CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
Comparison of California Issuers of Healthcare Debt
October 28, 2004

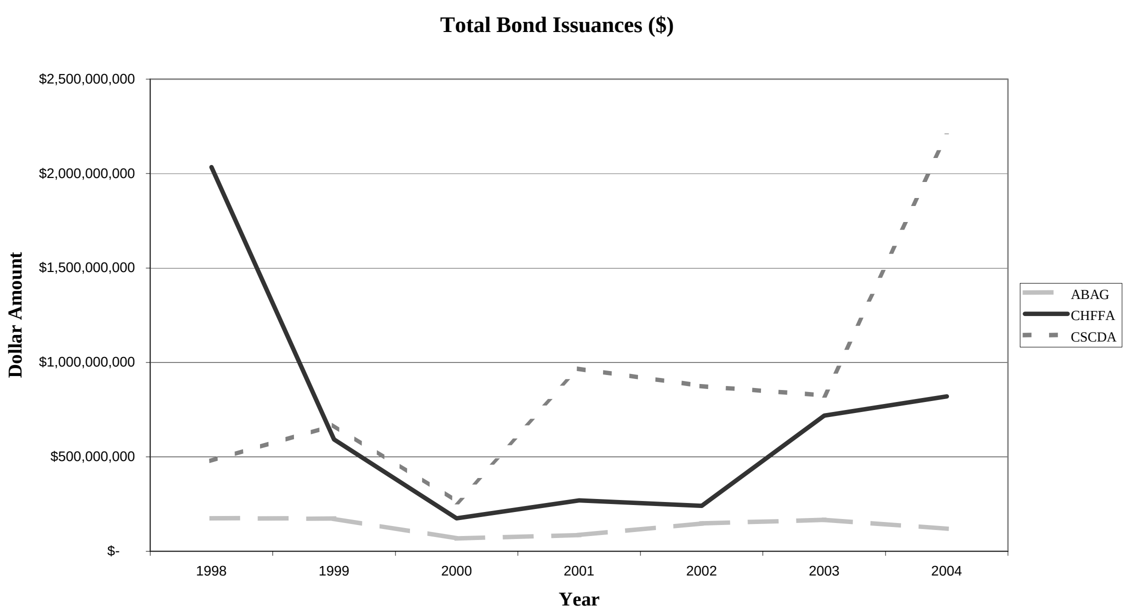
I. BACKGROUND:

In response to queries from the CHFFA Board regarding bond issuance volume, staff presents the following comparison between CHFFA and other Issuers of Healthcare Debt.

II. OVERVIEW:

CHFFA's primary tax-exempt bond issuance competitors are the Associated Bay Area Governments (ABAG) and the California Statewide Communities Development Authority (CSCDA). After an examination of the bond issuance process for each of these organizations, staff has concluded that CHFFA is losing market share to these issuers because the other issuers are willing to accept a greater level of risk that translates into an easier application process and more flexible bond issuance guidelines. In addition, ABAG and CSCDA are Joint Power Authorities (JPAs) that are subject to public notice requirements that are more lenient than public notice requirements imposed on state agencies. With the significant difference in the public notice requirements, ABAG and CSCDA are less likely to have the public scrutinize each financing prior to consideration. Furthermore, following approval of the transaction, the issue can be in the market and sold much sooner than CHFFA issues, possibly receiving more favorable interest rates.

The chart below shows the dollar volume of issues for CHFFA, CSCDA and ABAG through October 2004.



Source: California Debt and Investment Advisory Commission

III. ADVANTAGE USING JPAs:

- **Risk Tolerance**

Bond Issuance Guidelines:
(See Attachment A)

ABAG/CSCDA	CHFFA
- Unconditional Promise to Pay - Joint & Several Obligation preferred for Obligated Groups	- Unconditional Promise to Pay - Gross Revenue Pledge - Joint and Several Obligation preferred for Obligated Groups - Various reporting and financial covenants corresponding to the bond rating

Minimal Application Requirements:
(See Attachment B)

ABAG/CSCDA	CHFFA
- Application length – 2 pages	- Application length – 28 pages

Board Presentation:

ABAG/CSCDA	CHFFA
- Average presentation length – 4 pgs - No financial discussion - Focus on project and public benefit	- Average presentation length – 9 pgs - Fiduciary responsibility and other Board and STO requirements

- **Public Notice Requirements**

ABAG/CSCDA	CHFFA
- Brown Act - 3 days or 24 hours advance notice (less public scrutiny)	- Bagley-Keene Act - 10 days advance notice

- **Timing**

ABAG/CSCDA	CHFFA
- Submission of application to approval (1-2 weeks) - Pricing schedule (on demand)	- Submission of application to approval (3-4 weeks) - Pricing schedule (subject to availability)

IV. ADVANTAGE USING CHFFA:

- **TEFRA**

The Tax and Equity Fiscal Responsibility Act of 1982 (TEFRA) is a public accountability procedure involving the legislative body of the local agency in which the proposed project is located. Rules apply differently for state agencies in comparison to JPAs.

ABAG/CSCDA	CHFFA
- TEFRA hearing required in *each* city that will benefit from bond proceeds	**-** One TEFRA hearing only

- **Fees**

As shown in Exhibit C, CHFFA's fee structure is very competitive, with most issuance fees lower than ABAG or CSCDA.

V. DISCUSSION:

Although the current bond issuance process through CHFFA has resulted in zero defaulted loans, it appears that the process is leading potential borrowers to seek alternative issuers, such as ABAG and CSCDA, that are willing to accept greater risk resulting in a higher volume of bond issues. Currently, the CSCDA portfolio has one Cal Mortgage insured health related bond issue in technical default (Cal Mortgage is making the payments). ABAG has zero health related bonds in default.

While it is very difficult, if not impossible, to change public notice requirements and due diligence criteria established by the Act governing CHFFA, there are elements within the application and the bond issuance guidelines that could be changed upon review and consideration from the Board. Changes to the existing CHFFA bond issuance process may increase the Authority's risk exposure, but may also recapture a portion of the Authority's lost market share.

- **Additional Application Information Requested by CHFFA**

Additional Elements Requested by CHFFA	Requirement Established By		
	CHFFA Board	State Treasurer's Office	CHFFA Act*
Competitor Information	X		
If applicant is a multi-health facility system, a chart is required that identifies the parent/holding company, foundations, for-profit subsidiaries and affiliates, and not-for-profit subsidiaries and affiliates in addition to a brief narrative of the purpose of each corporation and a brief discussion on any significant legal, governance or financial relationships among the affiliated corporations.			X
Merger/acquisition details including the past three years audited financials for the merged/acquired group			X
Utilization statistics	X		
Contracts and licenses	X		
Sources of patient revenue breakdown	X		
Seismic upgrades	X		
Legal status questionnaire		X	
Application certification		X	
Additional Project Information (developer name, etc.)		X	

*Section 15437(b) of the Act states: The Authority shall establish financial eligibility standards by studying the creditworthiness and earning capacity of each project, together with the amount of pledged revenues, debt service coverage, and basic security.

- **Bond Issuance Guidelines**

The CHFFA Bond Issuance Guidelines were adopted by the Board in 2000 and enabled the Authority to consider financings for credits with less than an "A" rating. The adopted guidelines also include parameters for "A" rated debt that did not exist prior to 2000 (see Attachment A).

VI. CONCLUSION:

Following discussion between the Board, CHFFA's Counsel and staff, recommendations to amend the guidelines and the application process will be brought before the Board at a future meeting.