

MINUTES

**California Health Facilities Financing Authority
May 29, 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
Ronald Joseph
Sumi Sousa
Jack Buckhorn

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

The Chair declared a quorum present.

Patricia Wynne introduced CHFFA's newest member, Jack Buckhorn, appointed by the Assembly Speaker.

Item #2 Approval of the Minutes from the March 27, 2008 and April 24, 2008 Meetings

The California Health Facilities Financing Authority's (CHFFA or the Authority) March 27, 2008 and April 24, 2008 Meetings minutes were approved after a discussion by the Board. Anne Sheehan made a motion for approval and Sumi Sousa seconded the motion, the motion was adopted with a 6-0 vote.

Item #3

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

Barbara Liebert, Executive Director, reported that the bonds issued totaled \$19,714,127,017, the bonds outstanding were \$7,590,798,167 and the CHFFA fund balance was \$8,753,681.46 as of April 30, 2008. Ms. Liebert reported a HELP II Fund balance of \$17,487,561, the Cedillo-Alarcón Clinic Grant Fund balance of \$286,275, the Anthem-Wellpoint Grant Fund balance was \$4,891,988, and the Children's Hospital Bond Act of 2004 Fund balance was \$371,165,394, as of April 30, 2008. The 2007 Annual Fees billed for the year amounted to \$1,189,857.82.

Ms. Liebert mentioned that annual billing for fees associated with bonds was sent on May 14th to approximately 60 to 65 borrowers for \$1,189,857. Ms. Liebert estimated these fees should be collected by August.

A funding and conversion update was also given by Ms. Liebert, in which she stated that CHW, Sutter, and Stanford have gone back out to the market. Stanford has been pricing this week; Hoag is not going forward with funding through the Authority, instead opting to go through the City of Newport Beach; and no word has been received regarding Lucille Packard and Scripps.

Ms. Liebert gave the status of pending legislation, specifically four bills that CHFFA is either directly or indirectly involved in:

Senator Sheila Kuehl is carrying SB 1221. This bill has to do with CHFFA's pass-through policy as well as a policy that would apply to other conduits. SB1221 has passed out of the senate. **Assembly Member Fiona Ma is carrying AB 2942.** This is a community benefits bill that would seek to augment the

responsibilities of hospitals and health care facilities with regard to the community benefits that they report on annually. This bill has passed out of the Assembly. **SB1293** has to do with other conduit financing agencies of California, including CHFFA. SB1293 increases the transparency and reporting requirements for all conduits. The bill also contains a monitoring aspect assigned to the State Controller's office. It is currently on the Senate Special Consent Calendar. **Senator Darrell Steinberg is carrying SB 1175.** This bill helps developmentally disabled communities by allowing developers who are developing parcels for the benefit of developmentally disabled clients to seek CHFFA financing. This has also passed out of the Senate.

Ms. Liebert also gave an update on consultant Kurt Sjoberg's recommendations. One recommendation was to establish an interim pass or pass-on policy right away, which will be discussed later during the meeting. The second recommendation was to establish protocols for public and Board oral comments. In response to this, Ms. Liebert stated that at the onset of each meeting it will be requested that public comments be kept to a minimum and the Chairperson will recommend a certain timeframe. The third recommendation made by Mr. Sjoberg was to Establish protocols for written comments. Ms. Liebert added that at future Board meetings there will be some language at the bottom of the agenda asking the public to submit documentation in advance. A fourth recommendation made to the Board was to consider the scheduling of additional CHFFA Board Meetings. In response, Ms. Liebert mentioned that CHFFA has "already broken through that ceiling" in the scheduling of the March 11th meeting, and will continue to schedule more meetings in order to create more opportunities to help borrowers. Ms. Liebert added that CHFFA is still in the process of streamlining its application, and will hopefully have something to present on that subject at the next meeting. The final recommendation made by Mr. Sjoberg was for CHFFA to work with the legislature regarding the pass-through requirement. Ms. Liebert stated that this effort is addressed in SB 1221, and the work is still ongoing.

Ms. Liebert also stated that CHFFA has been approached by the Rural Hospital Association, and a group home association to see if there is anything that CHFFA can do to help such organizations get through the challenging summer they have ahead with the issue of restricted Medi-Cal reimbursement. If staff believes CHFFA can help these organizations then this matter will be brought to the Board for consideration at the next meeting.

Ms. Liebert also mentioned that CHFFA is on the path of completing some of its prior outreach efforts. A number of hospitals and associations have been contacted and more will be reached during the summer, including Stanford, Lucile Packard, Scripps Health, Providence, Cottage Health, and Saint Joseph's Children's Hospital of Orange County. Chairperson Wynne said that if a visit is planned where a Board member resides, or if a Board member has a relationship with an association or hospital they should be invited to accompany the Executive Director on the visits.

Item #4

**Original HELP Loan Program Update
Information Item**

Mr. Washington stated that there are two components to the HELP II Program. One is the current HELP II Loan Program that CHFFA administers and the other is the original HELP Program. Within the HELP program there are three stages of borrowers: they are delinquent, bankrupt or need to be written off. There are seven borrowers with eight loans in the original HELP Program with three borrowers holding four loans that are in the write-off status. Two loans are deemed to be in the bankruptcy stages and two are in delinquent status.

There is a need to identify what will be done with these loans. In total there is over \$600,000 still on the books. These loans were implemented before 1999. They are unsecured loans and there was no recourse that

could be taken. Ms. Liebert stated that three of the loans have already been designated in the written off category, but at this time they have not been written off the books. Staff will continue to follow through with these loans to make sure they are taken off the books or otherwise resolved.

Item #5

**Resolution Number 2008-05
Information Item**

Ms. Liebert said, in October of 1985, the Authority established a series B pooled loan program, based on a \$100 million bond issue. The indenture for this loan program provided that loans could be made from time to time to eligible facilities that had eligible projects. As loans were repaid, new loans could be made. Ultimately, each loan has a final maturity date of August 23, 2010. The indenture provided for mandatory redemption of the bonds at such time sufficient accumulations had occurred in the loan account. On April 1, 2008 all bonds were redeemed. Five loans are still outstanding. Alta Med Health Services has three loans; \$403,382, \$318,431, and \$710,746 respectively. Cathedral Pioneer Church Homes has a \$157,046 note and Chinese Hospital Association has the largest at \$958,811. The indenture gives the Authority the discretion to continue the loans until their maturity rate. Staff is recommending that the loans be continued. Because these loans were tied to the bonds, which have been redeemed, they no longer have an interest rate. When the loans are paid back, only the principal will be received. CHFFA may want to think about offering these borrowers the opportunity to refinance these loans through the HELP II Loan Program, even though one of them does exceed the loan threshold of \$750,000. This might be attractive to the borrowers because they would have a fixed rate of three percent. The loans are currently being serviced by the Bank of New York and staff is recommending that CHFFA take over the responsibility of administering the loans.

Ms. Holton-Hodson asked what the comparison between the interest and the letter of credit would be. Ms. Leak, of Orrick did not have a dollar amount because the requirement for the letters of credit was imposed by the issuers of the bond, Financial Guaranty Insurance Company (FGIC). Each borrower secured their own letter of credit and pricing is different for each. Ms. Holton-Hodson asked if there is a way to relieve them of the letters of credit, and have them pay interest? Ms. Leak said staff has requested the letter of credit information and they are in the process of reviewing it.

Mr. Buckhorn asked what would need to be done to accommodate the HELP II loan in cases where the loan limit is exceeded. Ms. Liebert explained that there would have to be a policy-based discussion.

Ms. Liebert stated that the Board is being asked to approve the continuation of the loans so that the borrowers can continue servicing their debt. She also asked for guidance from Ms. Leak to find out if CHFFA has any control or leverage concerning the letters of credit. If not, then it might be best to approach the borrowers with the HELP II offer.

MOTION: Ms. Sheehan moved for the adoption of Resolution No. 2008-05; seconded by Ms. Sousa. The motion carried unanimously by a 6-0 vote.

Item # 6

**Bloss Memorial Health Care District (BMHCD)
Resolution Number HII-221**

Yassar Darbour, Analyst, introduced Ed Lujano, Chief Executive Officer and Bill Able, Chief Financial Officer. Mr. Lujano provided the background of BMHCD. BMHCD requested the Authority approve a HELP II Loan in an amount not to exceed \$427,500 for a term of 5 years.

Ms. Liebert said the loan proceeds would be used to purchase ophthalmology equipment and to upgrade its telecommunications and technology infrastructure for the total sum of \$450,000. The proposed HELP II loan is for \$427,500 and will be secured by a lien on equipment and a gross revenue pledge. Staff recommended

the Authority approve a resolution for a HELP II loan for Bloss Memorial Healthcare District in an amount not to exceed \$427,500 for a term not to exceed 5 years, and contingent upon financing terms acceptable to the Authority.

After a discussion the by the Board, Ms. Sheehan moved for adoption of the Resolution and Ms. Sousa seconded the motion. The chair asked is there were any objection to recording the six of us present as voting aye? Hearing none the motion was passed with a 6-0 vote.

Item #7

**Thessalonika Family Services, Inc. (TFS)
Resolution HII-222**

Karma Manni, Analyst, introduced Tom Julian, Executive Director. Mr. Julian provided the background of TFS. TFS requested the Authority approve a HELP II Loan in an amount not to exceed \$500,000 for a term of 15 years.

Ms. Liebert said the loan proceeds would be used to refund the 1995 Series A Bonds issued by the Authority and insured by Cal-Mortgage, which were previously used to refinance several properties. With the proposed financing, TFS will save approximately \$10,000 in annual interest (\$148,000 over the life of the loan). This financing would also eliminate \$30,000 in trustee fees, insurance premiums and other fees associated with the bond issuance.

After a discussion the by the Board, Ms. Sheehan moved for adoption of the Resolution and Mr. Joseph seconded the motion. The chair asked if there were any objection to recording the six of us present as voting aye? Hearing none the motion was passed with a 6-0 vote.

Item #8

**Pass Through Savings Policy Recommendation
Resolution No. 2008-06**

Chairperson Wynne invited public comments on the resolution, which is CHFFA's pass-through savings policy recommendation. Ms. Liebert, however, first sought to refresh the pass-through discussion and articulated some of the central points brought up during the Board's last several meetings. In doing so, Ms. Liebert mentioned that one item the Board noted was that the Attorney General conferred broad discretion on the Board in its November 17, 2005 opinion, which states that CHFFA has discretion to implement the legislature's intent as it sees fit within the parameters of the CHFFA Act. The Board also recognized the apparent pass-through already occurring with each bond transaction at some level from initial and annual fees contributed by borrowers and CHFFA's subsequent use in their HELP II Loan program, which offers fantastic interest rates and access to capital for all health care entities throughout the State. In addition, Ms. Liebert stated that the Board asked for a pass-through policy that provides clear direction and some flexibility that can apply to all of the numerous, diverse health facilities within the State. The Board also recognized the importance of ensuring that the policy does not impose greater burdens and costs than policies existing at other conduits throughout the State. Lastly Ms. Liebert pointed out that the Board recognized that the legislature and Congress are best equipped to grapple with the complex issues with health care economics rather than CHFFA, a bond financing organization.

Public Comment

Public Comment #1

**Service Employees International Union, United Healthcare Workers West (SEIU)
Richard Thomas, Policy Director
John Glynn, Consultant for SEIU**

Mr. Thomas stated that the SEIU appreciates the dilemma that CHFFA faces and looks forward to working with CHFFA to create a policy that applies to all the bond issuers in order to level the playing field. Mr. Thomas asked for CHFFA's assistance in the development of a pricing consideration to be added to SB 1221.

Mr. Glynn went over the report he prepared for the SEIU on the topic of pass-through and stated that if CHFFA were to adopt the resolution, a lot of uncertainty would be removed because borrowers would understand what was expected of them. He added that it would also reduce bondholder risk. Mr. Glynn went on to address the methodologies, documented in the report, for measuring the rates of hospital charges. The approach uses existing data, and adjusts the charges for the intensity of the care that the particular provider charges. In addition, Mr. Glynn mentioned that the methodology uses charity credits for the providers that provide a large amount of charity care.

Mr. Glynn stated that he found that the average nonprofit commercial rates from 2001 to 2006 increased by 75% over that time period, significantly higher than the average rate of inflation. The UC hospital systems only increased their rates by 36% over that five-year period, while St. Joseph's Health System saw a 130% increase in their rates. Mr. Glynn added that for-profit hospitals in California only raised their rates by 56%.

Charity is another consideration that Mr. Glynn stated was looked at in his prepared report. Mr. Glynn found that the average level of charity care was really 19% of net income, with Adventist Health Systems at the high end, having contributed 158% of their net income to charity care. At the low end was St. Joseph's, with only 7% of net income contributed to charity care. Mr. Glynn added that for-profit hospitals, on average, contributed 84% of their net income to charity. During this five-year time period (2001-2006), Mr. Glynn noted that profits for non-profit hospitals increased by over 200%. From his findings, Mr. Glynn said that only two hospital systems, St. Joseph's Health System and the Sutter Health System, would not be in compliance with the measurements that he used in his report.

Mr. Glynn pointed out that commercial payer rates were used in the report because this is where the hospital has the greatest discretion in terms of changing or modifying their rate of change in hospital rates. Through these figures, Mr. Glynn explained that a "safe harbor" was established, which was a 75% average rate increase, plus or minus 5%, with hospitals over this number being subjected to closer scrutiny. From the report, Mr. Glynn stated that Adventist Health, Scripps, Sharp, Sutter, and St. Joseph's were all over the "safe harbor" zone.

In relation to the charity care credits used in the report, Mr. Glynn also found that there was a big gap between the for-profits and the non-profits. This charity measure was based upon cost, and it met the HMFA guidelines for charity care. Mr. Glynn went on to explain the report's creation of a charity care index, which served as another objective measure to consider. This charity care index also uses a "safe harbor" measurement to indicate whether an organization requires closer inspection. Mr. Glynn stated that values in the price charity index over 1.1, which is the safe harbor, would require a closer look. Cedars, Sharp, St. Joseph's, and Sutter all had price charity index values in excess of 1.1.

Mr. Glynn also went on to recommend a number of options for organizations that continue to be significantly out of compliance or above those measurements and might require some remedial action that goes beyond simply the provision of additional charity care. He compared such options as to what was done with Sutter, when additional funding was asked of them by the Board. In conclusion, Mr. Glynn recommended that the Board consider all the options presented in their report for CHFFA or for inclusion in SB 1221, so that not only CHFFA is subjected to this type of measurement, but all of the other JPA's as well. Mr. Thomas added that the data found in Mr. Glynn's report bolsters the need for an examination of what hospitals are doing in return for their tax-exempt status, and the SEIU looks forward to working with CHFFA in that effort.

Chairperson Wynne stated that the SEIU report makes a genuine contribution to the discussion about nonprofit hospitals throughout the nation, but mentioned that the Treasurer feels very strongly that if CHFFA were to adopt the report's recommendations, it would be a mistake. The Treasurer believes that the recommendations made in the report simply guarantee that other authorities would get CHFFA's business. Ms. Wynne, however, offered to work with SEIU, UHW, and Mr. Glynn on flushing some of their issues out for future consideration. Ms. Wynne added that CHFFA policy is to make sure that the nonprofit hospitals are doing what they're required to do by law, and if they are, then CHFFA should then bestow the benefit that CHFFA is charged with accomplishing this mission. Ms. Holton-Hodson agreed with Chairperson Wynne.

Public Comment #2

California Nurses' Association (CNA)

Donna Fox

Ms. Fox noted that the SEIU report was very impressive, and added that the CNA has been working with Senator Kuehl and Senator Negrete-McLeod on this issue of pass-through. In regards to the CHFFA policy recommendations, she stated that items 1 through 5 are necessary but not sufficient from the CNA's point of view. She noted that there is a need for something that is material, accountable, implementable, and measurable. As a public policy issue, the savings of two percent per month is a considerable amount of money from a community-based organizational point of view. Public health initiatives could be funded with that kind of money and it would do a considerable amount of good and could literally save lives. Ms. Fox added that the CNA would like to suggest that Item 2 be about treating, and not just about meeting the minimum requirements of the law for accepting people into the emergency rooms.

Public Comment #3

California Hospital Association (CHA)

Dietmar Grellmann, Senior Vice-President

Mr. Grellmann said CHA represents a wide range of hospitals, many in underserved communities. Mr. Grellmann noted that the existence of a hospital in a community is a significant community benefit, not only to treat patients, but also to provide educational opportunities for students of medicine and research. He stated it is interesting when one tries to compare a hospital that has significant education and research to a hospital that does not; sometimes it depends on where financing for research is coming from, as some are government funded and some are privately funded. Mr. Grellmann mentioned that when one looks at hospitals within a system, it is important to look at the whole picture. Mr. Grellmann stated that it appears that the proposed CHFFA policy recognizes the differences in hospitals and allows the judgment of the staff and Board to look at an individual application in order to make a fact-based judgment. As a result, according to Mr. Grellmann, the CHA is encouraged by the approach CHFFA has taken on the issue.

Ms. Sheehan complimented the CHFFA staff for their hard work on the issue and believes that the discussion will continue both in Sacramento and back in Washington. She added that the new CHFFA policy will give some of CHFFA's potential users coming back to the authority some of the certainty that they have needed.

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Ms. Wynne also thanked the staff and believes that the policy is a good start. Mr. Joseph believes the staff captured what the Board addressed in last month's meeting, and he encourages staff to report back any outside concerns received in the future. Ms. Liebert assured the Board that the staff will report back to the Board and will conduct more outreach as a consequence of the new policy. Mr. Buckhorn thanked the staff and encouraged staff to continue work with the SEIU and UHW in the further development of a sound public policy on the issue of pass-through. Ms. Sousa also thanked the staff and believes the proposed new policy is the right place for CHFFA to go forward from.

MOTION: Ms. Sheehan moved for the adoption of the resolution; seconded by Mr. Joseph. After Board discussion the motion carried unanimously with a 6-0 vote.

Adjournment

MOTION: Ms. Sheehan moved to adjourn the meeting; seconded by Ms. Sousa. The motion carried unanimously with a 6-0 vote.