

MINUTES

**California Health Facilities Financing Authority
("CHFFA")
September 29, 2011
915 Capitol Mall, Room 587
Sacramento, California 95814**

Alternate Locations for CHFFA Teleconference Participation

**Assemblyman Michael Allen's District Office
50 D Street, Suite 301
Santa Rosa, CA 95404**

**Qiu Accountancy Corporation
3580 Wilshire Blvd., Suite 1126
Los Angeles, CA 90010**

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
Jennifer Rockwell for Ana J. Matosantos, Department of Finance
Jack Buckhorn – Teleconference
Judith Frank
Ronald Joseph
Samuel Qiu – Teleconference
Dr. Oscar Sablan

Member Absent: Ann Madden Rice

Chairperson Wynne declared a quorum present.

Approval of the Minutes from the August 25, 2011 Meeting (Action Item)

Ms. Rockwell moved for the approval of the minutes and Mr. O'Toole seconded the motion. The minutes were unanimously approved with a 7-Aye roll call vote. Dr. Sablan abstained.

Executive Director's Report (Information Item)

Ms. Liebert submitted all the numbers for the record as of July 31, 2011. Ms. Liebert also elaborated on a few of the line item entries concerning the prior month's budget.

Ms. Liebert noted Governor Brown signed AB 1394 (Monning) thereby updating CHFFA's statute. Ms. Liebert also mentioned that CHFFA has another pending bill, AB 272 (Monning) which would authorize a possible new grant program. She will continue to update the Board on its progress.

Ms. Frank abstained from agenda item #4 due to her conflict-of-interest therein associated with her stock ownership in Wells Fargo Bank, N.A.

Item #4 Children's Hospital of Orange County ("CHOC"), Resolution No. 368

Carolyn Aboubechara, Staff Analyst, introduced on behalf of the borrower, Bill Rhode, Vice President of Finance of Children's Hospital Orange County, John Landers, Managing Director of Morgan Stanley as Underwriter and Diane Potter of Orrick, Herrington & Sutcliffe as Bond Counsel.

Children's Hospital of Orange County requested an amount not to exceed \$140,000,000 in bonds. Bond proceeds will be used to continue to fund the construction of a new seven-story patient tower on the hospital's campus that began construction in 2009.

Staff recommended the Authority approve Resolution Number 368 in an amount not to exceed \$140,000,000 subject to the conditions in the resolution, including a bond rating of at least investment grade by a nationally recognized rating agency. Macias, Gini & O'Connell, LLP, the Authority's financial analyst, and Public Financial Management, Inc., the Authority's financial advisor, concurred with the Authority's staff recommendation.

Dr. Sablan moved approval of Resolution Number 368 and Mr. Joseph seconded the motion. The Resolution was adopted with a 7-Aye roll call vote.

Item #5 **Gateways Hospital and Mental Health Center, Resolution No. 369**

Paul Dulai, Staff Analyst, introduced Mara Pelsman, Executive Director and Jeff Emery, Chief Financial Officer, both of Gateways Hospital and Mental Health Center, as well as Grant Wilson, Financial Advisor of HG Wilson Municipal Finance, Inc.. Mr. Dulai thereafter summarized that bond proceeds for Series 2011A and B would be used to (1) purchase the currently leased Percy Village facility, an adult residential facility, and (2) finance and/or refinance, reimburse, renovate and remodel the recently purchased Hill Street facility to be used as an adult residential facility. Mr. Dulai noted that United Health Group (UHG) had agreed to pay for the costs of issuance (COI) on the Series A bonds and planned to purchase, via public offering, all of Gateways' Series 2011A Bonds (\$4.6 million). Mr. Dulai also noted that Series 2011B Bonds would also be publicly offered, but not purchased by UHG. This financing will reduce Gateways' annual debt service by approximately \$338,000.

Staff recommended the Authority approve Resolution Number 369 for Gateways Hospital and Mental Health Center in an amount not to exceed \$8,225,000 subject to receipt of an investment grade rating by a nationally recognized rating agency and contingent upon approval of Cal-Mortgage Insurance. Macias, Gini & O'Connell, LLP, the Authority's financial analyst, and Public Financial Management, Inc., the Authority's financial advisor, concurred with the Authority's staff recommendation.

After much discussion between board members, Mr. Joseph moved approval of Resolution Number 369 and Ms. Frank seconded the motion. The Resolution was adopted with an 8-Aye roll call vote.

Item #6 **Gateways Hospital and Mental Health Center, Resolution No. 2011-10**

Paul Dulai, Staff Analyst, requested the Authority to subordinate its first lien position on Gateways' gross revenues (pledged by Gateways to secure the Authority's HELP II loan) in favor of the Office of Statewide Health Planning and Development of the State of California (the Office) as requested by the Office given the Office's intention to insure Gateways' Authority Series 2011 A & B Bonds. In connection with the issuance of the 2011 Bonds, the Office has agreed to provide credit enhancement pursuant to its Cal-Mortgage Loan Insurance Program.

Staff recommended the Authority approve Resolution Number 2011-10 to subordinate the Authority's first lien position on Gateways Hospital and Mental Health Center's gross revenues to the Office of Statewide Health Planning and Development of the State of California.

Chairperson Wynne asked if there were any questions from board members and the public, hearing none Ms. Rockwell moved approval of Resolution Number 2011-10 and Mr. O'Toole seconded the motion. The Resolution was adopted with an 8-Aye roll call vote.

Item #7 **Social Science Services, Inc., Resolution No. 2011-11**

Yassar Dahbour, Staff Analyst, presented Social Science Services, Inc. (the Borrower) and requested the Authority subordinate its first position lien on the Borrower's gross revenues currently in place (securing the Borrower's existing HELP II loan with the Authority) in favor of the Office of Statewide Health Planning and Development of the State of California (the Office) as requested by the Office given the Office's intention to insure the Borrower's Authority Series 2011 Bonds. In connection with the issuance of the 2011 Bonds, the Office has agreed to provide credit enhancement pursuant to its Cal-Mortgage Loan Insurance Program.

Mr. O'Toole asked if this type of request occurred frequently. Mr. Dahbour noted there have been at least three requests in the past couple of months and that it has been customary to agree to subordinate the gross revenues in favor of the Office.

Staff recommended the Authority approve Resolution Number 2011-11 allowing the Authority to subordinate its 1st lien position on Social Science Services, Inc.'s gross revenues in favor of the Office of Statewide Health Planning and Development of the State of California.

Mr. O'Toole moved approval of Resolution Number 2011-11 and Dr. Sablan seconded the motion. The Resolution was adopted with an 8-Aye roll call vote.

Ms. Liebert stated that agenda items #8, Social Science Services, Inc., Amending Resolution No. 361 and #9 The Beacon House Association of San Pedro, Amending Resolution No. 362 have been removed.

Mr. O'Toole recused himself from agenda items #10 and #11 (and excused himself from the board room) related to the Controller's potential conflict-of-interest with JP Morgan Chase Bank, N.A.

Item #10 **FamiliesFirst, Inc., Resolution No. 2011-12**

Similar to the prior agenda items, Ms. Liebert requested the Authority subordinate its position on a gross revenue pledge in favor of JP Morgan Chase Bank, N.A., the private placement purchaser of FamiliesFirst's (FF) Authority Series 2011A Bonds. Ms. Liebert also reported that similar to the previous items, staff evaluated the value of the underlying lien secured by real property and that staff was satisfied the property was sufficiently valued to support the remaining principal balance on the loan.

Mr. Joseph asked if staff had proof of the fair market value of the real property. Ms. Liebert indicated staff had no formal appraisal, but that the estimated value of the property (\$2.7 million) when the HELP II loan was originated appeared to be sufficient for the remaining amount owed on the note (\$641,000) even if real estate values had substantially reduced over the last three years of the state's recession.

After a lengthy discussion regarding the value of the property amongst the board and staff, Chairperson Wynne deferred further discussion on this item for an hour to allow staff sufficient time to retrieve the original HELP II loan staff report to determine if there was sufficient evidence to support the conclusions made by staff. Ultimately, this item was removed from the agenda at the election of the borrower as set forth in more detail at the end of Agenda Item #14.

Item #11 **FamiliesFirst, Inc., Amendment to Resolution No. 367**

Ms. Liebert requested the Authority's approval to permit FamiliesFirst (FF) to amend the existing Resolution Number 367 to provide FF with the discretion to utilize bond proceeds to pay off its existing HELP II loan, Resolution Number HII-198.

Mr. Joseph moved approval of Resolution Number 367 and Ms. Rockwell seconded the motion. The Resolution was adopted with a 7-Aye roll call vote.

Ms. Liebert stated Ms. Frank will recuse herself due to a conflict-of-interest on Agenda Item #12 associated with her stock ownership in Wells Fargo Bank, N.A.

Mr. O'Toole returned to the board room prior to the introduction of Agenda Item #12.

Item #12 **Downey Regional Medical Center Hospital, Inc., Resolution No. 2011-13**

Michael Tang, Staff Analyst, introduced Kathleen Leak, Orrick, Herrington & Sutcliffe LLP. At the June 13, 2011 board meeting, the Authority approved Downey to amend existing Indenture and Loan Agreement for certain modifications of the terms and provisions of the bond documents to secure exist financing.

Staff recommended authorizing Resolution No. 2011-13 to amend the Indenture and Loan Agreement as requested by Downey in order to enable Downey to secure exit financing, including the execution of the Third Supplemental Indenture and Third Supplemental Loan Agreement, and the taking of such other actions as necessary.

Ms. Leak replied these amendments were presented to the Authority at the June 13, 2011 board meeting and Downey and RCB Equities (the Purchaser) requested that Union Bank be appointed as successor trustee for the Bonds. The exit hearing for the bankruptcy completion was scheduled for October 27th. Downey expects this matter to close on November 15th.

Chairperson Wynne asked if there were any questions from board members or the public, hearing none, Dr. Sablan moved approval of Resolution Number 2011-13 and Mr. O'Toole seconded the motion. The Resolution was adopted with a 7-Aye roll call vote.

Item #13 – Post Issuance Tax Compliance Procedures, Amendment to Resolution Number 2011-05 was removed from the agenda.

Item #14 **Interagency Agreement, Resolution No. 2011-14**

Ms. Liebert presented the annual interagency agreement for approval, noting the various benefits it secures through the provision of various services, including services from the legal office, accounting office, personnel, administrative office and more. Staff recommended approval of Resolution Number 2011-14 which authorized the execution of an Interagency Agreement with the State Treasurer's Office to provide administrative services, including accounting, budgeting, data processing, personnel and business services to the Authority for the Fiscal Year 2011-12. Fiscal Year 2011-12 proposed contract was for \$291,635, an increase of \$14,309 from the prior year. The increase was a direct result of augmented legal services (new lawyer) provided to the Boards, Commissions, and Authorities as well as services provided by the Office of Information Security and Privacy Protection.

Ms. Rockwell moved approval of Resolution Number 2011-14 and Mr. O'Toole seconded the motion. The Resolution was adopted with an 8-Aye roll call vote.

Ms. Liebert subsequently stated that Agenda Item #10 was withdrawn by the borrower because sufficient monies from the bond proceeds (as authorized under Agenda Item #11) would be utilized to repay the HELP II Loan.

Chairperson Wynne announced that the board members were going into a closed session.

Item #15 **Litigation (Government Code Section 11126(e)(1))**

Appropriate staff and the board consulted with legal counsel regarding pending litigation (California Health Facilities Financing Authority vs. Health for All, Inc.; et all, Case No.: 34-2010-00092737, County of Sacramento) as authorized by Government Code Section 11126(e) (2A).

Chairperson Wynne announced the closed session was concluded and returned to open session. There were no actions taken during closed session.

Chairperson Wynne asked for public comment. Hearing none and with no additional business, the meeting was adjourned at 2:46 P.M.