

## MINUTES

California Health Facilities Financing Authority  
July 29, 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 1:48 P.M.

### Roll Call

Members Present: Patricia Wynne for Bill Lockyer, State Treasurer  
Dave O'Toole for John Chiang, Controller's Office  
Cynthia Bryant for Ana J. Matosantos, Department of Finance  
Dr. Oscar Sablan  
Sumi Sousa (arrived at 1:57PM)  
Judith Frank

Members Absent: Harry Bistrin  
Ronald Joseph  
Jack Buckhorn

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

The Chair declared a quorum present.

### Guideline Working Group Update: Proposed Staff Report Methodology

Ms. Liebert introduced John Bonow, Public Finance Management (PFM); Diane Potter, Orrick, Herrington & Sutcliffe, and Robyn Helmlinger, Sidley Austin LLP. Ms. Liebert then reminded the board that at the close of the last board meeting, board members asked staff to prepare a staff report reflecting the new proposed guideline methodology to better demonstrate how it might appear in the staff reports board members see every month. Ms. Liebert indicated staff selected the Children's Hospital of Los Angeles (CHLA) transaction, previously before the CHFFA board in February and April of 2010, because of the split ratings and number of exceptions the board had to consider for that transaction. Ms. Liebert then gave an overview of the enclosures within each board member's packet, including:

**Exhibit A** - The entire proposed new methodology for bond application submission and review, inclusive of the new staff methodology.

**Exhibit B** - An excerpt from Exhibit A showing the relevant review process which leads to the new methodology staff recommends including within Authority staff reports (also previously presented to the board at the June 24, 2010 meeting). This is an extraction from Exhibit A and focuses on the new methodology that has been proposed to the board for consideration.

**Exhibit C** - Original CHLA staff report (please note, in the spirit of efficiency, staff combined the two reports generated for the two separate CHLA agenda items for February 25, 2010 and April 29, 2010 inasmuch as they were essentially identical with the exception of the fixed and variable rate pieces of the transaction).

**Exhibit D** - Redlined CHLA staff report, incorporating the new proposed methodology.

**Exhibit E** - Clean CHLA staff report, incorporating the new proposed methodology.

Ms. Liebert underscored the working group's adherence to the respective missions of CEFA and CHFFA throughout the development of the new proposed guideline methodology. Ms. Liebert also explained that the working group endeavored to increase staff's overall due diligence and to minimize the risks faced by the Authorities. Ms. Liebert stated that one of the goals was to update the Authorities' existing processes by making it more reflective of current market conditions, but also keeping it flexible in the event that as changes occurred, as they often do, the Authorities would be more capable of responding to those changes in the market. Ms. Liebert reminded CEFA and CHFFA board members that the proposed guideline methodology applies only to investment grade public offering transactions. Ms. Liebert explained that Ms. Potter would then review Exhibits A through E in more detail.

Prior to Ms. Potter beginning, Chair Wynne asked if there would be any significant difference between CHFFA and CEFA's new guidelines. Mr. Washington responded that he did not believe there would be any significant differences. Mr. Washington stated that with the exception of CHFFA's debt service coverage ratio requirement in their guidelines, they are largely similar to CEFA's and that the guidelines Ms. Potter would be reviewing with the board would apply to CHFFA and CEFA almost seamlessly.

Ms. Potter then provided a comprehensive overview of Exhibits A through E and reminded the board that the working group is also dedicating a portion of their time to reviewing all bond documents to create standard provisions and to highlight provisions which might have some measure of flexibility. Ms. Potter noted this would be a separate item for board consideration in the immediate future.

Ms. Potter then discussed the staff evaluation process in some detail. Ms. Potter stated that it was the working group's goal to try and get away from detail that might require regulations and detail that might perpetuate the need for exceptions. Ms. Potter then guided the Board through the redline CHLA staff report.

Ms. Sousa commented that it appears the new proposed methodology would expand PFM's role beyond their existing role as pricing advisor. Mr. Bonow confirmed Ms. Sousa's observation noting that PFM's role would, at least temporarily, begin at the inception of each transaction rather than at the tail end of the transaction with the pricing of the bonds as has been the Authority's historical practice.

Ms. Sousa then queried whether regulations might be required. Ms. Liebert noted the absence of the Attorney General's office at the meeting, but Kristin Smith, State Treasurer Office Legal Counsel, approached the table and offered her understanding that the Attorney General's Office opined Authority guidelines give appropriate flexibility and if the board is more inclined to apply rigid rules to every transaction, regulations may then be required.

After discussion among board members, task force members and Ms. Liebert, with regard to the need for regulations versus guidelines, the discussion shifted to the additional costs the Authority would bear with the increased role of PFM, including whether the bond fees earned by the Authority would be sufficient to pay the fees associated with PFM's increased involvement on transactions and whether the Authority plans to pass those costs on to the borrower. A short discussion among board members, task force members and Ms. Liebert ensued. Ms. Liebert indicated bond fees would likely be sufficient and that more than likely, PFM's involvement would taper down over time, leading to lower fees from transaction to transaction.

After Ms. Potter completed her overview of the exhibits, Chair Wynne opened it up for questions. CEFA board member, Mr. Hiber from the State Controller's Office, had specific questions.

Mr. Hiber thanked Ms. Potter and Mr. Bonow for the overview which he indicated answered a number of questions for him. Mr. Hiber then expressed his desire to include a minimum debt service coverage requirement, as well as his concern for allowing split rated borrowers to elect to use the highest rated credit. Mr. Hiber also expressed reservations about including Baa3/BBB- in the investment grade category, preferring instead to limit the investment grade category to Baa2/BBB and higher. Lastly, Mr. Hiber expressed his desire for the advisors of the Authorities (PFM and Macias, Gini, & O'Connell) to supply written letters of concurrence for all bond transactions presented to the Authority for consideration.

In response to Mr. Hiber's initial concern regarding debt service coverage requirements, Mr. Bonow noted the unique situation of each borrower coming before the board, including the differences seen in their cash flows and general operations. Mr. Bonow suggested that because of the varied differences in the nature of borrowers appearing before the Authorities, mandating a minimum debt service coverage metric is arbitrary. Mr. Bonow expressed that, in his judgment, mandating a minimum ratio was not something the authorities should continue, particularly because of the potential need for exceptions related to an arbitrarily established metric. Ms. Potter added that CEFA currently does not include a minimum debt coverage ratio as a part of their guidelines and one of the marching orders for the working group was to develop a uniform policy between the various conduit issuing authorities for which the State Treasurer acts as Chair.

In response to Mr. Hiber's concern regarding the minimum rating the Authorities should accept for a public offering (Baa2/BBB vs. Baa3/BBB-), Mr. Bonow stated that it has been the task force's orientation to focus on what the minimum rating reflects and what the disclosures to the investor might include. Mr. Bonow further stated that the task force examined the default history of education and healthcare bonds, including for those borrowers below the investment grade category. After analyzing this data, Mr. Bonow noted that it appears arbitrary to draw the line of distinction at anywhere other than between the investment grade and non-investment grade categories.

Chair Wynne asked Mr. Bonow for his thoughts in response Mr. Hiber's desire for written letters of concurrence in support of bond transactions before the Authorities. Mr. Bonow provided this is a practice his firm has been asked to do on occasion by other Authorities and that he could certainly provide a draft of such a letter for staff review and board consideration.

After continued discussion amongst all board members, Chair Wynne suggested that the board continue to ponder these issues prior to the next board meeting.

After additional discussion among Board members and task force members, Chair Wynne brought the discussion to a close and set this matter for action at a future meeting.

#### **Approval of the Minutes from the June 24, 2010 meeting**

Ms. Liebert stated she had an amendment to the meeting minutes from June 24, 2010. Ms. Liebert related that Ms. Holton-Hodson requested an amendment to page two of the June 24<sup>th</sup> meeting minutes, to have the record reflect that the State Controller's Office specifically expressed the concern articulated therein. Chair Wynne asked if there were any further objections or comments from the board. Ms. Bryant moved approval as amended of the June 24, 2010 meeting minutes and Mr. O'Toole seconded the motion. The minutes were unanimous and approved with a 5-Aye vote.

#### **Item #7 Substance Abuse Foundation of Long Beach Inc. (SAF), Resolution No. HII-135**

Ms. Liebert summarized the proposed amendment to the board, noting that SAF desires to amend the security interest in an existing HELP II loan originally approved by the board on January 30, 2003. If approved by the Board, the proposed amendment would release one of two liens the Authority currently holds as collateral. Ms. Liebert noted that the value of the security interest which will remain intact appears to satisfactorily secure the remaining outstanding principal balance.

Ms. Liebert recommended the Authority approve amending the security interest in the HELP II loan approved for SAF on January 30, 2003 to permit the release of the Authority's lien currently secured against the First Property (as defined in the resolution).

Chair Wynne asked if there were any additional questions from the board members or public comments. Hearing none, Dr. Sablan moved adoption of Resolution No. HII-135 and Ms. Frank seconded the motion. The motion was adopted with a 5-Aye vote.

**Item #8 Southern Humboldt Community Healthcare District (SHCHD), Resolution No. HII-250**

Marissa Sequiera, Staff Analyst, introduced Harry Jasper, CEO for Southern Humboldt Community Healthcare District. Ms. Liebert then summarized the transaction for the board, noting that loan proceeds would be used to renovate SHCHD's existing facility to comply with seismic safety requirements as set forth in Senate Bill 1953.

Ms. Liebert recommended approval of Resolution Number HII-250 for SHCHD in an amount not to exceed \$569,000 for a term not to exceed 15 years, contingent upon financing terms acceptable to the Authority, receipt of a United States Department of Agriculture consent letter and staff's review and approval of SHCHD's interim financials for FY 2009/2010.

Chair Wynne asked if there were any additional questions from the board members or public comments. Hearing none, Ms. Bryant moved adoption of Resolution No. HII-250 and Mr. O'Toole seconded the motion. The motion was adopted with a 5-Aye vote.

Ms. Sousa left the board meeting at 3:23PM and returned at 3:28PM.

**Item #9 Medi-Cal Bridge Loan Program of 2010**

Ms. Liebert provided the board with some background on the program as approved in Resolution No. 2010-04 at the board's June 24, 2010 meeting and then noted the resolution required a minor but meaningful amendment. Ms. Liebert highlighted the issue for the board, noting specifically that the second whereas paragraph of the resolution, as well as Section 1(a), correctly states the Authority's statute which allows the authority to provide loans to small or rural health facilities, but unfortunately, the resolution mistakenly uses the term "and" rather than the term "or" between the two words "small" and "rural" suggesting that in order to qualify, a facility must be both rural and small, rather than one or the other. Ms. Liebert noted that without correcting the resolution, the Authority would be greatly restricted in its ability to help small facilities that might not be located in rural areas. Ms. Liebert recommended the board allow the resolution to be amended to reflect, in accordance with Government Code section 15438(i), that loans may be provided for the benefit of small "or" rural eligible health facilities.

In addition, staff requests the Authority extend the date of application for financing from July 16, 2010 to August 16, 2010 or such other date(s) as staff may subsequently establish.

Ms. Frank expressed her hope that the Authority was not spreading itself too thin by entertaining too many applications for the limited funds available. Ms. Liebert indicated she was very mindful of her concerns and that staff is working closely with the relevant associations to address this very concern.

Chair Wynne asked if there were any additional questions from the board members or public comments. Hearing none, Mr. O'Toole moved adoption of the amendment to Resolution No. 2010-04 and Ms. Bryant seconded the motion. The motion as adopted with a 5-Aye vote.

**Executive Director's Report (Information Item)**

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-Alarcon 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. Ms. Liebert introduced the new Children's Hospital Program Manager, Barbara Webster-Hawkins to the Board members.

**Delegation of Powers Monthly Update**

➤ **Alliance for Community Care, Series 2003 – Defeasance of a portion of the Bonds.** Ms. Liebert indicated that despite this matter appearing on the agenda, the documentation had not yet been signed. Consequently, staff will plan to report on this action at the next board meeting.

➤ **Sharp HealthCare (San Diego Hosp. Assoc., Series 1988A) – Replace Bond Trustee and Master Trustee.** Ms. Liebert provided a summary of the action taken for Sharp HealthCare and confirmed the AG's review and approval this action could be taken pursuant to the delegation resolution.

**Modoc Medical Center Update**

Ms. Liebert indicated that staff is in the process of finalizing the documentation needed to memorialize the transaction. Ms. Liebert also advised the board that staff awaits an opinion from county counsel concerning a constitutional issue raised by STO legal counsel and that funds cannot be disbursed unless and until the issue is satisfactorily addressed.

**Closed Session**

**Item #10** **Litigation (Government Code Section 11126(e)(1)  
Conference with Legal Counsel – the Authority may decide whether to initiate  
litigation as authorized by Government Code Section 11126(e)(2)(C)**

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Chair Wynne asked for public comment. Hearing none and with no additional business, the meeting was adjourned at 3:38p.m.