

MINUTES

**California Health Facilities Financing Authority
July 30 2009 – 1:45 P.M.
915 Capitol Mall, Room 587
Sacramento, California**

Patricia Wynne, Chairperson called the meeting to order at 1:54 P.M.

Roll Call

Members Present: Patricia Wynne for Bill Lockyer, State Treasurer
Ruth Holton-Hodson for John Chiang, Controller's Office
Miriam Ingenito for Michael C. Genest, Department of Finance
Ronald Joseph
Jack Buckhorn
Dr. Oscar Sablan – Teleconference
Judith Frank
Harry Bistrin
Sumi Sousa

Staff Present: Barbara J. Liebert, Executive Director
Ronald Washington, Deputy Executive Director

The Chair declared a quorum present.

Approval of the Minutes from the May 13, 2009 and June 25, 2009 Meetings

Chair Wynne requested Board member approval of the meeting minutes for the May 13, 2009, and June 25, 2009, meetings. Ms. Sousa moved approval for both sets of meeting minutes; Mr. Joseph seconded the motion. Chair Wynne asked for a roll call for Board approval. The minutes were unanimously approved by all Board members present

Executive Director's Report

Ms. Liebert reported the following: bonds issued \$22,768,637,017; bonds outstanding, \$8,142,291,762; HELP II fund balance, \$12,166,587, CHFFA fund balance, \$11,220,382.29. Lastly, Ms. Liebert advised that figures for Cedillo-Alarcon Clinic, Anthem-WellPoint, and the Children's Hospital Bond Act of 2004 were not available and a number of resolutions remain pending.

Delegation of Powers Monthly Update

No delegation actions were taken this last month.

The Help Group Update

Ms. Liebert reminded the Board that at CHFFA's last meeting, the HELP Group had been approved by the Board subject to the Attorney General's Office determining the facility to be eligible. Ms. Liebert indicated CHFFA has not received a final opinion from the Attorney General's Office and an update would be provided at the next board meeting.

American Recovery and Reinvestment Act of 2009 Update

Ms. Liebert indicated CHFFA may have the opportunity to utilize a portion of its fund balance as a temporary pledge in order to obtain approximately fifty (50) million dollars in Federal Stimulus monies for purposes of

providing health information exchange systems. Ms. Liebert provided that for every dollar the Authority pledged it would receive five (5) dollars back from the federal government. Basically, the Authority pledge of approximately \$10,000,000 of its HELP II Loan Program funds would return \$50,000,000 in federal stimulus dollars. The Authority will then have an opportunity to create a new program that President Obama's administration is trying to roll out for clinics and hospitals throughout the state. Ms. Liebert said another update would follow regarding this opportunity at the next board meeting.

Prevailing Wage Update

Ms. Liebert reported Authority staff has had several meetings since the last prevailing wage discussion with various counsel. The fruits of these meetings have produced a current plan to post a notice on the Authority's website, alerting grantees and applicants of the potential application of prevailing wage laws to their projects funded by Authority funds and advising them to consult with their own legal advisor to give them appropriate direction. Once staff has finalized this website language with legal counsel, staff will bring it before the board for consideration.

Working Group Update

Ms. Liebert reported two separate workgroups have been formed to examine and potentially revise CHFFA's bond guidelines, as well as to standardize the documents used in bond transactions. Staff has had several meetings and will be making its recommendations to the board in the near future.

Validation Action Update

Ms. Liebert provided an update on the Loma Linda validation action. The action had been filed and is out for publication for the next three weeks. September 7th is the deadline for any objecting parties to come forward and file a complaint. Ms. Liebert will continue to keep the board posted.

Item #4

St. Joseph Health System and Affiliates (SJHS), Orange, California Resolution No. 346

Prior to beginning this item, Mr. Buckhorn recused himself from this agenda item out of an abundance of caution. Mr. Buckhorn represents workers who have worked on Memorial Hospital from time to time.

Ms. Frank also recused herself from this agenda item because of her ownership of Wells Fargo Bank stock. Wells Fargo Bank has agreed to serve as trustee in this transaction and so Ms. Frank concluded she should recuse herself, similarly out of an abundance of caution.

Chair Wynne asked Ms. Bilaver of the Attorney General's Office for clarification on physically leaving the meeting room during recusal. Ms. Bilaver stated that when constitutional officers recuse themselves, they must leave the room; other board members do not have to do so. Ms. Bilaver stated that while leaving has become a common practice, it is not required.

After these recusals and clarification, Chair Wynne introduced Ronald Washington, Deputy Executive Director, CHFFA. Mr. Washington introduced Marc Golan, Vice President of Finance for SJHS, Darrin Montalvo, Sr. Vice President and Chief Financial Officer for SJHS, and John Landers, Managing Director of Morgan Stanley, Underwriter.

SJHS is a nonprofit health system providing health care services throughout California, Western Texas and Eastern New Mexico. Bond proceeds will be used to refund the California Statewide Communities Development Authority Bonds (CSCDA), Series 2008 A, B and C. In addition, bond proceeds will be used for the reimbursement of prior expenditures related to new construction and equipment.

Staff recommended the Authority approve a Resolution in an amount not to exceed \$480,000,000 for St. Joseph Health System and Affiliates subject to a bond rating of at least an "A" category rating by a nationally recognized rating agency.

Chair Wynne asked if there were any public comments on this item. There were none.

Mr. Sheehy moved approval of the Resolution and Ms. Sousa seconded the motion. Chair Wynne asked for a roll call. Jack Buckhorn-Abstain; Sumi Sousa-Aye; Ronald Joseph-Aye; Judith Frank- Abstain; Harry Bistrin-Aye; Tom Sheehy-Aye; Ruth Holton-Hodson-Aye; Chair Wynne-Aye. St. Joseph's Health System and Affiliates were approved.

Item #5 **Brookside Community Health Center (BCHC), San Pablo, California**
Resolution No. 2009-08

Chair Wynne introduced Thera Hearne, Analyst, of staff. Ms. Hearne introduced Cheryl Johnson, Executive Director of BCHC.

On May 25, 2006, the Authority approved Resolution No. 2006-06, which awarded a total of \$40.1 million in grants to 146 grantees under the CCGP (Grantees). The funds were to be used for capital improvement projects such as construction, remodeling, facility acquisitions, equipment purchases and information technology expenditures. The Authority staff mailed an award letter to BCHC on June 2, 2006 and therein established a documentation deadline of June 4, 2007. Thereafter, on June 28, 2007, the Authority approved a blanket deadline extension request for BCHC and many other grantees to December 4, 2007.

BCHC is an awardee of the CCGP and has missed an Authority deadline (a pre-condition to the funding of its grant) to submit appropriate grant documentation by December 4, 2007. BCHC requested the Authority establish a new documentation deadline of October 1, 2009 and project completion deadline of October 31, 2009, due to unforeseen delays beyond their control.

The issue before the board is whether Brookside has sufficiently demonstrated extraordinary circumstances meriting establishing a new documentation and project completion deadline. Staff has reviewed the justification provided by Brookside and concluded they have indeed met this burden.

Staff recommended the Authority approve the request submitted by BCHC to establish the new documentation deadline of October 1, 2009 and a project completion deadline date of October 31, 2009.

Chair Wynne asked Ms. Johnson for details of their project and what the unforeseen delays were.

Ms. Johnson replied that they originally applied for a dental expansion project. One of the grant requirements was to secure a five-year lease for the facility. The landlord was the West Contra Costa Health Care District, which filed for bankruptcy. BCHC was not able to get a five-year lease until March of 2009.

Chair Wynne asked if there were any public comments on this item. Hearing none, Ms. Sousa moved approval of the Resolution and Mr. Sheehy seconded the motion. The motion was adopted with a 9-0 vote.

Item #6 **Cal-Mortgage Loan Insurance**
Cal-Mortgage Loan Insurance (Cal-Mortgage) Staff to Discuss their Dedicated Security Fund and the State's Credit Rating. (Information Item)

Mr. Carl A. McLaney, Deputy Director of Cal-Mortgage Loan Insurance, provided the board with background on Cal-Mortgage insurance.

Item#7 **Resolution No. CHP 2009-09**
Discussion and Action on the Minimum Rating Requirements for Bonds that will be Issued to Fund Cal-Mortgage Backed Loans to Asian Health Services of Oakland, California and The Help Group of Sherman Oaks, California.

At the conclusion of the Authority's June 25, 2009 Board Meeting, the Authority learned via a member of the audience (Diane Potter of Orrick, Herrington & Sutcliffe), that one of the rating agencies downgraded the State's rating during the course of the Authority Meeting. Another rating agency has also downgraded the State since that time.

This was significant news because Agenda item Numbers 5 and 7 of the Authority's Agenda, Asian Health Services and The Help Group, both tax-exempt bond transactions, were insured by Cal-Mortgage. Cal-Mortgage Insurance extends the State's credit rating to the insured. In as much as the Authority had approved these transactions subject to a minimum of "A-" rating, the downgrade provoked a question, whether the Board should then permit these transactions to go out to the market with the newly downgraded rating of the State, i.e., below the previously granted "A-" rating. After a long discussion by the Board, including input from bond counsel, the underwriter, and the borrowers, the Board granted a 45-day window in which to go out to the market, subject to a minimum rating of "BBB+" or higher. This 45-day window was granted by way of a separate resolution which is attached to the original resolution authorizing a minimum "A-" rating.

The expiration of these second resolutions will occur in between Authority meetings set for July 30 and August 27. Since the June 25, 2009 Board Meeting, neither borrower has gone out to the market nor do they anticipate going out to the market before the expiration of these resolutions because of the State's blackout period (and unresolved financial disclosure language). Since the Authority's last Board Meeting, the State has been downgraded to a "BBB" rating and it is possible that further downgrades will occur in the foreseeable future. It is also possible that the State may experience an upgrade to its rating, but if is not possible at the present time to anticipate when that might occur.

The following questions were framed for the Boards consideration:

- 1) Given the supplemental resolution granted the 45-day window to go out to the market with a minimum of a "BBB+" rating is likely to expire, should the Board allow that resolution to expire and default to the original resolution mandating a minimum "A-" rating?
- 2) If the Board desires to extend the supplemental resolutions what rating should the Board impose?
- 3) Given the Board's directions concerning question #2, what guidelines should the Board impose on these borrowers?
- 4) If the Board decides to grant an additional resolution giving an additional window of time, should the Board grant an additional 45-days or some other time period?

The board thereafter engaged in a lengthy discussion (with input from Mr. McLaney, Cal-Mortgage, Mr. John H. Bonow, Managing Director, Public Financial Management, Inc., Mr. Roy Nelson, Public Finance Investment Banker, Wulff, Hansen & Co., and Ms. Diane Potter, Of Counsel – Public Finance, Orrick, Herrington & Sutcliffe LLP).

Important points to note:

- Mr. Bonow noted that Cal-Mortgage only underwrites or support transactions when their independent review has determined the borrower is able on its own to make full and timely repayment of the debt.
- Ms. Sousa noted that though the State's downgrades equate to a marginally weaker credit, the state likely has the ability to pay its bills.

Ms. Sousa moved two things: the first that CHFFA extend the 45-day period by which The Help Group and Asian Health Services can go out to the market and the second, to permit these transactions to be subject to whatever the state credit rating is at that time.

Chair Wynne asked if there were any public comments.

Ms. Sousa moved approval of her dual motions and Mr. Joseph seconded the motions.

Ms. Liebert clarified that the motions made by Ms. Sousa are proposed exceptions to the guidelines for these two borrowers, The Help Group and for Asian Health Services and not CHFFA's guidelines in general.

Roy Nelson asked a clarifying question as to whether the 45-days extension gives the borrowers until October 1st as the outside time for the sale date. Chair Wynne confirmed this timeline was appropriate given the upcoming mid-August expiration of the current resolutions.

Chair Wynne asked the secretary to call the roll: Jack Buckhorn-Aye; Sumi Sousa-Aye; Ronald Joseph-Aye; Judith Frank-Aye; Harry Bistrin-Aye; Tom Sheehy-Aye; Chair Wynne-Aye. Ruth Holton-Hodson-Abstained out of an abundance of caution due to the State Controller's past contribution to The Help Group. The motion was adopted with an 8-0 vote.

Item #8

HELP II Quarterly Report

Due to time constraints, this item was held over to the August 27, 2009, Board meeting.

Ms. Sousa left the meeting.

Item #9

Response to Bureau of State Audit's Report Recommendations for Children's Hospital Program (CHP)

Chair Wynne introduced Mr. Scarff, Program Manager, of staff.

In May 2009, the California State Auditor, Bureau of State Audits, issued its report entitled, "Children's Hospital Program: Procedures for Awarding Grants are Adequate, but Some Improvement is Needed in managing grants and complying with the Governor's Bond Accountability Program." The report included various findings and ultimately just three recommendations for improvement.

Prior to the issuance of a final audit report, the audited agency is provided with the opportunity to respond to the findings and recommendations. This original response is then included in the final report. Furthermore, once the final report is released, the audited agency would then be provided with three opportunities – 60 days, 6 months, and one year after the BSA releases its final report – to describe the progress it is making to implement the BSA's recommendations.

Ms. Holton-Hodson thanked Mr. Scarff and Ms. Liebert for agendaizing this item for discussion and commented that she felt it important for the board to have a public discussion of the findings. A brief discussion followed.

With no other business or public comment, Chair Wynne adjourned the meeting.