

MINUTES

California Health Facilities Financing Authority
September 25, 2008 – 1:45 P.M.
915 Capitol Mall, Room 587
Sacramento, California

Alternate Location for Teleconference Participation

Office of Assemblymember Patty Berg
104 W. Church Street
Ukiah, CA 95482
(707) 463-5770

Bill Lockyer, California State Treasurer and Chairperson called the meeting to order at 1:50 P.M.

Members Present: Bill Lockyer, State Treasurer
Ruth Holton-Hodson for John Chiang, Controller's Office
Tom Sheehy for Michael C. Genest, Department of Finance
Harry Bistrin (via teleconference)
Judith Frank
Dr. Oscar Sablan
Ronald Joseph
Sumi Sousa
Jack Buckhorn

Staff: Barbara J. Liebert, Executive Director
Carl Lord, Operations Manager
Greg Matayoshi, Macias Gini & O'Connell LLP

The Chair declared a quorum present.

Item 4 was removed from the Agenda.

Item #5

Providence Health & Services Resolution No. 335

Karma Manni of staff introduced Mike Butler, Chief Financial Officer/SVP of Finance; Arnie Schaffer, Vice President/CEO of Southern California Region; Sue Painter, System Director, Chief Investment Officer/Treasurer, Michele Dulik, Sidley Austin, Bond Counsel; and, Ken Vallrugo, Managing Director, Merrill Lynch, Underwriter.

Ms. Liebert stated that Providence Health and Services (Providence) had made slight amendments to Section 5 of the Resolution and that the Obligated Group Agent (Providence Health Services – Washington) would be signing the Bond Purchase Contract, possibly along with Providence - So Cal (the Borrower). Ms. Liebert stated that Providence is seeking \$350,000,000 to refund CHFFA 1998 and 2001 Series Bonds in the amount of \$221,200,000, and to refinance a temporary US Bank bridge loan for the acquisition of the Tarzana/Encino facility located in Los Angeles, which will enable Providence to extricate themselves from a downgraded insurer, and will also allow Providence to be released from the uncertainties and challenges of the variable rate/auction rate market. The bridge loan will enable Providence to finance the acquisition of the hospital over the long-term.

Ms. Liebert further reported that Providence was in healthy financial shape, that it had a proforma debt service of 9.27x and that staff recommended approval subject to the terms and conditions set forth in the staff report, Authority guidelines, and subject to two alterations of those guidelines as set forth in more

detail in the policy discussion of the staff report. Ms. Liebert stated that the staff report indicated that the master indenture covenants for Providence precluded the provision of a gross revenue pledge and clarified that the master indenture does provide "parity security" which means that all bond issues are treated on par with one another so that in the unlikely event of default on any bond issue, all bond holders will be treated with the same level of priority for debt repayment.

Ms. Painter stated that Providence Health and Services is a multi-state health care system operating in five states, employing over 45,000 people and operating 26 facilities, which include the recent acquisition of the Tarzana/Encino facility. With the refinancing of prior debt, Providence will be able to provide security and liquidity to the bond holders. According to Ms. Painter, the new bonds will not be subject to the current interest rate environment, and the bonds will trade at Providence's credit rating, which is currently higher than MBIA and AMBAC (the insurers). The financing for the acquisition of the Tarzana/Encino facility was intended to be short term with a long term financing at a later date. The loan with US Bank is secured by a Master Note and includes the same parity security and terms and conditions of all Providence Health System bond holders. The interest rate is currently set at 3.97% and is scheduled to reset on October 22, 2008.

Ms. Donna Fox, a Regulatory Policy Specialist with the California Nurses Association, stated that CNA is concerned about this transaction and emphasized the importance of due diligence. Ms. Fox submitted written correspondence further elaborating her point and then summarized the highlights of her letter.

Ms. Holton-Hodson moved for adoption of the Resolution and Ms. Frank seconded the motion. The motion was adopted with a 9-0 vote.

Item #6

**Casa Pacifica Centers for Children and Families
Resolution No. HII-229**

Jerome La Torre of staff, introduced Felice Ginsberg, Chief Financial Officer.

Ms. Liebert summarized the requests as follows: (1) \$515,000 HELP II loan request, (2) five year term, (3) Casa Pacifica is refinancing a 7.5% interest line of credit used for renovations and construction, (4) Casa Pacifica has a solid debt service coverage proforma ratio of 3.99x, (5) CHFFA will be taking a first lien position on the financed facility and (6) staff recommends approval of this transaction subject to the terms and conditions contained in the staff report and the attached resolution.

Ms. Ginsberg stated that in the last four years, Casa Pacifica has added four new programs and about 120 employees. The loan will allow Casa Pacifica to save money and utilize the line of credit as a safety net for cash flow shifts. All of Casa Pacifica's programs are self-sustaining with the exception of the Suicide Crisis Hotline in Santa Barbara County.

Mr. Joseph remarked that the increase in expenditures from 2005-2007 was 27% and seemingly due largely to start up programs. He queried whether the start-up costs leveled off and whether the programs now are currently self-sustaining. Ms. Ginsberg stated all programs are self-sustaining with the exception of the Suicide Crisis Hotline program in Santa Barbara County which will probably never be self supporting.

Ms. Sousa moved for adoption of the Resolution and Mr. Joseph seconded the motion. The motion was adopted with a 9-0 vote.

Item #7

**Southwest Community Health Center
Resolution No. 2008-32**

Lan Jaduram of staff, introduced Mr. Richard Duffin, Chief Operating Officer.

Ms. Liebert stated that Southwest Community Health Center approached the Authority within a year after their grant was initially awarded to advise CHFFA that they were having difficulty getting funding together for the build-out of the clinic initially proposed in the original grant application. Southwest also encountered challenges working with the City of Santa Rosa. CHFFA granted Southwest an extension of their deadline to see if Southwest might be able to coordinate their funding, but unfortunately they have been unable to do so. Southwest has since requested permission to allocate use of their funds to another clinic. CHFFA subsequently received a letter of support from Assemblywoman Patty Berg asking that CHFFA support the grantee request for a change in use of funds and the extension of their deadline. Ms. Liebert indicated that staff recommended approval given the change in use would inure to nearly the same patient population at nearly the same volume.

A board discussion ensued.

Ms. Holton-Hodson moved for adoption of the Resolution and Mr. Joseph seconded the motion. The motion was adopted with a 9-0 vote.

(Sumi Sousa left the meeting prior to the vote for Item 8 and Item 9)

Item #8

**Lifelong Medical Care
Resolution No. 2008-33**

Karma Manni of staff presented this item and related that the grantee, Lifelong Medical care, requests a documentation deadline extension due to unexpected construction delays associated with more extensive required work. Ms. Manni related that staff recommended approval given the reasonable rationale provided by the grantee.

Mr. Buckhorn moved for adoption of the Resolution and Mr. Joseph seconded the motion. The motion was adopted with an 8-0 vote.

Item #9

**Interagency Agreement for 2008-09 with State Treasurer's Office
Resolution No. 2008-34**

Carl Lord of staff presented this item and related that this resolution authorizes the execution of an Interagency Agreement between CHFFA and the State Treasurer's Office (STO) to provide administrative services to CHFFA for Fiscal Year 2008-09. Services include accounting, budgeting, data processing, personnel and business services.

The Authority executes an Interagency Agreement with the STO every fiscal year. CHFFA relies on STO staff's expertise to perform these administrative duties that would otherwise require significant additional staffing and expense on the part of the Authority.

The 2008-09 agreement is for \$319,922, an increase of \$23,357 from the prior year due to a budgetary adjustment.

Mr. Lord indicated that staff recommends approval of the proposed Interagency Agreement.

Dr. Sablan moved for adoption of the Resolution and Mr. Sheehy seconded the motion. The motion was adopted with an 8-0 vote.

Approval of Minutes

The minutes from the California Health Facilities Financing Authority's (CHFFA) June 26, 2008 meeting were approved as amended and the July 10, 2008 meeting minutes were approved.

Ms. Holton-Hodson moved for approval of the minutes and Dr. Sablan seconded the motion. The motion was adopted with an 8-0 vote.

Executive Directors Report

Ms. Liebert, Executive Director, reported that bonds issued totaled \$21,123,897,017, the bonds outstanding were \$7,723,068,603 and the CHFFA fund balance was \$9,642,241.01 as of July 31, 2008. Ms. Liebert reported a HELP II Fund balance of \$15,375,832, the Cedillo-Alarcón Clinic Grant Fund balance of \$297,560, the Anthem-WellPoint Grant Fund balance was \$3,145,335, and the Children's Hospital Bond Act of 2004 Fund balance was \$357,217,859, as of July 31, 2008.

Ms. Liebert then provided an overview of the recent Medi-Cal short-term loan program. A board discussion ensued.

Ms. Liebert then reported on the status of the Loma Linda validation action, indicating it had not yet been filed, but that the AG was working on it.

Ms. Liebert then provided an overview of some recent marketing efforts targeting CHFFA's bond business.

Adjournment

Having no further business or comments, Treasurer Lockyer called adjournment.