with the

various states' minimum regulatory net worth requirements generally under the regulation of the California Department of Managed Health Care and various state departments of insurance. Such requirements are generally based on tangible net equity or 100% of risk based capital, and for California are calculated on the basis of combined net worth. The regulatory net worth, so defined, exceeded the aggregate regulatory requirements by approximately $7.3 billion at December 31, 2003.

Health Plans' regulated subsidiaries maintain investments in various states where they are licensed. At December 31, 2003, $9 million in securities were held to satisfy various state regulatory requirements.

Hospital Seismic Safety Act - In 1994, the California legislature enacted Senate Bill 1953 ("SB 1953"), which requires that California hospitals evaluate and upgrade acute care facilities to meet the requirements of the Hospital Seismic Safety Act by 2008 or 2030, depending upon the hospital's structural performance category classification. As amended by subsequent legislation, the statute allows Hospitals to apply for extensions to the 2008 deadline in certain circumstances. Hospitals and Health Plan, Inc. expect to be fully compliant with all of the provisions and deadlines as mandated by SB 1953, as amended.

15. LITIGATION

Health Plans and Hospitals are involved in various legal proceedings, including professional liability, breach of contract, commercial and employment-related litigation, which are consistent with the health care industry. In addition, Health Plans indemnify the Medical Groups against claims for professional liability. In the opinion of management, based upon current facts and circumstances, the resolution of these matters is not expected to have a material adverse effect on the combined financial position or combined results of operations of Health Plans and Hospitals.

16. SUBSEQUENT EVENTS

Subsequent to December 31, 2003, Kaiser Foundation Hospitals defeased portions of tax-exempt bonds by placing securities in an irrevocable escrow to continue to service the original obligations of the bonds. The total amount of debt defeased was $1,070 million. This early retirement of debt resulted in a net loss of $30 million.

* * * * * *

KAISER FOUNDATION HEALTH PLAN, INC.,
KAISER HEALTH PLAN ASSET MANAGEMENT, INC.,
KAISER FOUNDATION HOSPITALS AND
KAISER HOSPITALS ASSET MANAGEMENT, INC.
(OBLIGATED GROUP) [1]

ADDITIONAL INFORMATION - SUMMARIZED
COMBINED BALANCE SHEETS
DECEMBER 31, 2003 AND 2002 (In millions)

	2003	2002
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	$ 22	$ 37
Marketable securities	4,255	3,246
Accounts receivable	747	663
Other	536	560
Total current assets	5,560	4,506
MARKETABLE SECURITIES	3,583	3,306
LAND, BUILDINGS, EQUIPMENT AND SOFTWARE - NET	7,701	6,957
INVESTMENTS IN SUBSIDIARIES	1,210	912
OTHER ASSETS	574	63
TOTAL ASSETS	$ 18,628	$ 15,744
LIABILITIES AND NET WORTH		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 972	$ 781
Medical claims payable	572	615
Due to associated medical groups	174	284
Payroll and related charges	709	569
Due to affiliated organizations	691	534
Medicare payments received in advance	398	416
Other	856	707
Current installments on long-term debt	4	37
Total current liabilities	4,376	3,943
LONG-TERM DEBT	2,516	2,232
PHYSICIANS' RETIREMENT PLAN LIABILITY	1,503	1,418
OTHER LONG-TERM LIABILITIES	1,970	1,850
TOTAL LIABILITIES	10,365	9,443
NET WORTH	8,263	6,301
TOTAL LIABILITIES AND NET WORTH	$ 18,628	$ 15,744

[1] Entities which are obligated to make payments under various debt and guarantee agreements.

KAISER FOUNDATION HEALTH PLAN, INC., KAISER HEALTH PLAN ASSET MANAGEMENT, INC., KAISER FOUNDATION HOSPITALS AND KAISER HOSPITALS ASSET MANAGEMENT, INC. (OBLIGATED GROUP) [1]

ADDITIONAL INFORMATION - SUMMARIZED COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET WORTH YEARS ENDED DECEMBER 31, 2003 AND 2002 (In millions)

	2003	2002
REVENUES:		
Members' dues	$ 13,578	$ 11,405
Contract revenue from Health Plans	868	894
Medicare	4,874	4,720
Copays, deductibles, fees and other	1,247	1,039
Total operating revenues	20,567	18,058
EXPENSES:		
Medical services	8,824	7,791
Hospital services	6,769	5,892
Outpatient pharmacy and optical services	2,353	2,139
Other benefit costs	1,292	1,284
Total medical and hospital services	19,238	17,106
Health Plan administration	465	378
Software impairments and other charges	3	532
Total operating expenses	19,706	18,016
INCOME BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	861	42
EQUITY IN NET INCOME OF SUBSIDIARIES	157	124
OPERATING INCOME	1,018	166
OTHER INCOME AND EXPENSE:		
Investment income - net	192	102
Interest expense	(214)	(198)
Total other income and expense	(22)	(96)
NET INCOME	996	70
ADDITIONAL MINIMUM PENSION LIABILITY	470	(470)
CHANGE IN UNREALIZED GAINS ON MARKETABLE SECURITIES	439	(132)
GRANT CONTRIBUTIONS RECEIVED	57	2
NET WORTH AT BEGINNING OF YEAR	6,301	6,831
NET WORTH AT END OF YEAR	$ 8,263	$ 6,301

[1] Entities which are obligated to make payments under various debt and guarantee agreements.

KAISER FOUNDATION HEALTH PLAN, INC.,
KAISER HEALTH PLAN ASSET MANAGEMENT, INC.,
KAISER FOUNDATION HOSPITALS AND
KAISER HOSPITALS ASSET MANAGEMENT, INC.
(OBLIGATED GROUP) [1]

ADDITIONAL INFORMATION - SUMMARIZED COMBINED
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003 AND 2002 (In millions)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 996	$ 70
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	821	721
Software impairments and other charges	3	532
Provision for postretirement benefits	205	133
Amounts paid for postretirement benefits	(29)	(25)
Changes in assets and liabilities:		
Accounts receivable	(84)	68
Other current assets	24	(64)
Investments in subsidiaries	(298)	25
Other assets	(513)	345
Accounts payable and accrued expenses	191	46
Medical claims payable	(43)	38
Due to associated medical groups	(110)	125
Payroll and related charges	140	111
Due to affiliated organizations	157	153
Medicare payment received in advance	(18)	51
Other liabilities	106	303
Additional minimum pension liability	470	(470)
Net cash provided from operating activities	2,018	2,162
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to land, buildings, equipment and software	(1,582)	(1,287)
Proceeds from sale of land, buildings and equipment	1	3
Marketable securities	(847)	(1,444)
Physicians' retirement plan liability	85	76
Net cash used in investing activities	(2,343)	(2,652)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long term borrowings	213	500
Debt repayments	(34)	(15)
Prepayment of debt	(231)	(36)
Debt issuance and related costs	2	4
Long term affiliate debt	303	-
Grant contributions received	57	2
Net cash provided from financing activities	310	455
NET CHANGE IN CASH AND EQUIVALENTS	(15)	(35)
CASH AND EQUIVALENTS AT BEGINNING OF YEAR	37	72
CASH AND EQUIVALENTS AT END OF YEAR	$ 22	$ 37

[1] Entities which are obligated to make payments under various debt and guarantee agreements.

APPENDIX B

SUMMARY OF PRINCIPAL DOCUMENTS

Following are summaries of certain provisions of the Indenture, the Loan Agreement and the Guarantee Agreement relating to the Bonds not described elsewhere in this Official Statement. These summaries are not complete recitals of the terms of those documents and reference should be made to the Indenture, Loan Agreement and Guarantee Agreement for their complete terms. Words and terms used in the following summaries and not defined herein have the same meanings as in the Indenture, Loan Agreement and Guarantee Agreement.

DEFINITIONS

"Accountant" means any independent certified public accountant or firm of such accountants selected by the Borrower.

"Act" means the Joint Exercise of Powers Act, constituting Title 1, Division 7, Chapter 5 of the Government Code of the State of California, as now in effect and as it may from time to time be amended or supplemented.

"Additional Funding Amount" means the additional amount of funds, if any, required to be transferred to the Tender Agent which shall be the amount, if any, by which the total Purchase Price of the Purchased Bonds exceeds the sum of the amounts then on deposit in the Remarketing Proceeds Account and the Liquidity Facility Account.

"Additional Payments" means the payments so designated and required to be made by the Borrower pursuant to the Loan Agreement.

"Administrative Fees and Expenses" means any application, commitment, financing or similar fee charged, or reimbursement for administrative or other expenses incurred, by the Authority or the Trustee.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Affiliated Corporation" means the Borrower, the Guarantors and each Subsidiary of either the Borrower or a Guarantor.

"Agreement" or "Loan Agreement" means that certain loan agreement by and between the Authority and the Borrower, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Indenture.

"Alternate Liquidity Facility" means a line of credit, standby purchase agreement or similar liquidity facility issued by a commercial bank or financial institution and delivered to the Tender Agent in accordance with the Loan Agreement which replaces a Liquidity Facility then in effect.

"Attributable Debt" means, as to any lease required to be capitalized under generally accepted accounting principles, the liability with respect to such lease on the lessee's balance sheet for the most recent Fiscal Year for which audited financial statements are available.

"Authority" means the California Statewide Communities Development Authority, or its successors and assigns.

"Bond Interest Term" means, with respect to any Bond, each period established in accordance with the Indenture during which such Bond shall bear interest at a Bond Interest Term Rate.

"Bond Interest Term Rate" means, with respect to each Bond, an interest rate on such Bond established periodically in accordance with the Indenture.

"Bonds" means California Statewide Communities Development Authority Kaiser Permanente Revenue Bonds, authorized by, and at any time Outstanding pursuant to, the Indenture.

"Borrower" means Kaiser Foundation Hospitals, a California nonprofit public benefit corporation, or any corporation which is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of substantially all the assets of the Borrower permitted under the Loan Agreement.

"Business Day" means a day which is not (i) a Saturday, Sunday or legal holiday on which banking institutions in the State of New York or the State of California or the state in which the Corporate Trust Office of the Trustee or the principal office of the Remarketing Agent is located are authorized by law to close, or (ii) a day on which The New York Stock Exchange is closed.

"Commercial Paper Interest Rate Period" means each period with respect to a Series of Bonds, comprised of Bond Interest Terms, during which Bond Interest Term Rates are in effect.

"Consolidated Net Tangible Assets" means as of any particular time the aggregate amount of assets of the Affiliated Corporations after deducting therefrom (a) all current liabilities (excluding any such liability that by its terms is extendable or renewable at the option of the debtor thereon to a time more than twelve (12) months after the time as of which the amount thereof is being computed) and (b) all goodwill, patents, copyrights, trademarks, trade names, unamortized debt discount and expense and other like intangibles, all as shown in the most recent combined financial statements of the Affiliated Corporations prepared in accordance with generally accepted accounting principles.

"Conversion" means a conversion of a Series of Bonds from one Interest Rate Period to another Interest Rate Period.

"Conversion Date" means the effective date of a Conversion of a Series of Bonds.

"Daily Interest Rate" means a variable interest rate on a Series of Bonds determined on each Business Day in accordance with the Indenture.

"Daily Interest Rate Period" shall mean each period with respect to a Series of Bonds during which a Daily Interest Rate is in effect.

"Depository" means any securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a book-entry system to record ownership of book-entry interests in Bonds, and to effect transfers of book-entry interests in Bonds in book-entry form, and includes and means initially The Depository Trust Company (a limited purpose trust company), New York, New York.

"Fiscal Year" means the period beginning on January 1 of each year and ending on the next succeeding December 31, or any other twelve-month or fifty-two week period selected and designated as the official fiscal year period of the Borrower.

"Fitch" means Fitch, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Borrower by notice to the Authority and the Trustee.

"Funding Amount" means the amount equal to the difference between the Purchase Price of the Purchased Bonds to be provided on the Purchase Date and the amount deposited in the Remarketing Proceeds Account and available to pay the Purchase Price of those Purchased Bonds on the Purchase Date.

"Guarantee Agreement" means that certain guarantee agreement by and between the Authority and the Guarantors, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Indenture.

"Guarantors" means Kaiser Foundation Health Plan, Inc., Kaiser Hospital Asset Management, Inc. and Kaiser Health Plan Asset Management, Inc., each a California nonprofit public benefit corporation, or any corporation which is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of substantially all of the assets of any Guarantor.

"Holder" or "Bondholder," whenever used with respect to a Bond, means the Person in whose name such Bond is registered.

"Indebtedness" means, with respect to any Person, all indebtedness for borrowed money (including any installment purchase obligation and Attributable Debt) of such Person (other than indebtedness of one Affiliated Corporation to another Affiliated Corporation) which in accordance with generally accepted accounting principles is classified as a liability on a balance sheet, and twenty percent (20%) of the aggregate principal amount of all indebtedness for borrowed money for which such Person is a Guarantor except for any guarantee by any Affiliated Corporation of indebtedness of any other Affiliated Corporation. In determining the amount of Indebtedness outstanding as of any date of calculation, there shall be deducted from the aggregate principal amount of such Indebtedness an amount equal to the amount then on deposit in any trustee-held reserve account or trustee-held escrow fund and available for the payment of the principal of such Indebtedness.

"Indenture" means that certain Indenture, between the Authority and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

"Interest Accrual Date" means (i) with respect to any Weekly Interest Rate Period, the first day thereof and, thereafter, the first Wednesday of each calendar month during such Weekly Interest Rate Period (whether or not a Business Day), (ii) with respect to any Daily Interest Rate Period, ARS Interest Rate Period or Long-Term Interest Rate Period, the first day thereof and, thereafter, each Interest Payment Date in respect thereof, other than the last such Interest Payment Date, and (iii) with respect to each Bond Interest Term within a Commercial Paper Interest Rate Period for the Bonds, the first day thereof.

"Interest Payment Date" means (a) for Bonds other than ARS (i) with respect to any Weekly Interest Rate Period, the first Wednesday of each calendar month, or, if such first Wednesday shall not be a Business Day, the next succeeding Business Day, (ii) with respect to any Daily Interest Rate Period, the first Business Day of each month, (iii) with respect to any Long-Term Interest Rate Period of more than 270 days, each April 1 and October 1, provided that the first interest payment made for any Long-Term Interest Rate Period shall be at least ninety (90) days from the first day of such period, (iv) with respect to any Bond Interest Term, the day next succeeding the last day thereof, and (v) with respect to any Long-Term Interest Rate Period of 270 days or less and for each Interest Rate Period, the day next succeeding the last day thereof, and (b) for Bonds that are ARS, each ARS Interest Payment Date.

"Investment Agreement" means an agreement or contract providing for the deposit or loan of funds pursuant to which the principal thereof is payable upon demand by the Trustee for application when and as required or permitted under the Indenture, with a financial institution (including an insurance company) whose unsecured obligations at the time of investment are rated in one of the three highest ratings by a Rating Agency or Moody's.

"Investment Securities" means any of the following: (1) United States Government Obligations; (2) repurchase agreements with banks (including the Trustee), lead banks of parent holding companies, or security dealers provided that (a) the underlying securities of such agreement are rated in one of the three highest Rating Categories by a Rating Agency, (b) the underlying securities are required to be continuously maintained at a market value (valued at least quarterly) not less than the amount of the repurchase price from time to time payable with respect thereto and (c) the underlying securities are held by the Trustee or a third party agent for the Trustee and not subject to claims of third parties; (3) interest-bearing demand or time deposits (including certificates of deposit) in banks (including the Trustee or any of its affiliates) rated in one of the three highest Rating Categories by a Rating Agency; (4) banker's acceptances or certificates of deposit of, or time deposits in, any bank (including the Trustee or

any of its affiliates), lead bank of a parent holding company, or savings and loan association whose unsecured obligations are rated in one of the three highest Rating Categories by a Rating Agency; (5) Investment Agreements; (6) commercial paper of "prime" quality of the two highest rankings or one of the two highest Rating Categories of a Rating Agency or Moody's and issued by corporations organized and operating within the United States; (7) notes or medium term notes rated within one of the three highest Rating Categories by a Rating Agency or Moody's; and (8) money market funds invested in United States Government Obligations, including such funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services.

"Liquidity Facility" means a line of credit, letter of credit, standby purchase agreement or similar liquidity facility issued by a commercial bank or other financial institution and delivered to the Tender Agent in accordance with the Loan Agreement or, in the event of the delivery of an Alternate Liquidity Facility, such Alternate Liquidity Facility.

"Liquidity Facility Bonds" means Bonds purchased with moneys drawn under (or otherwise obtained pursuant to the terms of) the Liquidity Facility, but excluding Bonds no longer considered to be Liquidity Facility Bonds in accordance with the terms of the Liquidity Facility.

"Liquidity Facility Rate" means the rate per annum, if any, specified in a Liquidity Facility as applicable to Liquidity Facility Bonds.

"Liquidity Facility Provider" means the commercial bank or other financial institution issuing (or having primary obligation, or acting as agent for the financial institutions obligated, under) a Liquidity Facility then in effect (if any).

"Loan Repayments" means the payments so designated and required to be made by the Borrower pursuant to the Loan Agreement.

"Long-Term Interest Rate" means, with respect to a Series of Bonds, an interest rate on such Bonds established in accordance with the Indenture.

"Long-Term Interest Rate Period" means each period during which a Long-Term Interest Rate is in effect for a Series of Bonds.

"Maximum Interest Rate" shall mean 15% per annum; provided, however, that the Maximum Interest Rate shall not exceed the maximum interest rate permitted by law from time to time.

"Moody's" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Borrower by notice to the Authority and the Trustee.

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (2) on or after any Purchase Date for Bonds pursuant to the redemption provisions of the Indenture, all Bonds (or portions of Bonds) which have been purchased on such date, but which have not been delivered to the Tender Agent, provided that funds sufficient for such purchase are on deposit with the Tender Agent in accordance with the provisions of the Indenture; (3) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the Indenture, including Bonds (or portions of Bonds) referred to in the Indenture relating to defeasance of Bonds; and (4) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

"Permitted Encumbrances," with respect to the property of any Affiliated Corporation, means and includes:

(1) undetermined liens and charges incident to construction or maintenance, and liens and charges incident to construction or maintenance now or filed of record which are being contested in good faith and have not proceeded to final judgment (and for which all applicable periods for appeal or review have not expired);

(2) notices of lis pendens or other notices of pending actions which are being contested in good faith and have not proceeded to final judgment (and for which all applicable periods for appeal or review have not expired);

(3) the lien of taxes and assessments which are not delinquent, or which are being contested in good faith;

(4) minor defects and irregularities in title which in the aggregate do not materially adversely affect the value or operation of such Affiliated Corporation's facilities for the purposes for which they are or may reasonably be expected to be used;

(5) easements, exceptions or reservations for the purpose of pipelines, telephone lines, telegraph lines, power lines and substations, roads, streets, alleys, highways, railroad purposes, drainage and sewerage purposes, dikes, canals, laterals, ditches, the removal of oil, gas, coal or other minerals, and other like purposes, or for the joint or common use of real property, facilities and equipment, which in the aggregate do not materially interfere with or impair the operation of such Affiliated Corporation's facilities for the purposes for which they are or may reasonably be expected to be used;

(6) rights reserved to or vested in any municipality or governmental or other public authority to control or regulate or use in any manner any portion of the property which do not materially impair the operation of such Affiliated Corporation's facilities for the purposes for which they are or may reasonably be expected to be used;

(7) present or future valid zoning laws and ordinances;

(8) liens securing indebtedness for the payment, redemption or satisfaction of which money (or evidences of indebtedness) in the necessary amount shall have been deposited in trust with a trustee or other holder of such indebtedness;

(9) purchase money security interests and security interests existing on any property prior to the time of its acquisition through purchase, merger, consolidation or otherwise, whether or not assumed by the purchaser thereof, or placed upon property being acquired to secure a portion of the purchase price thereof, or lessor's interests in leases (other than with respect to Sale and Leaseback Transactions) required to be capitalized in accordance with generally accepted accounting principles; provided that the aggregate principal amounts secured by any such interests shall not exceed at the time of incurrence the fair market value of the property so encumbered;

(10) statutory liens arising in the ordinary course of business which are not delinquent or are being contested in good faith;

(11) the lease or license of the use of property for use in performing professional or other services necessary for the proper and economical operation of such property;

(12) liens securing Indebtedness incurred and existing prior to the date of delivery of the Bonds and which liens secure such Indebtedness and are either (a) existing as of the date of delivery of the Bonds or (b) created pursuant to any loan agreement, mortgage, deed of trust, indenture or similar instrument entered into on or before the date of delivery of the Bonds;

(13) liens securing Indebtedness of such Affiliated Corporation if on or before one hundred twenty (120) days after the date of incurrence of such Indebtedness, the principal amount of such Indebtedness, together with all other secured Indebtedness of the Affiliated Corporations (exclusive of

Indebtedness described in clauses (8), (9) and (12) of this definition), does not exceed ten percent (10%) of Consolidated Net Tangible Assets;

(14) liens arising by reason of good faith deposits by any Affiliated Corporation in the ordinary course of business (for other than borrowed money), deposits by any Affiliated Corporation to secure public or statutory obligations, or deposits to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(15) any lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Affiliated Corporation to maintain self-insurance or to participate in any funds established to cover insurance risks or in connection with worker's compensation, unemployment insurance, pension, or profit-sharing plans or other similar social security plans, or to share in the privileges or benefits required for companies participating in such arrangements;

(16) any judgment lien against any Affiliated Corporation so long as such judgment is being contested in good faith and execution thereon is stayed;

(17) liens on property received by any Affiliated Corporation through gifts, grants or bequests, such liens being due to restrictions on such gifts, grants or bequests of property or the income thereon up to the fair market value of such property;

(18) liens on property due to rights of third party payers for recoupment of amounts paid to any Affiliated Corporation; and

(19) any lien in favor of a trustee on the proceeds of Indebtedness prior to the application of such proceeds.

"Person" means an individual, corporation, firm, association, partnership, trust or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Purchase Price" of any Purchased Bond means the principal amount thereof plus accrued interest to, but not including, the Purchase Date; provided, however, (1) that if the Purchase Date for any Purchased Bond is an Interest Payment Date, the Purchase Price thereof shall be the principal amount thereof, and interest on such Bond shall be paid to the Holder of such Bond pursuant to the Indenture and (2) in the case of a purchase on the first day of an Interest Rate Period which is preceded by a Long-Term Interest Rate Period and which commences prior to the day originally established as the last day of such preceding Long-Term Interest Rate Period, "Purchase Price" of any Purchased Bonds means the optional redemption price set forth in the Indenture which would have been applicable to such Bond if the preceding Long-Term Interest Rate Period had continued to the day originally established as its last day, plus accrued interest, if any.

"Purchased Bonds" means the Bonds to be purchased pursuant to the Indenture.

"Rating Agency" means S&P and Fitch.

"Redemption Price" means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

"Remarketing Agent" means, for any Series of Bonds, any remarketing agent appointed in accordance with the Indenture.

"Required Stated Amount" means with respect to a Liquidity Facility, at any time of calculation, an amount equal to the aggregate principal amount of all Bonds then Outstanding secured by such Liquidity Facility together

with interest accruing thereon (assuming an annual rate of interest equal to the Maximum Interest Rate) for the period specified in a Certificate of the Borrower to be the minimum period specified by the Rating Agencies then rating such Bonds as necessary to obtain (or maintain) a specified short-term rating of such Bonds.

"Revenues" means all amounts received by the Authority or the Trustee for the account of the Authority pursuant or with respect to the Agreement or the Guarantee Agreement, including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments and any late charges, and whether paid from any source), prepayments, insurance proceeds, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture, but not including any Administrative Fees and Expenses or any moneys required to be deposited in the Rebate Fund.

"Sale and Leaseback Transaction" means any arrangement or transaction whereby assets are sold or transferred and thereupon or within one year thereafter are rented or leased by the original transferor except for any arrangement or transaction between Affiliated Corporations.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Borrower by notice to the Authority and the Trustee.

"Series," when used with respect to the Bonds, means all the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, and any Bonds thereafter authenticated and delivered upon a transfer or exchange or in lieu of or in substitution for such Bonds.

"Supplemental Indenture" means any indenture duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

"Tender Agent" means any tender agent appointed in accordance with the Indenture.

"Trustee" means Wells Fargo Bank, National Association, a national banking association organized and existing under the laws of the United States of America, or its successor, as Trustee under the Indenture.

"United States Government Obligations" means:

(1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of which are fully guaranteed by the United States of America;

(2) certificates or other instruments that evidence direct ownership of future principal and/or interest on obligations described in clause (1), provided that such obligations are held in the custody of a bank or trust company acceptable to the Trustee in a special account separate from the general assets of such custodian; and

(3) obligations (a) the interest on which is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, (b) the timely payment of the principal of and interest on which is fully provided for by the deposit in trust or escrow of cash or obligations described in clauses (1) or (2), and (c) that are rated in the highest Rating Category by each Rating Agency then rating the Bonds.

"Weekly Interest Rate" means a variable interest rate on a Series of Bonds established in accordance with the Indenture.

"Weekly Interest Rate Period" shall mean each period with respect to a Series of Bonds during which a Weekly Interest Rate is in effect.

INDENTURE

The following is a statement of and a summary of certain provisions of the Indenture not described elsewhere in this Official Statement. This statement and summary should not be considered as a full statement of the Indenture. Reference is made to the Indenture for complete details of the Indenture and the security for the Bonds.

Pledge and Assignment of Revenues

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Revenues and the proceeds of the Bonds and any other amounts in the Bond Fund are pledged to secure the payment of the principal of and interest on the Bonds in accordance with their terms and the provisions of the Indenture. This pledge constitutes a lien on and security interest in such Revenues and the Bond Fund and shall attach, be perfected and be valid and binding from and after delivery by the Trustee of the Bonds.

Allocation of Revenues; Application of Bond Fund

On each Interest Payment Date or Principal Payment Date, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

First: to the Interest Account, the aggregate amount of interest becoming due and payable on the next Interest Payment Date on all Bonds then Outstanding, until the balance in said account is equal to said aggregate amount of interest; and

Second: to the Principal Account, the amount of principal becoming due and payable on the next succeeding Principal Payment Date.

Any moneys remaining in the Bond Fund after the foregoing transfers shall be transferred to the Borrower as an overpayment of Loan Repayments.

All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture).

All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to redeem or pay at maturity the Bonds, as provided in the Indenture.

Redemption Fund

The Redemption Fund is created and held by the Trustee under the Indenture, and within the Redemption Fund is a separate Optional Redemption Account and a separate Special Redemption Account. All amounts deposited in the Optional Redemption Account and in the Special Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in the Indenture, at the next succeeding date of redemption for which notice has not been given and at the Redemption Prices then applicable to redemptions from the Optional Redemption Account and the Special Redemption Account, respectively; provided that, at any time prior to giving such notice of redemption, the Trustee shall, upon direction of the Borrower, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Borrower may direct, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to such Bonds (or, if such Bonds are not then subject to redemption, the par value of such Bonds); and provided further that in the case of the Optional Redemption Account in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such

account may be transferred to the Bond Fund and credited against Loan Repayments in order of their due date as set forth in a Request of the Borrower.

General Provisions Relating to Tenders

The Tender Agent agrees to hold all Bonds delivered to it pursuant to the Indenture in trust for the benefit of the respective Holders which shall have so delivered such Bonds until moneys representing the Purchase Price of such Bonds have been delivered to such Holder in accordance with the Indenture.

Immediately upon its receipt, but not later than 11:30 a.m., New York City time, on the same Business Day in the case of a Bond bearing interest at a Daily Interest Rate and the following Business Day in the case of a Bond bearing interest at a Weekly Interest Rate, from a Holder of a tender notice pursuant to the Indenture, the Tender Agent shall notify the Remarketing Agent, the Liquidity Facility Provider (if any), the Guarantors and the Borrower by telephone, promptly confirmed in writing, or by telecopy, of such receipt, specifying the principal amount of Bonds for which it has received such notice (the "Purchased Bonds"), the names of the Holders thereof and the date on which such Bonds are to be purchased (the "Purchase Date").

As soon as practicable, but in no event later than 12:00 noon, New York City time, on the Purchase Date, the Remarketing Agent shall inform the Tender Agent by telephone, promptly confirmed in writing, of the principal amount of Purchased Bonds for which the Remarketing Agent has identified prospective purchasers and of the name, address and taxpayer identification number of each such purchaser, the principal amount of Purchased Bonds to be purchased and the Minimum Authorized Denominations in which such Purchased Bonds are to be delivered. Upon receipt of such information from the Remarketing Agent, the Tender Agent shall prepare Purchased Bonds in accordance with such information for the registration and redelivery to the Remarketing Agent.

As soon as practicable, but in no event later than 12:15 p.m., New York City time, on the Purchase Date, the Remarketing Agent shall transfer to the Tender Agent, in immediately available funds, the Purchase Price of the Purchased Bonds remarketed by the Remarketing Agent for deposit in the Remarketing Proceeds Account.

The Tender Agent shall, at or before 12:30 p.m., New York City time, on the Purchase Date, present drafts for payment under the Liquidity Facility in an amount equal to the Funding Amount (if a Liquidity Facility is in effect with respect to the Purchased Bonds) so that funds are received under the Liquidity Facility in an amount equal to the Funding Amount on or before 2:30 p.m., New York City time, on the Purchase Date. The Tender Agent shall, at or before 12:30 p.m., New York City time, on the Purchase Date also notify the Borrower and the Guarantors of the Funding Amount by telephone, promptly confirmed in writing. "Funding Amount" means an amount equal to the difference between (1) the total Purchase Price of those Purchased Bonds to be purchased on the Purchase Date, and (2) the amounts deposited in the Remarketing Proceeds Account and available to pay the Purchase Price of those Purchased Bonds as of 12:15 p.m., New York City time, on the Purchase Date. "Purchase Price" of any Purchased Bond means the principal amount thereof plus accrued interest to, but not including, the Purchase Date; provided, however, (1) that if the Purchase Date for any Purchased Bond is an Interest Payment Date, the Purchase Price thereof shall be the principal amount thereof, and interest on such Bond shall be paid to the Holder of such Bond pursuant to the Indenture and (2) , in the case of a purchase on the first day of an Interest Rate Period which is preceded by a Long-Term Interest Rate Period and which commences prior to the day originally established as the last day of such preceding Long-Term Interest Rate Period, "Purchase Price" of any Purchased Bonds means the optional redemption price which would have been applicable to such Bond if the preceding Long-Term Interest Rate Period had continued to the day originally established as its last day, plus accrued interest, if any.

Any Purchased Bonds which are subject to mandatory tender for purchase in accordance with the Indenture which are not presented to the Tender Agent on the Purchase Date shall be deemed to have been purchased upon the deposit of moneys equal to the Purchase Price thereof into any or all of the accounts of the Bond Purchase Fund.

The Borrower has agreed in the Loan Agreement and the Guarantors have agreed in the Guarantee Agreement to pay to the Tender Agent in immediately available funds by 3:00 p.m., New York City time, the Funding Amount (if no Liquidity Facility is then in effect with respect to a Series of Bonds) and the Additional Funding Amount (if a Liquidity Facility is in effect with respect to a Series of Bonds).

The Tender Agent shall hold all proceeds received from the Remarketing Agent, the Liquidity Facility Provider, the Borrower or the Guarantors in trust for the tendering Bondholders. In holding such proceeds and moneys, the Tender Agent will be acting on behalf of such Bondholders by facilitating purchase of the Bonds and not on behalf of the Authority, any Liquidity Facility Provider, the Guarantors or the Borrower and will not be subject to the control of any of them.

Events of Default

The following events shall be Events of Default under the Indenture:

(a) default in the payment of principal or Redemption Price of any Bond when the same shall become due and payable, whether at the stated maturity thereof, by proceedings for redemption, by acceleration or otherwise;

(b) default in the payment of any installment of interest on any Bond issued under the Indenture when the same shall become due and payable;

(c) failure to pay the Purchase Price of any Bond required to be purchased pursuant to the Indenture when due and payable;

(d) default by the Authority in the observance of any of the covenants or other provisions in the Indenture or in the Bonds, if such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority and the Borrower by the Trustee, or to the Authority, the Borrower and the Trustee by the Holders of not less than 25% in aggregate principal amount of Bonds at time Outstanding; or

(e) a Loan Default Event.

Remedies on Default

In the case of an Event of Default described in (a), (b) or (c) above, the Trustee may, upon notice in writing to the Authority, the Borrower and the Guarantors, declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable. In addition, the Trustee may take whatever action at law or in equity is necessary or desirable to collect the payments due under the Guarantee Agreement.

In the case of an Event of Default described in (d) above, the Trustee may take whatever action at law or in equity is necessary or desirable to enforce the performance, observance or compliance by the Authority with any covenant, condition or agreement by the Authority under the Indenture.

In the case of an Event of Default described in (e) above, the Trustee may take whatever action the Authority would be entitled to take, and shall take whatever action the Authority would be required to take, pursuant to the Agreement in order to remedy the Loan Default Event.

Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right of the Trustee to represent the Holders of Bonds, the Trustee in its discretion may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified therefor, shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in such Indenture, or in aid of the execution of any power granted in such Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto. Any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of the Holders of such Bonds subject to the provisions of the Indenture.

Limitation on Holders' Right to Sue

No Holder of any Bond shall have any right to institute any suit, action, or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Loan Agreement, the Guarantee Agreement, the Act or any other applicable law with respect to such Bond unless (1) the Holder shall have provided the Trustee with written notice of the occurrence of an Event of Default; (2) the Holders of not less than 25% in aggregate principal amount of the Bonds then Outstanding shall have made written request to the Trustee to exercise the powers granted to the Trustee or to institute such suit, action or proceeding in its own name; provided, however, that if more than one such request is received by the Trustee from the Holders, the Trustee shall follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of 25%; (3) such Holder or said Holders shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Amendments

Without the consent of any of the Holders of the Bonds, the Authority and the Trustee may at any time enter into supplemental Indenture for the following purposes: (a) to add the covenants and agreements of the Authority under the Indenture, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Authority, provided that such covenant, agreement, pledge, assignment or surrender shall not materially adversely affect the interests of the Holders of the Bonds, (b) to cure any ambiguity or formal defect or omission in the Indenture as the Authority or the Trustee may deem necessary and which shall not materially adversely affect the interests of the Holders of the Bonds, (c) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trustee Indenture Act of 1939, if required by such act or statute, and to add such other terms as may be permitted by such act and which shall not materially adversely affect the interests of the Holders of the Bonds, (d) to facilitate (i) the transfer of Bonds from one Depository to another and the succession of Depositories, or (ii) the withdrawal from a Depository of Bonds held in a Book-Entry System and the issuance of replacement Bonds in fully registered form to Persons other than a Depository, (e) to authorize different Minimum Authorized Denominations of the Bonds and to make correlative amendments and modifications to the Indenture regarding exchangeability of Bonds of different Minimum Authorized Denominations, redemptions of portions of Bonds of particular Minimum Authorized Denominations and similar amendments and modifications of a technical nature, (f) to make any amendments appropriate or necessary to provide for any Liquidity Facility or any insurance policy, letter of credit, guaranty, surety bond, line of credit, revolving credit agreement, standby bond purchase agreement or other agreement or security device delivered to the Trustee and providing for (i) payment of the principal, interest and redemption premium on the Bonds or a portion thereof, (ii) payment of the purchase price of the Bonds or (iii) both (i) and (ii), including without limitation modification of the maximum Liquidity Facility Rate, (g) to make any changes required by a Rating Agency in order to obtain or maintain a rating for the Bonds, (h) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondholders; or (i) to make any modification or amendment to the Indenture which will be effective upon remarketing the Bonds following mandatory tender of the Bonds pursuant to the Indenture. With the consent of the Holders of a majority in aggregate principal amount of Bonds Outstanding, the Authority and the Trustee may enter into supplemental Indenture for any other purpose, except that no supplemental Indenture will (i) extend the fixed maturity of, reduce the principal amount of, reduce the premium payable upon any redemption of, reduce the rate of interest on, or extend the time of payment of interest on, or extend the time of payment on any Bond without the written consent of the Holder of such Bond, or (ii) reduce the percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on such Revenues and other assets, without the consent of the Holders of all Bonds then Outstanding.

The Indenture describes the procedures to be used to give notice to and obtain the consents of the Holders of the Bonds whenever the Authority and the Trustee propose to enter into a supplemental indenture requiring such consents.

Defeasance

Bonds may be paid by the Authority or the Borrower in any of the following ways, provided that the Authority or the Borrower also pays or causes to be paid any other sums payable by the Authority and related to the Bonds:

(a) by paying or causing to be paid the principal or Redemption Price of and interest on such Bonds Outstanding, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount to pay or redeem such Bonds; or

(c) by delivering such Bonds to the Trustee for cancellation.

If the Authority shall pay all Bonds Outstanding under the Indenture and shall also pay or cause to be paid all other sums payable thereunder by the Authority and the Borrower shall have paid all Administrative Fees and Expenses payable to the Authority under the Loan Agreement, then and in that case, and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture shall cease, terminate, become void and be completely discharged and satisfied.

LOAN AGREEMENT

The following is a statement of and a summary of certain provisions of the Loan Agreement not described elsewhere in this Official Statement. This statement and summary should not be considered as a full statement of the Loan Agreement. Reference is made to the Loan Agreement for complete details of the obligation of the Borrower to make Loan Repayments.

Loan Repayments

The Borrower agrees that on or before each Interest Payment Date and on or before each Principal Payment Date, it shall pay to the Trustee for deposit in to the Bond Fund such amounts as are required by the Trustee to make the required payments of principal of and interest on the Bonds then becoming due (whether by maturity, redemption or acceleration).

Payment of Purchase Price of Purchased Bonds

The Borrower agrees that, if a Liquidity Facility is not in effect with respect to Purchased Bonds of any Series or if the Liquidity Facility Provider has not paid the full amount required by the Indenture at the times required under the Indenture for such Series, it shall pay to the Tender Agent the Funding Amount or the Additional Funding Amount, respectively, on the Purchase Date for such Purchased Bonds as provided in the Indenture.

Obligations of the Borrower Unconditional

The obligations of the Borrower to make the Loan Repayments, Additional Payments and purchase price payments required under the Loan Agreement and to perform and observe the other agreements on its part shall be absolute and unconditional.

Prepayment

The Borrower shall have the right at any time or from time to time to prepay all or any part of the Loan Repayments.

Consolidation, Merger and Sale of Assets

The Borrower covenants and agrees that it will maintain its existence as a California nonprofit corporation, and will not dissolve, sell or otherwise dispose of all or substantially all of its assets nor consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it; provided, that the Borrower may consolidate with or merge into another corporation, or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another corporation such assets, if the surviving, resulting or transferee corporation, as the case may be (i) assumes in writing, if such corporation is not the Borrower or a Guarantor, all of the obligations of the Borrower under the Loan Agreement; (ii) is not, after such transaction, otherwise in default under any provisions of the Loan Agreement; and (iii) provides the Trustee with an opinion of nationally recognized bond counsel to the effect that such consolidation, sale, merger or other transfer will not cause interest on the Bonds to be includable in gross income for federal income tax purposes.

Limitation on Encumbrances Including Sale and Leaseback Transactions

The Borrower covenants and agrees that it will not create, assume, or suffer to exist any mortgage, deed of trust, pledge, security interest, encumbrance, lien, or charge of any kind (each a "security interest") upon any property or revenues of any Affiliated Corporation, whether such property is owned or acquired, unless the obligations of the Borrower under the Loan Agreement shall be secured prior to or equally and ratably with any indebtedness or other obligation secured by such security interest, and the Borrower further covenants and agrees that if such a security interest is created or assumed by any Affiliated Corporation, it will make or cause to be made effective a provision whereby the obligations of the Borrower under the Loan Agreement will be secured prior to or equally and ratably with such indebtedness or other obligation secured by such security interest; provided, however, that notwithstanding the foregoing provisions and without securing obligations of the Borrower under the Loan Agreement, any Affiliated Corporation may create, suffer or assume Permitted Encumbrances.

Insurance Required

The Borrower covenants and agrees that it will keep all of its properties and operations adequately insured at all times and carry and maintain such insurance in amounts which are customarily carried and against such risks as are customarily insured against by other corporations of similar size in connection with the ownership and operation of health facilities. Such insurance may include alternative risk management programs, including self-insurance.

Limitation on Disposition of Assets

The Borrower 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), in any Fiscal Year with a net book value in excess of 10% of Consolidated Net Tangible Assets unless any assets in excess of such limitation are sold, leased or disposed of at a price equal to their fair market value and the Borrower, within 120 days of such disposition, applies (or causes an Affiliated Corporation to apply) the net proceeds of such sale, lease or disposition to either the redemption of long-term Indebtedness of the Borrower or of any other Affiliated Corporation or the acquisition of additional assets.

Liquidity Facility; Alternate Liquidity Facility

The Borrower may, at any time at its sole option, furnish one or more Liquidity Facilities (or, if a Liquidity Facility is then in existence, an Alternate Liquidity Facility in substitution for the Liquidity Facility then in effect) to the Tender Agent to provide for the purchase of Bonds of any Series upon their optional or mandatory tender in accordance with the Indenture. Any Liquidity Facility (or Alternate Liquidity Facility) shall be a facility provided by a commercial bank or other financial institution in an amount equal to the Required Stated Amount with a term of at least 360 days from the effective date thereof.

If a Liquidity Facility has been delivered to the Tender Agent in accordance with the previous paragraph, the Borrower (1) shall maintain the Liquidity Facility or an Alternate Liquidity Facility, in an amount equal to the Required Stated Amount prior to its termination and in accordance with the covenants set forth in the Loan Agreement, and (2) shall not voluntarily terminate the Liquidity Facility or any Alternate Liquidity Facility without at least 60 days written notice to the Trustee and the Tender Agent.

Loan Default Events

The following events shall be Loan Default Events under the Loan Agreement:

(a) If the Borrower shall fail to pay any Loan Repayment or other payment required under the Loan Agreement when due and payable, unless such Loan Repayment or other payment is paid by the Guarantors;

(b) If any representation or warranty made by the Borrower in any document, instrument or certificate furnished to the Trustee or the Authority in connection with the issuance of the Bonds shall at any time prove to have been incorrect in any material respect as of the time made;

(c) If the Borrower shall fail to observe or perform any covenant, condition, agreement or provision in the Loan Agreement on its part to be observed or performed, other than as referred to in subparagraph (a) of this paragraph, for a period of sixty days after written notice specifying such failure and requesting that it be remedied, has been given to the Borrower by the Authority or the Trustee, except that, if such failure can be remedied but not within such sixty-day period and if the Borrower has taken all action reasonably possible to remedy such failure within such sixty-day period, such failure shall not become a Loan Default Event for so long as the Borrower shall diligently proceed to remedy same, subject to any direction or limitations of time established by the Trustee;

(d) Certain incidents of bankruptcy, insolvency or similar conditions;

(e) If any event of default under the Guarantee Agreement shall occur and is continuing; or

(f) If any Event of Default under the Indenture shall occur and is continuing.

Remedies on Default

If a Loan Default Event shall occur under the Loan Agreement, the Authority or the Trustee may, among other things, declare all installments of Loan Repayments payable for the remainder of the term of the Loan Agreement immediately due and payable if the Bonds have been accelerated.

The Authority or the Trustee may also take whatever action, at law or in equity, as may appear necessary or desirable to enforce the performance and observance of any obligation, covenant, agreement or provision contained in the Loan Agreement to be observed or performed by the Borrower.

GUARANTEE AGREEMENT

The following is a statement of and a summary of certain provisions of the Guarantee Agreement not described elsewhere in this Official Statement. This statement and summary should not be considered as a full statement of the Guarantee Agreement. Reference is made to the Guarantee Agreement for complete details thereof.

Guarantee of Obligations Under Loan Agreement

Each of the Guarantors, jointly and severally, unconditionally guarantees to the Authority, for the benefit of Bondholders (a) the due and punctual payment, when and as the same shall become due, of any and all amounts due pursuant to the Loan Agreement, including but not limited to Loan Repayments, Additional Payments and payments for the purchase price of tendered Bonds; and (b) the full and prompt performance and observance by the Borrower of each and all of the covenants and agreements required to be performed and observed by the Borrower under the terms of the Loan Agreement.

Payments to Trustee and Tender Agent

If by 10:00 a.m., California time, on any Interest Payment Date or Principal Payment Date there are insufficient amounts in the Bond Fund to make the payments required on such Interest Payment Date or Principal Payment Date, the Trustee shall immediately notify the Guarantors by facsimile transmission. The notice shall state:

(1) that moneys held by the Trustee in the Bond Fund will be insufficient to pay in full the interest on and/or principal of the Bonds becoming due on such Interest Payment Date or Principal Payment Date, as the case may be; and

(2) the amount by which the obligation to make such payment(s) exceeds the amount available therefor (the "Shortfall").

Upon receiving such notice the Guarantors shall, before the close of business on such Interest Payment Date and/or Principal Payment Date, pay to the Trustee in immediately available funds, an amount equal to the Shortfall.

The Guarantors agree that, if a Liquidity Facility is not in effect with respect to Purchased Bonds of any Series or if the Liquidity Facility Provider has not paid the full amount required by the Indenture at the times required under the Indenture for such Series, they shall pay to the Tender Agent the Funding Amount or the Additional Funding Amount, respectively, on the Purchase Date for such Purchased Bonds, as provided in the Indenture.

Covenants

The Guarantee Agreement contains covenants of the Guarantors substantially similar to the covenants of the Borrower under the Loan Agreement and described under the following captions of the summary of the Loan Agreement: "Consolidation, Merger and Sale of Assets," "Limitation on Encumbrances Including Sale and Leaseback Transactions," "Insurance Required" and "Limitation on Disposition of Assets."

Events of Default

The following events shall be "events of default" under the Guarantee Agreement:

(a) If any of the Guarantors shall fail to make any payments required when due and payable;

(b) Events of default substantially similar to the events of default under the Loan Agreement and described in (b) and (c) of the caption "Loan Default Events" in the summary of the Loan Agreement; and

(c) A Loan Default Event under the Loan Agreement shall occur and is continuing.

Remedies on Default

If an event of default shall occur under the Guarantee Agreement, then, and in each and every such case during the continuance of such event of default, the Authority or the Trustee may take whatever action, at law or in equity, as may appear necessary or desirable to collect any payments then due and thereafter to become due under the Guarantee Agreement or to enforce the performance and observance of any obligation, covenant, agreement or provision contained in the Guarantee Agreement to be observed or performed by each of the Guarantors.

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APPENDIX C

FORM OF OPINION OF BOND COUNSEL

[CLOSING DATE]

California Statewide Communities
Development Authority
Sacramento, California

California Statewide Communities Development Authority
Kaiser Permanente Revenue Bonds, Series 2004
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the California Statewide Communities Development Authority (the "Issuer") of $________ aggregate principal amount of California Statewide Communities Development Authority Kaiser Permanente Revenue Bonds, Series 2004_ through 2004_ (collectively, the "Bonds"), issued pursuant to the provisions of the Joint Exercise of Powers Act, comprising Chapter 5 of Division 7 of Title 1 (commencing with Section 6500 of the California Government Code), and an indenture, dated as of March 1, 2004 (the "Indenture"), between the Issuer and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Indenture provides that the Bonds are issued for the purpose of making a loan of the proceeds thereof to Kaiser Foundation Hospitals (the "Borrower") pursuant to a loan agreement, dated as of March 1, 2004 (the "Loan Agreement"), between the Issuer and the Borrower. Payments to be made by the Borrower pursuant to the Loan Agreement are guaranteed by Kaiser Foundation Health Plan, Inc., Kaiser Health Plan Asset Management, Inc., and Kaiser Hospital Asset Management, Inc. (collectively, the "Guarantors") pursuant to a guarantee agreement, dated as of March 1, 2004, between the Issuer and the Guarantors (the "Guarantee Agreement"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Loan Agreement, the Guarantee Agreement, the Tax Certificate and Agreement, dated the date hereof (the "Tax Certificate"), between the Issuer and the Borrower, opinions of counsel to the Issuer, the Borrower and the Guarantors, certificates of the Issuer, the Trustee, the Borrower, the Guarantors and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of the General Counsel to the Borrower and the Guarantors, regarding, among other matters, the current qualification of the Borrower and the Guarantors as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). We note that the opinion is subject to a number of qualifications and limitations. We have also relied upon representations of the Borrower and the Guarantors regarding the use of the facilities financed with the proceeds of Bonds in activities that are not considered unrelated trade or business activities of the Borrower and the Guarantors within the meaning of Section 513 of the Code. We note that the opinion of special counsel to the Borrower and the Guarantors does not address Section 513 of the Code. Failure of the Borrower and the Guarantors to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of their status as organizations described in Section 501(c)(3) of the Code, or use of the bond-financed facilities in activities that are considered unrelated trade or business activities of the Borrower and the Guarantors within the meaning of Section 513 of the Code, may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

The interest rate mode and certain agreements, requirements and procedures contained or referred to in the Indenture, the Loan Agreement, the Guarantee Agreement, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to

inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. We disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer (and, for purposes of the opinion numbered 3 below, the Borrower and the Guarantors). We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement, the Guarantee Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Loan Agreement, the Guarantee Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Indenture, the Loan Agreement or the Guarantee Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of any Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Issuer.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund and the Bond Purchase Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Indenture also creates a valid assignment to the Trustee, for the benefit of the Holders from time to time of the Bonds, of the right, title and interest of the Issuer in the Loan Agreement and the Guarantee Agreement (to the extent more particularly described in the Indenture).

3. The Loan Agreement and the Guarantee Agreement have each been duly executed and delivered and constitute valid and binding agreements of the parties thereto.

4. The Bonds are not a lien or charge upon the funds or property of the Issuer except to the extent of the aforementioned pledge and assignment. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX D

BOOK-ENTRY SYSTEM

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued in the total aggregate principal amount of each Series of the Bonds and will be deposited with DTC.

2. DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt, issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the

identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co. a consenting or voting right to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor of its nominee, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

10. The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and the Credit Group believe to be reliable, but neither the Authority nor the Credit Group take responsibility for the accuracy thereof.

The Authority and the Credit Group cannot and do not give any assurances that DTC will distribute to Participants or that Participants or others will distribute to the Beneficial Owners payments of principal of and interest and premium, if any, on the Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Credit Group nor the Authority is responsible or liable for the failure of DTC or any Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.

None of the Authority, the Credit Group or the Trustee will have any responsibility or obligation to Participants, to Indirect Participants or to any Beneficial Owner with respect to (i) the accuracy of any records maintained by DTC, any Participant, or any Indirect Participant; (ii) the payment by DTC or any Participant or Indirect Participant of any amount with respect to the principal of or premium, if any, or interest on the Bonds; (iii) any notice that is permitted or required to be given to Holders under the Indenture; (iv) the selection by DTC, any Participant or any Indirect Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given or other action taken by DTC as Bondholder; or (vi) any other procedures or obligations of DTC, Participants or Indirect Participants under the book-entry system.

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APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate"), dated as of the Closing Date, is executed and delivered by Kaiser Foundation Hospitals ("Hospitals") and Kaiser Foundation Health Plan, Inc., Kaiser Health Plan Asset Management, Inc. and Kaiser Hospital Asset Management, Inc. (collectively, the "Guarantors"), each a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (Hospitals and the Guarantors collectively, the "Credit Group"), in connection with the execution and delivery of $________ California Statewide Communities Development Authority Kaiser Permanente Revenue Bonds, Series 2004_ through 2004_, inclusive (collectively, the "Bonds"). The Bonds are being issued pursuant to separate indentures, each dated as of March 1, 2004 (collectively, the "Indentures"), between California Statewide Communities Development Authority (the "Authority") and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The proceeds of the Bonds are being loaned by the Authority to Hospitals pursuant to separate loan agreements, each dated as of March 1, 2004 (collectively, the "Loan Agreements"), between the Authority and Hospitals. Payments to be made by Hospitals pursuant to the Loan Agreements are guaranteed by the Guarantors pursuant to separate guarantee agreements, each dated as of March 1, 2004 (collectively, the "Guarantee Agreements"), between the Authority and the Guarantors. Pursuant to the Indentures, the Loan Agreements and the Guarantee Agreements, the members of the Credit Group each covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Credit Group for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule (defined below). Each of the members of the Credit Group acknowledges that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Certificate, and has no liability to any Person, including any Holder or Beneficial Owner of the Bonds, with respect to the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the respective Indentures, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Credit Group pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any Person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including Persons holding Bonds through nominees, depositories or other intermediaries).

"Dissemination Agent" shall mean any Dissemination Agent designated in writing by the Credit Group.

"Exchange Act" shall mean the Securities and Exchange Act of 1934, as amended, or any successor thereto, in each case as amended from time to time.

"Listed Events" shall mean any of the events listed in Section 5 of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are listed at "http://www.sec.gov/info/municipal/nrmsir.htm".

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Repository" shall mean each National Repository and the State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Exchange Act.

"Securities Act" shall mean the Securities Act of 1933, as amended, or any successor thereto, in each case as amended from time to time.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

SECTION 3. Provision of Annual and Quarterly Reports. (A) The Credit Group shall, not later than six months following the end of the fiscal year of each member of the Credit Group, commencing with the report for the December 31, 2004 fiscal year (due no later than June 30, 2005), provide to each Repository and any Bondholder requesting a copy at least two Business Days prior to such report being filed an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the financial statements described in Section 4(A)(1) may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if such financial statements are not available by that date. If the fiscal year of any of the members of the Credit Group changes, the Credit Group shall give notice of such change in the same manner as for a Listed Event under Section 5.

(B) The Credit Group shall, not later than sixty (60) days following the end of each of the first three fiscal quarters of each fiscal year, commencing with the report for the March 31, 2004 fiscal quarter, provide to each Repository and to any Bondholder requesting such report at least two Business Days prior to the report being filed a report consistent with the requirements of Section 4(B).

(C) The Credit Group covenants to provide the reports identified in Section 3(B) above to any Holder that requests such information from Hospitals at least two Business Days prior to the end of the fiscal quarter to which such report relates.

SECTION 4. Content of Reports. (A) The Annual Report shall contain or include by reference the following:

1. (a) The combined audited financial statements of Hospitals and its subsidiaries and Kaiser Foundation Health Plan, Inc. ("Health Plan") and its subsidiaries for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Financial Accounting Standards Board. If such audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in (i) the final Official Statement relating to the Bonds, dated March __, 2004 (the "Official Statement"), and the combined audited financial statements shall be filed in the same manner as the Annual Report when they become available; and

(b) The unaudited summarized combined financial statements of the Credit Group.

2. An update of the following information contained in the Official Statement:

(a) Membership of each Health Plan Organization (as defined in the Official Statement).

(b) To the extent not otherwise shown in the financial statements, the capitalization and selected historical debt service coverage information for the preceding fiscal year, in the form of the table under the headings "THE CREDIT GROUP – Financial Information of the Credit Group (Unaudited)" and "— Selected Financial Ratios" in the Official Statement.

(c) A summary of change in membership of Health Plan Organizations for the previous year.

(d) Approximate number of employees of Hospitals, Health Plan and Health Plan Organizations.

(e) Number of licensed hospitals, medical office buildings and other outpatient facilities owned and operated by Hospitals and Health Plan.

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Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Credit Group is an "obligated person" (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Credit Group shall clearly identify each such other document so included by reference.

(B) The quarterly reports required pursuant to Section 3(B) shall contain or include by reference the unaudited summarized combined financial statements of the Credit Group, including a balance sheet, a cash flow statement and a consolidated statement of operations.

SECTION 5. Reporting of Significant Events. The Credit Group shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. nonpayment related defaults;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit provider or its failure to perform;
6. adverse tax opinions or events affecting the tax-exempt status of the Bonds;
7. modifications to rights of Bondholders;
8. optional, contingent or unscheduled bond calls;
9. defeasances;
10. release, substitution or sale of property securing repayment of the Bonds; and
11. rating changes.

SECTION 6. Termination of Reporting Obligation. The Credit Group's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If the Credit Group's respective obligations under the Loan Agreements and the Guarantee Agreements are assumed in full by some other entity, such Person shall be responsible for compliance with this Disclosure Certificate in the same manner as if it were the respective member of the Credit Group and the original Credit Group member shall have no further responsibility hereunder. If such termination or substitution occurs prior to the final maturity of the Bonds, the respective Credit Group member shall give notice of such termination or substitution in the same manner as for a Listed Event under Section 5.

SECTION 7. Dissemination Agent. The Credit Group may, from time to time, appoint or engage a Dissemination Agent to assist them in carrying out their obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Credit Group pursuant to this Disclosure Certificate. The Dissemination Agent may resign by providing thirty (30) days written notice to the Credit Group. If at any time there is not any other designated Dissemination Agent, the Credit Group shall be the Dissemination Agent. The initial Dissemination Agent shall be the Credit Group.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Credit Group may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the Credit Group which does not impose any greater duties, nor greater risk of liability, on the Dissemination Agent) and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3, 4 or 5, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of an obligated person with respect to the Bonds or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indentures for amendments to the Indentures with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Credit Group shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Credit Group. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Credit Group from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Credit Group choose to include any information in any Annual Report or notice of occurrence of a Listed Event, in

addition to that which is specifically required by this Disclosure Certificate, the Credit Group shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Credit Group to comply with any provision of this Disclosure Certificate, the Trustee (at the written request of any Participating Underwriter or the Holders of at least twenty-five percent (25%) aggregate principal amount of Outstanding Bonds shall, or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Credit Group, to comply with their obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indentures, and the sole remedy under this Disclosure Certificate in the event of any failure of the Credit Group to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Notices. Any notices or communications to the Credit Group may be given as follows:

One Kaiser Plaza
Oakland, California 94612
Attention: Treasurer

Any of the Credit Group members or the Dissemination Agent may, by written notice, designate a different address to which subsequent notices or communications should be sent.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Authority, the Credit Group, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

IN WITNESS WHEREOF, the undersigned has executed this Disclosure Certificate as of the date first written above.

KAISER FOUNDATION HOSPITALS
KAISER FOUNDATION HEALTH PLAN, INC.
KAISER HEALTH PLAN ASSET MANAGEMENT, INC.
KAISER HOSPITAL ASSET MANAGEMENT, INC.

By:____
Authorized Representative

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