

AMENDED MINUTES

California Health Facilities Financing Authority
June 24, 2010
915 Capitol Mall, Room 587
Sacramento, California

A PORTION OF THIS MEETING WAS HELD JOINTLY WITH THE CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY (CEFA)

Patricia Wynne, Chairperson called the meeting to order at 1:45 P.M.

Roll Call

Members Present: Patricia Wynne for Bill Lockyer, State Treasurer
Ruth Holton-Hodson for John Chiang, Controller's Office
Cynthia Bryant for Ana J. Matosantos, Department of Finance
Dr. Oscar Sablan – Via Teleconference
Ronald Joseph
Sumi Sousa
Judith Frank
Jack Buckhorn

Members Absent: Harry Bistrin

Staff Present: Barbara J. Liebert, Executive Director
Rosalind Brewer, Deputy Executive Director

The Chair declared a quorum present.

Chair Wynne stated the first item of business for CHFFA and the last item for the CEFA board is to discuss the Authorities' guidelines with their working group providing an update. The Chair thanked staff for accommodating a joint meeting of both the CEFA and CHFFA boards.

Ms. Liebert began the presentation by introducing members of the working group: Diane Potter, Orrick, Herrington & Sutcliffe and Robin Helmlinger, Healthcare Public Finance, Partner, Sidley Austin and John Bonow, Public Finance Management. Ms. Liebert commented the report circulated to Board members pertains solely to CHFFA as an initial effort for purposes of generating a discussion relevant to both boards. Ms. Liebert noted that existing guidelines for CHFFA and CEFA have a few distinct differences, but that in reality, the Authorities share much in common making a joint presentation of a proposed new methodology for reviewing bond transactions most appropriate and efficient.

Ms. Liebert stated that the presentation would address proposed bond review methodology for only investment grade rated bonds and not those bonds below investment grade. Bonds with these ratings would be addressed at a later meeting.

After initial comments by Ms. Potter, Ms. Helmlinger and Mr. Bonow, Chair Wynne opened up the discussion to Board members regarding the proposed new methodology for evaluating bond transactions. Using Exhibits 1 and 2 of the report provided to Board members to guide the discussion, Chair Wynne asked the working group which rating would be used in the case where an applicant had more than one

rating. Ms. Potter replied that it is relatively uncommon for prospective borrowers to have split ratings, but that the customary practice in such occasions for bond insurers is to utilize the higher of the split rating.

Mr. Hiber commented on the need to balance the Authorities customer service approach with the need of both Authorities to meet their fiduciary responsibility in the review of its applications.

Ms. Holton-Hodson (State Controller's Office) expressed concerns regarding the proposed line of demarcation between investment and non-investment grade of BBB-. A discussion amongst all members, the guests and select members of CHFFA/CEFA staff ensued.

After a series of questions and answers between the Board and the working group regarding the new proposed bond review methodology, Ms. Liebert reassured the board that staff would continue to provide their existing analysis on all bond applications, as they have in the past, but that they would also be augmenting their analysis to provide a more comprehensive analysis of the covenants, security and disclosures applicable to each transaction. Additionally, Ms. Liebert underscored the intention to involve the Authority's financial advisor, PFM, at the outset of each transaction to work closely with staff and provide guidance concerning the proposed covenants, security and disclosures.

Mr. Washington added that qualifications of a borrower can change over time and that no two transactions are identical. Mr. Washington echoed that there have been applications that were never presented to the Board as a result of Staff's review and recommendation.

Chair Wynne brought this portion of the meeting to a close by asking board members to spend time reviewing the proposed new methodology and addressing any of their questions to Ms. Liebert. Chair Wynne directed staff to continue the discussion with the board via another agenda item at the next meeting. Specifically, Chair Wynne directed staff to provide a template staff report to best illustrate the proposed methodology for evaluating bond transactions.

Before completing this item, Ms. Sousa suggested to Mr. Bonow that he provide the board with information to help with their evaluation of the proposed methodology and to increase their knowledge of the public finance market in general, including what is standard, what is not standard, what some of the other conduit issuers do, the realities of the marketplace, the risks inherent to non-profit conduit transactions, the types of investors who typically buy these bonds, what investors tend to care about, what concerns investors have, median ratios, etc. Mr. Bonow replied that he would be happy to supply this information in advance of the Authorities' next meeting.

Chair Wynne asked for public comment for CEFA. Hearing none, Chair Wynne adjourned the CEFA meeting. The CHFFA meeting continued without interruption.

Ms. Frank departed the meeting.

Approval of the Minutes from the May 27, 2010 meeting

Ms. Sousa moved approval of the May 27, 2010 meeting minutes and Ms. Bryant seconded the motion. The minutes were approved with an 7-0 vote.

Executive Director's Report

Ms. Liebert reported the following as of May 31, 2010: Bonds issued: \$24,608,272,017; Bonds outstanding: \$9,507,088,654; CHFFA fund balance: \$13,461,560; HELP II fund balance: \$13,454,736, Cedillo-Alarcón Clinic: \$222,948; Anthem-WellPoint: \$298,518; Children's Hospital Bond Act of 2004: \$278,624,613 and the Children's Hospital Bond Act of 2008: \$743,788,183.

Delegation of Powers Monthly Update

Ms. Liebert indicated she took one action during the previous reporting period. Ms. Liebert signed a supplemental indenture for Stanford Health and Clinic which allowed them to amend their existing

indenture in order to memorialize an action that was taken pursuant to permission granted in their indenture. Basically, Stanford Health and Clinic took their 2000 Series A bonds and allowed them to be reoffered at a premium which extended their maturity from June 15, 2010 to November 15, 2040. This adjusted their amortization schedule because reoffering the bonds at a premium allowed them to pay down some of the par amounts of the outstanding bonds and it lowered their interest rate. This action was taken under the delegation resolution and approved by the Attorney General's Office.

Ms. Sousa suggested that Ms. Liebert provide written reports to the board concerning each delegation action taken. Ms. Liebert agreed that in the future, delegated actions would be included as a bullet point on the Executive Director's report.

HELP II Late Payment Update

Ms. Liebert reported that the one borrower staff has been closely monitoring for their arrearages, recently forwarded a lump sum payment of approximately \$43,000 and that the borrower will begin double payments effect July 1, 2010.

**Odd Fellow-Rebekah Children's Home of California (RCH),
Resolution No. HII-248**

Item #7

Cheryl Ide, Staff Analyst, introduced Linda Haskin, Chief Financial Officer, Odd Fellow-Rebekah Children's Home of California and then proceeded to summarize the transaction for the board. Odd Fellow-Rebekah Children's Home of California is requesting financing in the amount of 425,000 for a term not to exceed five years. Loan proceeds will be used to purchase electronic health record system information technology to assist in streamlining patient intake, billing, case management and reporting which will increase capacity to expand services and enable RCH to utilize electronic medical records.

Established in 1897, RCH provides therapeutic residential treatment for abused children with severe emotional and behavioral problems and their families. RCH operates three facilities located in Santa Clara County with service partnerships in 13 surrounding counties. Revenues for this organization are supported by county contracts, contributions and grants.

Staff recommended approval of Resolution Number HII-248 for Odd Fellow-Rebekah Children's Home of California in an amount not to exceed \$425,000 for a term not to exceed 5 years, and contingent upon financing terms acceptable to the Authority. Macias Gini & O'Connell, LLP, the Authority's financial analyst, concurred with the Authority's staff recommendation.

After an overview of their services by Ms. Haskin and questions from the Board, Chair Wynne asked if there were any additional questions from the board members or public comments. Hearing none, Mr. Buckhorn moved adoption of Resolution No. HII-248 and Ms. Sousa seconded the motion. The motion was adopted with an 7-Aye vote.

Item #8 Southern Humboldt Community Healthcare District, Resolution No. HII-250

This item was carried over to a future meeting.

Item #9 Lomi School Foundation dba Lomi Psychotherapy Clinic, Resolution No. HII-251

Karma Manni, Staff Analyst, introduced Thomas Pope, Clinical Director, Lomi School Foundation, and Russell Schreiber, President, Board of Directors, Lomi School Foundation and thereafter proceeded to summarize the transaction for the board. Established in 1987, Lomi is a licensed, non-profit community mental health clinic dedicated to providing high quality, affordable mental health services in Sonoma, Marin and Napa Counties. Lomi offers individual and/or group counseling services for children, teens, adults, couples, and families. Loan proceeds will be used to finance the purchase of a currently leased facility located in Santa Rosa, California.

Staff recommended approval of Resolution Number HII-251 for Lomi School Foundation 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's staff recommendation.

After comments by Mr. Pope's and Mr. Schreiber and questions from the Board, Chair Wynne asked if there were any additional questions or comments from the Board or the public. Hearing none, Mr. Buckhorn moved adoption of Resolution No. HII-251 and Ms. Holton-Hodson seconded the motion. The motion was adopted with an 7-Aye vote.

Community Clinic Grant Program of 2005

Item #10 Amendment and Extension of Resolution No. 2006-13

Karma Manni, Staff Analyst, provided an overview of this item by stating that on May 25, 2006, the Authority approved Resolution No. 2006-06, which awarded a total of \$40.1 million in grants to 146 California community clinics under the Community Clinic Grant Program of 2005. The funds were to be used for capital improvement projects such as construction, remodeling, facility acquisitions, equipment purchases and information technology expenditures.

On December 7, 2006, the Authority approved Resolution No. 2006-13, which approved a waiting list of ten grant applicants in the event additional grant funds became available. Eight of the ten grant applicants have been fully funded with two currently remaining unfunded. Alta Family Health Clinic, Inc., the ninth applicant of the waiting list, and Planned Parenthood of Santa Barbara, Ventura, & San Luis Obispo Counties, Inc., the tenth applicant on the waiting list.

Of the eight applicants that have been fully funded, a number of disbursements occurred after Resolution No. 2006-13 had expired and consequently, staff now seeks ratification of those disbursements otherwise appropriately made. Sections 7085(b) and 7090 of the CCGP Regulations permit applicants on the waiting list to receive grant funds in the event additional grant funds become available. The CCGP fund currently has funds available affording the Authority the opportunity to provide grant funding to the ninth and potentially, the tenth applicants on the waiting list. Because Resolution No. 2006-13 had expired, staff requested extension of the resolution for an additional year to permit the Authority to disburse funds to the remaining facilities on the waiting list.

Staff recommended the Authority approve the amendment and extension of Resolution No. 2006-13 for a period of one year to June 24, 2011. Staff also recommended the Authority ratify any and all actions taken since the expiration of Resolution No. 2006-13.

Ms. Kristin Smith, STO Staff Counsel, provided that in the Board's motion that instead of amending and extending the resolution, the Board should reaffirm the resolution as the Board cannot extend a resolution that has expired.

Chair Wynne asked if there were any additional questions from the board members or public comments. Hearing none, Mr. Joseph moved adoption of Resolution No. 2006-13 as amended and Mr. Buckhorn seconded the motion. The motion was adopted with an 7-Aye vote.

Item #11 The HELP Group, Resolution No. 2010-03

Cheryl Ide, Staff Analyst, provided an overview of this item. Ms. Ide indicated that the Authority issued bonds to the HELP Group (THG) in 1998 and 2000 in the amount of \$17,275,000 and \$17,620,000 respectively. Bond proceeds were used for the purposes of purchasing and renovating a building in North Hollywood, refunding CHFFA series 1991, and the refinancing of 11 bank loans on 10 residential properties.

On March 22, 2004, THG obtained a \$3.5 million line of credit (LOC) from Mellon Bank. As part of Mellon Bank's LOC requirement, THG, the bond trustee, Cal-Mortgage and the Authority entered into

a Subordination Agreement subordinating the security interest of the bond trustee and Cal-Mortgage in certain of THG's net accounts receivables to the security interest of Mellon Bank. THG uses the LOC for operating expenses and currently does not have a balance.

At this time, THG is in the process of replacing its current banking institution from Mellon Bank to American Business Bank. American Business Bank is offering a credit facility to THG. As a result, American Business Bank is seeking a new Subordination Agreement. THG is requesting that the Authority execute a Subordination Agreement subordinating the security interest of the bond trustee and Cal-Mortgage in certain of THG's collateral to the security interest of American Business Bank in connection with the new credit facility.

Staff recommended the Authority approve Resolution Number 2010-03 for the execution and delivery of a Subordination Agreement for The H.E.L.P. Group.

After clarifying questions from Chair Wynne to Ms. Ide, Chair Wynne asked if there were any additional questions from the board members or public comments. Hearing none, Ms. Sousa moved adoption of Resolution No. 2010-03 and Ms. Bryant seconded the motion. The motion was adopted with a 7-Aye vote.

Item #12 **Medi-Cal Reimbursements, Resolution No. 2010-04**

Ms. Liebert provided information regarding reinstatement of the Board's Medi-Cal Bridge Loan Program. As in 2008, many California community clinics, rural hospitals and other healthcare providers may again potentially face unanticipated and staggering financial burdens associated with the anticipated State budget impasse for fiscal year 2010/2011 and the resultant delays in Medi-Cal reimbursements expected to endure for however long the budget remains outstanding.

In 2008, the Authority established a short-term loan program to help health facilities weather the temporary fiscal crisis. Some of the healthcare facilities who benefited from that program have already appealed to the Authority to assist them again by providing the same short-term working capital loan program for fiscal year 2010-2011.

The Authority's statute permits the Authority to make secured or unsecured loans to participating health institutions in connection with the financing of a project or working capital. In addition, the Authority's statute authorizes the Authority to provide funds for secured loans from the Authority's Financing fund to participating health facilities in accordance with Authority guidelines.

Authority staff is currently working with the Department of Health Care Services personnel to enter into an Interagency Agreement to help provide the same solid security measures (intercept process) that were used in 2008 for these bridge loans. Additionally, CHFFA staff will work with appropriate associations to help prioritize those health facilities most in need of funding.

Should the Authority offer the Medi-Cal Bridge Loan Program for fiscal year 2010/2011 to provide short-term loans from the Authority's Financing Fund to financially assist eligible California health facilities with expected budgetary shortfalls associated with delayed 2010-2011 Medi-Cal reimbursements?

Staff recommended the Authority approve use of the Authority's Financing Fund to provide short-term working capital secured loans to eligible California healthcare facilities to help them offset their expected significant budgetary shortfalls associated with delayed 2010-2011 Medi-Cal reimbursements, in accordance with the specific loan underwriting guidelines as set forth with more particularity in the attached Resolution No. 2010-04.

Chair Wynne asked if there were any additional questions from the board members or public comments. Hearing none, Ms. Sousa moved adoption of Resolution No. 2010-04 as amended to reflect a monthly

reporting requirement. Mr. Joseph seconded the motion. The motion was adopted with a 6-0-1 vote; Ms. Bryant abstained.

**County of Modoc for the benefit of the Modoc Medical Center,
Item #13 Resolution No. 2010-05**

Ms. Liebert stated that this item is needed to be heard and that it is an emergency need for immediate need by the board. On Thursday, June 17, 2010, representatives from the County of Modoc (County) and Modoc Medical Center (MMC) convened a meeting with representatives from the Department of Finance (DOF), the State Treasurer's Office (STO), and the State Controller's Office (SCO) to discuss the pressing financial needs of the County and MCC (a county operated health facility).

The County and MMC appealed to the DOF, the STO and the SCO to temporarily assist the County with its need to immediately restore (as soon as possible) approximately \$12.5 million in restricted funds to the County treasury, which the County improperly transferred to MMC over a period of roughly ten years to finance, in part, operating deficits at MMC. MMC also conveyed their immediate need for operational support. Though MMC has improved efficiencies in their own operations over the last ten months so that revenues now outpace expenses, MMC anticipates the County may intercept hospital revenues to pay immediate County expenses once the \$12.5 million has been replenished. At a minimum, MMC needs funding for accounts payable and payroll in order to stay in operation.

MMC seeks a \$750,000 HELP II loan from the Authority to assist them with their immediate financial needs (roughly \$2.5 million) for the next couple of months. The County is simultaneously working to issue a Certificate of Participation (COP) in the amount of approximately \$14 million in August 2010. If successful, some of the COP proceeds will be used to assist MMC with their financial needs. Authority staff concurs with the County's and MMC's conclusion that an immediate need exists and further confirms for the board that the possible need for a HELP II loan came to staff's attention subsequent to June 14, 2010.

Staff recommends the Authority find, pursuant to Section 11125.3(a) (2) of the Government Code that a need exists for the Authority to take immediate action and further, that the need for action came to the attention of the Authority after the agenda had already been properly noticed pursuant to Government Code section 11125.

Mr. Buckhorn moved that this is an emergency situation that could be discussed. Ms. Holton-Hodson seconded the motion. The motion was adopted with a 7-Aye vote

**County of Modoc for the benefit of the Modoc Medical Center,
Item #14 Resolution No. HII-252**

Ms. Liebert stated that this item is for information, not action on the part of the Board. Ms. Liebert provided a brief overview of the need of Modoc Medical Center for financial assistance but stated that Authority was not quite ready to make a recommendation, which explains the lack of a thorough staff report before the Board. Staff is still examining the application, particularly the security measures this type of loan might require.

After discussion by the Board, Chair Wynne asked for public comment. Ms. Liebert suggested that in the audience was Ms. Peggy Wheeler, Vice-President of Rural Healthcare, California Hospital Association. Ms. Wheeler provided her input on Modoc Medical Center, stating that they are turning around fiscally. For example, Modoc Medical Center converted to a critical access hospital in October 2008 and since then their revenues have increased significantly, with gross revenues improved by \$10 million since last year. This was a direct result of their conversion to a critical access hospital. Ms. Wheeler stated that this

improvement is why the California Hospital Association wants to help them. Chair Wynne asked Ms. Wheeler to assist Authority staff by providing relevant information regarding this hospital. Afterwards, Chair Wynne concluded this item by asking Ms. Liebert to keep the Board informed on this facility.

Chair Wynne asked for public comment. Hearing none and with no additional business, the meeting was adjourned.