MINUTES

California Health Facilities Financing Authority
Minutes January 25, 2007 – 1:45 P.M.
915 Capitol Mall, Room 587
Sacramento, California

Chairperson Bill Lockyer called the meeting to order at 2:15 p.m.

Present:	Bill Lockyer, State Treasurer, Chair Designee Michael Carter for John Chiang, Controller Designee Anne Sheehan for Michael C. Genest Department of Finance Harry Bistrin Judith Frank Dr. Oscar Sablan Sumi Sousa Dr. John Hilinski
Staff:	Sandra Simpson-Fontaine, Executive Director Ronald Washington, Deputy Executive Director

The Chair declared a quorum present.

The minutes of the California Health Facilities Financing Authority's (CHFFA) December 7, 2006 were approved as submitted. (Moved by Judith Frank and seconded by Harry Bistrin, Michael Carter abstained.)

Sandra Simpson-Fontaine reported as of December 31, 2006 bonds outstanding totaled $7,262,745,539 and the fund balance was $8,669,790.16. There were 11 borrowers with over $100 million in CHFFA debt with a combined balance outstanding of $5,892,611,992, which represents 81% of all CHFFA debt outstanding, and 7 equipment financings with a total balance outstanding of $14,350,749. The Executive Director also reported a HELP II Fund balance of $23,001,330, a HealthCAP balance of $0.00, a Cedillo-Alarcón Clinic Grant Fund balance of $3,568,915, an Anthem-Wellpoint Grant Fund balance of $28,121,112 and the Children's Hospital Bond Act of 2004 Fund balance of $523,510,873, as of December 31, 2006.

Item #4 — Children's Hospital Central California (CHCC)
Resolution 2007-01

James Rennie stated CHCC was seeking grant funds in the amount of $3,769,691 for the following three projects:

• Picture Archiving and Communications System (PACS)	$2,593,835
• Radiology project	539,300
• Equipment purchases	636,556
Total	**$3,769,691**

Representing Children's Hospital Central California were: Michelle Waldron, Chief Financial Officer; and Todd Suntrapak Chief Operations Officer.

Staff recommended the Authority approve a resolution to provide a grant not to exceed $3,769,691 million (less costs of issuance), subject to all requirements of the Children's Hospital Program.

Anne Sheehan moved for adoption of the Resolution and Dr. John Hilinski seconded the motion. Motion adopted with an 8-0 vote.

Item #5 Long Beach Memorial Medical Center (LBMMC)
Miller Children's Hospital (MCH)
Resolution 2007-02

James Rennie stated MCH was seeking grant funds in the amount of $74,000,000 to construct, equip and furnish a new four-story inpatient pediatric tower adjacent to the existing 281-bed facility.

Representing Long Beach Memorial Medical Center and Miller Children's Hospital were: Mel Marks, M.D., Chief Administrative Officer; and Richard DeCarlo, Senior Vice President, Operations

Staff recommended that the Authority approve a resolution for Long Beach Memorial Medical Center to provide a grant not to exceed $74,000,000 (less costs of issuance), subject to all requirements of the Children's Hospital Program.

Anne Sheehan moved for adoption of the Resolution and Sumi Sousa seconded the motion. Motion adopted with an 8-0 vote.

Item #6 HELP II Loan Program Policy Recommendations
Resolution 2007-03

Sandra Simpson-Fontaine, Executive Director presented background of the August 24, 2006 meeting, at that time the Chair requested that staff review the current HELP II Loan Program guidelines and make recommendations to improve and expand the HELP II Loan Program. The Program's fund balance has increased significantly due to low loan activity.

Staff recommended the Authority increase the total maximum outstanding combined loan amount to $750,000 for any one borrower; increase the gross revenue limitation to $30 million for small health facilities; and add the category of rural health facilities as an eligible borrower.

Anne Sheehan moved for adoption of the Resolution and Judith Frank seconded the motion. Motion adopted with an 8-0 vote.

Item #7 Proposal to Reduce Authority Annual Administrative Fee
Resolution 2007-03

Thera Hearne presented a proposal to apply a cap on the annual .02% administrative fee for outstanding bond debt exceeding $750 million. The maximum annual administrative fee would be capped at $150,000.

By implementing a cap on the annual administrative fee, CHFFA would be adapting to the standard of tiered fees and remain competitive with other tax-exempt healthcare issuers. The fee reduction would apply to only outstanding debt balances in excess of $750 million, CHFFA could attract borrowers with large bond issues.

Staff recommended the Authority approve the revision to the fee schedule to cap the annual administrative fee at $150,000 for borrowers that have more than $750 million in outstanding CHFFA debt.

Anne Sheehan moved for adoption of the Resolution and Judith Frank seconded the motion. Motion adopted with an 8-0 vote.

Item #8 Discussion of Savings Pass Through Under Government Code Section 15438.5

Sandra Simpson-Fontaine, Executive Director requested the Authority discuss the Pass Through Savings "requirement" that are found in Government Code Section 15438.5. Ms. Simpson-Fontaine provided a summary of how the issue became a hot-button topic raised primarily by the Service Employees International Union (SEIU) and the California Nurses Association (CNA) within the last two years, with respect to three specific applications that have came for financing before the Authority. Scripps Health, April 2005 ($290 million); Cedars-Sinai Medical Center, June 2005 ($519 million); and Sutter Health, December 2006 ($958 million). The Authority ultimately approved both the Scripps Health and Cedar-Sinai financings and at this time, Sutter Health is waiting to see what direction the Authority will take before moving forward with its application.

Ms. Simpson-Fontaine reminded the Authority that CHFFA held a special meeting in August 2005 to consider the SEIU request that the Authority adopt a resolution asking the Attorney General's Office (AG) to investigate whether Sutter Health has met the "requirement" for pass through savings. But, the Authority resolved to seek advice from the AG about what findings the Authority would need to find a borrower out of compliance with the statute's pass through savings "requirement", and what process it needed in order to reach such a conclusion; and what remedies in the law exist if a borrower is found to be out of compliance. The AG advised the Authority that its current practice of reviewing a borrower's charitable care policy and community benefit programs to measure evidence of Pass Through Savings appeared to be appropriate, absent any legislative indication to the contrary. According to the AG's advice letter, the Pass Through Savings "requirement" is not a true requirement because CHFFA's authorizing legislation does not identify any criteria for evaluating whether a facility is adequately accounting for its tax-exempt revenue bond savings. Moreover, the Pass Through Savings reference does not quantify the amount of intended pass-through ("all or part of any savings"), leaving the extent of the obligation open to conjecture.

Ms. Simpson-Fontaine suggested a two-tier approach to meeting the Pass Through Savings obligation. Option 1: Hospital organization agrees to use a defined percentage amount (minimum) of its tax-exempt benefit savings to lower charges or containment of the rate of increases in hospital rates; Hospital organization and CHFFA agree on the length of time the lower charges/containment of rates will be in effect; Hospital organization agrees to post agreement at strategic sites within hospital and on hospital website. Option 2: Hospital organization agrees to use all of its tax-exempt benefit savings for new charitable care and/or community benefit programs for the life of the loan; Hospital organization identifies annual dollars spent. (This information is now provided); Hospital organization identifies number of patients served annually; Hospital organization identifies types (names) of programs funded (This information is now provided); Hospital organization identifies number of programs funded. (This information is now provided); Hospital organization identifies annual number of patient visits to community benefit programs. (This information is now provided); Hospital organization agrees that its tax-exempt benefit savings will be directed to the facility or facilities using the bond proceeds. Staff believes that that the general public would be better served by Option 2, as there should be more long-term benefits.

After a discussion by the members, Chair Lockyer opened the floor for public comments.

The public comments and board member comments are summarized below:

Donna Fox, California Nurses Association:

- Increasing health care prices are putting pressure on a certain segment of population. The following three areas should be considered as measures and standard are developed:
  - The facilities should document and report precise amount of savings
  - The facilities should document and report the true revenue to expense ratios.
  - The authorized purposes (debt retirement, expansion of plant facilities, and operating contingencies) are very general and could be open to abuse. This definition is too flexible; there is a need for a more solid reporting to CHFFA.

Richard Thomason, SEIU:

- Past records show Sutter's prices were higher than average
- Explore both options recommended by CHFFA in greater details, although prefers option #1 as it reduces hospital costs. Hospitals should explain how savings from non-taxable bonds translate into a reduction in prices.
- OSHPD data could be used as measures to evaluate hospitals' costs.

Sumi Sousa how can staff quantify reduction when all hospital cost keep increasing?

Richard Thomason, SEIU:

- Create benchmark that shows that the savings were passed through to the patients.

Michael Carter asked how could we identify new charity projects with existing ones?

Sandra Simpson Fontaine stated we have that information to compare against.

Dietmar Grellmann, California Hospital Association

- When considering the cost/benefit analysis of the borrowers who come to CHFFA, we should also consider the following facts about health care facilities in California:
  - Over half of California hospitals lose money every year
  - There is a serious lack of seismic preparation that is mandated by law
  - Lack of services to patients
  - Escalating construction costs broadened charity care

- Any applicant can show that they passed the savings, facing one of the above obstacles.
- Extra burdens imposed by CHFFA on health care facilities will only invite unneeded complexity and more uncertainty, and might only push facilities to look for loans somewhere else.
- There is a third option, and that is to keep the process as is.

Tom Moore, California Health Care Coalition

- Endorse the comments by Richard Thomason of SEIU
- CHFFA needs to monitor how savings are passed to patients
- To evaluate a hospital pricing, they could calculate the per-capita cost in that hospital and compare it to the rest or to the average.

Department of Finance designee Anne Sheehan concurred that the Authority needs to find a balance in monitoring how the Pass Through Savings will be passed on to the public, without making the process too complicated. Ms. Sheehan also noted that many people are watching and waiting to see what direction the Authority will take with regard to the Pass Through Savings before bringing an application to the Authority for financing. Ms. Sheehan also emphasized that the Authority needs to continue doing business and not to postpone the application process.

Chair Bill Lockyer agreed the Authority should continue processing applications for financing, while evaluating the different methods that could be used to measure the Pass Through Savings, and the Authority could come up with a comprehensive plan for the Pass Through Savings.

Board Member Judith Frank stated the language of the Pass Through Savings is non-specific and was in place prior to the state-mandated seismic safety requirements. Ms. Frank stated that the Authority should be flexible and should consider each application individually. Ms. Frank also inquired as to how California Statewide Communities Development Authority (CSCDA) deals with Pass Through Savings.

Board Member Sumi Sousa stated that CSCDA does not have the Pass Through Savings.

State Controller's designee Michael Carter expressed his belief that the language of the Pass Through Savings is flexible and the Authority should evaluate and execute each application for financing on an individual basis.

Chair Bill Lockyer stated that the Authority should work on two tracks, first continue processing applications for financing, and then examine the current Pass Through Saving process.

Having no further comments, the meeting was adjourned.

Respectfully submitted by,

____

Sandra Simpson-Fontaine, Executive Director