

MINUTES

**California Health Facilities Financing Authority
April 24, 2008 – 2:05 P.M.
915 Capitol Mall, Room 587
Sacramento, California**

Patricia Wynne sitting for Chairperson Bill Lockyer called the meeting to order.

Present: Designee Patricia Wynne, Deputy State Treasurer
Designee Anne Sheehan for Michael C. Genest, Department of Finance
Designee Ruth Holton-Hodson for John Chiang, Controller's Office
Judith Frank
Dr. Oscar Sablan (via teleconference)
Ronald Joseph
Sumi Sousa

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

The Chair declared a quorum present.

Item #2 **Approval of the Minutes from the March 27, 2008 Meeting**

Barbara Liebert stated the minutes had not been completed due to the length and complexity of the discussions, but that staff is aiming to have completed minutes at the next Authority meeting.

Item #3 **Executive Directors Report
Fund Balances and Refunding and Conversion Update
Information Item**

Barbara Liebert, Executive Director, reported that bonds issued totaled \$19,707,877,017, the bonds outstanding were \$7,595,647,351 and the CHFFA fund balance was \$8,723,292.06 as of March 31, 2008. Ms. Liebert reported a HELP II Fund balance of \$18,069,793, the Cedillo-Alarcón Clinic Grant Fund balance of \$323,232, the Anthem-Wellpoint Grant Fund balance was \$5,116,726, and the Children's Hospital Bond Act of 2004 Fund balance was \$433,937,268, as of March 31, 2008. Ms. Liebert reported that since the March 11th meeting, Sutter Health (one of the six borrowers approved at the March 11th meeting) had gone back to the market to accomplish their re-funding in the amount of \$320,950,000 (Sutter Health had been approved for a sum not to exceed of \$625,500,000).

Item #4 **HELP II Loan Program Quarterly Report
Information Item**

Ronald Washington presented the quarterly report of the HELP II Loan Program. At the conclusion of the report, Mr. Joseph asked whether any attempts have been made by the Authority to recover sums from the few delinquent borrowers that do exist. Mr. Washington responded that he would look into this issue and report back his findings at the next meeting.

Item #5 **Reduction and Cap of Initial Fees
Resolution No. 2008-04**

Ms. Liebert reminded the Board that at the March 11, 2008, meeting Chairperson Wynne recognized the financial hardship each of the six health facilities approved at the March 11th meeting have been experiencing because of the extreme market conditions. Ms. Liebert reminded the Board that recommendations were made at the last two Authority Board meetings to reduce the initial fees for these borrowers by 50% with an

ultimate cap of \$100,000. Staff recommended formal approval of these recommendations by the Authority by approving Resolution No. 2008-04 of the California Health Facilities Financing Authority to reduce the initial fees for the Catholic Healthcare West, Hoag Memorial Hospital, Scripps Health, Stanford Hospital, Sutter Health and Lucile Salter Packard refundings as approved at the March 11, 2008, authority meeting by 50% and to further cap those Initial Fees at \$100,000 for the duration of the Resolution Nos. 326, 327, 328, 329, 330, and 331. After a discussion by the Board, Anne Sheehan made a motion for approval and Sumi Sousa seconded the motion. The chair requested a roll call vote and the motion was adopted with a 7-0 vote.

Item #6

**Sequoia Community Health Foundation
Amended Resolution HII-203**

Thera Hearne, Analyst, introduced the Amended Resolution HII-203 for Sequoia Community Health Foundation write up to the members.

Ms. Liebert explained that the Board approved a loan of \$430,000 for Sequoia Community Health Foundation in August of 2007 and that during the process of closing the loan, an error was discovered in the original resolution. The resolution reflected that one of Cal Mortgage's deeds of trust was being subordinated to the loan, but that in actuality there were two such deeds of trust to be subordinated. Ms. Liebert explained that subordinating both loans to the Authority's loan was of benefit to the Authority because it reduces the loan-to-value ratio from 80 percent to 40 percent. Staff recommended the Authority approve an amendment to Resolution No. HII-203 revising the loan subordination condition to reflect both the 1993 and 2000 Deeds of Trust on the SCHF property located at 1350 South Orange Avenue, Fresno, CA.

After a discussion by the Board, Ronald Joseph moved for adoption of the Resolution and Anne Sheehan seconded the motion. The chair requested a roll call vote and the motion was adopted with a 7-0 vote.

Item #7

**Chamberlain's Children's Center, Inc. ("CCC")
Resolution HII-219**

Jerome LaTorre, Analyst, introduced Doreen Crumrine, Chief Executive Officer and Nancy Kops, Board Member. Ms. Crumrine provided the background of CCC. CCC requested the Authority approve a HELP II Loan in an amount not to exceed \$400,000 for a term of 15 years.

Ms. Liebert said the loan proceeds would be used to construct two new residential care homes for the children and fencing/landscaping around the new buildings. Staff recommended approval of a HELP II loan for Chamberlain's Children Center, Inc. in an amount not to exceed \$400,000 for a term not to exceed 15 years and contingent upon financing terms acceptable to the Authority.

After a discussion the by the Board, Anne Sheehan moved for adoption of the Resolution and Ruth Holton-Hodson seconded the motion. The chair requested a roll call vote and the motion was adopted with a 7-0 vote.

Item #8

**Asian Pacific Health Care Venture, Inc. (“APHCV”)
Resolution HII-220**

Lan Jaduram, Analyst, introduced Kazue Shibata, Chief Executive Officer and Nardo Beltran, Chief Financial Officer. Ms. Shibata provided the background of APHCV. APHCV requested the Authority approve a HELP II Loan in an amount not to exceed \$750,000 for a term of 15 years.

Ms. Liebert said the loan proceeds will be used to refinance an existing variable interest rate line of credit (LOC) in the amount of \$750,000 with an expected interest rate of 4.5% (the LOC has not yet closed nor has the interest rate been set; therefore, APHCV can only estimate the anticipated interest rate for this loan). Staff recommended approval of a HELP II loan for Asian Pacific Health Care Venture, Inc. in an amount not to exceed \$750,000 for a term not to exceed 15 years and contingent upon financing terms acceptable to the Authority

After a discussion by the Board, Anne Sheehan moved for adoption of the Resolution and Ronald Joseph seconded the motion. The chair requested a roll call vote and the motion was adopted with a 7-0 vote.

Item #9

**1985 Pooled Loan Bond Program
Resolution No. 2008-05**

Ms. Liebert asked for this matter to be tabled until the next meeting pending the Authority’s receipt of a report from Bond Logistics, an affiliate of Orrick, who is helping the Authority discern what can be done with loans attached to these bonds which have been redeemed under this program - effective April 1, 2008. The Chair agreed to table Resolution No. 2008-05 for one month.

Item #10

**Pass Through Update and Board Discussion
Information Item**

Chair Wynne asked for the Board’s input to direct staff on the development of a pass-through policy and asked that staff report back to the Board at the next meeting. Chair Wynne also announced that she had requested SEIU to provide their input on this issue as soon as possible.

Ms. Liebert first reported to the board about the status of SB 1221 - a bill carried by Senator Kuehl. Ms. Liebert explained that the bill does two important things - it modernizes the 1979 statute and expands the ability to pass through community benefits on a much larger scale because it applies to all conduit issuers in the state. The bill retains the language that says when a health facility comes to the Authority for tax-exempt financing, the savings should be passed back to the community, but now requires the facility to demonstrate performance of significant community service. To evaluate the issue, the Authority would consider such things as whether the facility maintains a policy of treating patients without regard of their ability to pay, whether the facilities maintain, except in open areas, a Medi-Cal contract or a CMAC contract, whether the facility maintains a charity care policy, whether they maintain a mechanism for tracking and reporting costs, charges, and clinical quality data to state and federal agencies and lastly, whether the facility provides “significant community service through other factors that the Authority deems appropriate.”

Ms. Liebert indicated there are a number of proposed amendments from the California Nurses’ Association, the California Hospital Association, and the California Children’s Hospital Association. Ms. Liebert also explained that a meeting with representatives from these groups, as well as the Authority, is scheduled for May 9th with Senator Kuehl.

Ms. Liebert proceeded to explain that one of the amendments to SB 1221 called for change to the language in subpart (c). The proposed amendment referred specifically to the line, “in determining whether a health facility performs a significant community service, the Authority shall consider whether the health facility does ‘all of the following.’” The amendment suggested that the words “all of” be struck from the current bill language.

Mr. Joseph opined that the statute’s use of the word “consider” may bring the Authority back to the same dilemma that it is currently facing.

Ms. Liebert then stated that she testified before a Senate committee on April 23rd on this bill, and that one of the issues raised by Senator Steinberg was that subparagraph 5 in the statute was not specific enough and that it gave a lot of flexibility. Ms. Donna Fox of the California Nurses’ Association (CNA) responded by stating that they shared the same concern as Senator Steinberg in regards to subparagraph 5. Ms. Fox added that the CNA believes that the language in the bill should use the word “require.” Ms. Liebert added that she believed that Ms. Fox was referring to the CNA amendment of adding the word “require” to subparagraph 5, so it would read: “The Authority shall also require that the community benefit plan include an implementation schedule.” Ms. Fox indicated that she believed this was correct.

Ms. Holton-Hodson asked whether language in the statute that states “consider the following” is going to put the Board in a position where they will have to determine how much community service is enough to satisfy the statute.

Ms. Sousa pointed out that healthcare facilities are experiencing an undersupply in Medi-Cal reimbursement, which has resulted in hospitals contemplating dropping their California Medical Assistance Commission (CMAC) contracts due to what rates are and the cost of providing the service. She added, however, that imposing a different kind of requirement on all transactions is something that the Board is interested in potentially doing. Chair Wynne agreed.

Ms. Sheehan stated that a balance needs to be reached so the entire market does not continue to leave the Authority, because that is not the Board’s intention, as the Board is instead trying to provide some certainty to the borrowers who are coming to the Authority as to what is required to meet the goals of the Authority. Ms. Sheehan believes that the statute should leave the Board and other conduit issuers with some flexibility in order to determine whether a hospital has performed a significant amount of service to the community, because without such flexibility it may inadvertently put everybody out of business.

Although legislation on this issue is pending, Chair Wynne urged the Authority staff to think about the development of a policy to use in case the legislation does not pass. Mr. Joseph cautioned, however, against too much flexibility. Ms. Sousa added that whether there is flexibility or not, what needs to be present is the same semblance of rules shared by the Authority and other JPAs.

Ms. Liebert then explained what she believed the concerns to be of the California Economic Development Authority (CEDA) with SB 1221. One issue CEDA had with the bill was the “all of the following” language in subpart (c). CEDA also would like to impose on the Authority a local TEFRA hearing. Ms. Sumi found the second issue to be without merit due to the fact that the Authority is a statewide authority.

Mr. Dietmar Grellman with the California Hospital Association (CHA) stated that CHA sent a letter to Senator Kuehl, which contained their suggested amendments to SB 1221. As a broad CHA policy statement, Mr. Grellman said that they believe that the very existence of a hospital in a community is a significant community service. He agrees that flexibility in applying pass-through guidelines is key. As a result, CHA is pleased to see flexibility in the bill, and concurs with the previous discussion about the use of the word “all” in subpart (c) of the statute, as there will be some hospitals that do not meet all of the requirements.

Mr. Grellman agreed with the earlier point made by Ms. Sousa that as Medi-Cal reimbursement rates go down, there will be some hospitals that will be unable to maintain a CMAC contract. Chair Wynne asked which of the five community service considerations listed in the bill, would be difficult for hospitals to meet. Ms. Sousa stated that the first requirement is a state law, so all hospitals currently meet that. The fourth suggested requirement, however, would be hard for hospitals to meet with regards to data and clinical quality tracking because not all of them do it and not all hospitals are under contract with CMAC. Mr. Grellman agreed and emphasized the importance for the bill to have flexibility and not to be driven by formulas because each hospital is so different from the other.

Chair Wynne stated that what she keeps hearing from the underwriting community is that what they want from legislation or Authority policy is “predictability.” Ms. Sheehan added that she believes the challenge may be with the fifth requirement of the proposed statute, which gives the Board flexibility in evaluating “significant community service.” Chair Wynne expressed that she sees the fifth requirement as a “bucket,” where if a hospital potentially does not meet all of the four prior requirements, the Board can look with flexibility toward the fifth requirement to ultimately determine whether the hospital satisfies the “significant community benefit” requirement. Chair Wynne asked Authority staff to consider defining this “bucket” in a way that comes up with factors to be considered.

Ms. Sheehan added that flexibility could be used to give hospitals the ability to meet the statute’s requirements in a different way than is stated in the language of the statute, as long as a similar outcome or effect on the community is achieved. Ms. Sousa suggested getting feedback from the applicable community to help determine the value the hospital provides to the community.

Dr. Sablan agreed that flexibility is important and also thought that a historical review of what the hospital is doing in their community is important to consider. He would like to see specific programs or departments set up by hospitals to show that they are spending their tax-exempt savings on the community and to highlight how they have served the community over a specific period of time. He envisions that this information could be used by the Board to determine if the hospitals are providing significant community service. He believes that a history of giving and doing things for the community is just as important as a hospital saying that they have a program that satisfies a pass through criteria.

Ms. Frank queried whether the other conduit issuers have programs similar to the Authority’s HELP II loan, which is funded by fees acquired through bond financing. She is concerned that if SB 1221 passes, it may not level the playing field with other conduit issuers, because of the fact that the Authority is using the fees generated from bond deals and giving it back to the community through the HELP II loan program and other issuers may not be doing the same. Ms. Sousa stated that other issuers do not have a loan or grant program. Ms. Sheehan agreed with Ms. Frank’s point and stated that the Board cannot overlook the economic value of the HELP II loan.

Chair Wynne reiterated that without legislation, it is incumbent upon the Authority Board to come up with a pass-through savings policy. Mr. Joseph stated that he is comfortable with the requirements in the statute as general statement guidelines to follow, but he wondered whether there is a need for economic valuation of the community benefit. He believes that CHFFA can look at net social benefit absent the hard dollar figures.

Ms. Frank stated that in the past the big borrowers came before the Board with a thorough, qualitative presentation of all of the community activities they had provided, which often included dollar figures as well. She added that the borrowers would also talk about the Medi-Cal patients and underserved population they had assisted. Ms. Sheehan stated she ultimately would like to achieve the goal of providing some certainty of the rules to the borrowers, and would like to see more rule ideas presented to the Board.

