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Financing the Health Care Future

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Donna A. Murr

**Washington Health Care Facilities Authority
410 11th Avenue S.E., Suite 201
Olympia, WA 98504
Thursday, September 12, 2013 Minutes**

A special meeting was held at the office of the Washington Health Care Facilities Authority, pursuant to Authority Board meeting notices mailed to all members of the Authority, and to all persons who requested such meeting notice, and those members of the media presently on the mailing list for receiving meeting notices of the Washington Health Care Facilities Authority.

Members Present:

David Schumacher, Governor's Designee/Member

AnnaLisa Gellermann, Insurance Commissioner's Designee/Member

John Wiesman, Secretary, Department of Health/Member, by conference speakerphone

Ron Sperling, Public Member

Authority Staff Present:

Donna Murr, Executive Director

Shannon Govia, Assistant Executive Director

Ashlee Frye, Chief Financial and Compliance Officer

Lura Harrison, Executive Assistant and Office Manager

Others Present:

Dan Gottlieb, Authority Bond Counsel, Hillis Clark Martin & Peterson P.S.

Joel Bodansky, Authority Bond Counsel, Hillis Clark Martin & Peterson P.S.

Bryan Victor, Authority Bond Counsel, Orrick Herrington Sutcliffe LLP

Jan Schorr, Financial Advisor, Melio & Co.

Beth Chevalier, Financial Advisor, Melio & Co., by conference speakerphone

Trish Nightingale, Authority Assistant Attorney General

Alex Sansoni, Wells Fargo Bank, N.A.

Robert Farrell, CEO, Community Health Center of Snohomish County

Victoria Ringness, CFO, Community Health Center of Snohomish County

Diane Albrecht, Director, Capital Finance with Catholic Health Initiatives

Mike Fitzgerald, CFO, Franciscan Health System

Jennifer Daugherty, Financial Advisor, Ponder & Co

David Schumacher called the meeting to order at 2:30 p.m. after noting a quorum was present consisting of himself, John Wiesman, and Ron Sperling.

Review, discussion and possible action regarding the Minutes of August 8, 2013.

After discussion and upon motion by Mr. Sperling and seconded by Mr. Schumacher, the minutes of the August 8, 2013 Authority meeting were unanimously approved.

Review, discussion and possible action regarding the adoption of Resolution No. 2013-08 approving the application for financial assistance and authorizing the issuance and sale of bonds for Community Health Center of Snohomish County (CHCSC).

Mr. Govia introduced Mr. Farrell and Ms. Ringness from CHCSC, and Mr. Sansoni from Wells Fargo, N.A. who were present for the meeting. Mr. Govia summarized Resolution No. 2013-08, approving the application for financial assistance from CHCSC and authorizing the issuance and sale of a bond in an amount not to exceed \$6,000,000. This is a Quick Loan transaction and the bonds will be privately placed with Wells Fargo, N.A. at a fixed rate of approximately 3.475% for a 15 year term. CHCSC is located in Everett but the proceeds of the loan will be used to finance the construction of a new two-story owner occupied facility in Edmonds, Washington, purchase equipment for said facility, and pay the costs of issuance. No Certificate of Need is required.

CHCSC provides medical, dental and pharmaceutical services to primarily low income families and individuals with limited or no health insurance. Through utilizing tax-exempt financing, CHCSC will recognize an estimated interest savings over the initial ten year term of over \$700,000. Those funds will be used to complete the project and further the mission of CHCSC. Authority staff recommends approval of Resolution No. 2013-08.

Ms. Gellermann arrived for the meeting at this point.

Mr. Victor reviewed the legal structure of the transaction.

Mr. Sperling asked why the original application was for \$7 million but the final resolution is for \$6 million.

Ms. Ringness and Mr. Victor replied that construction costs were set after the initial application was approved and weren't as high as originally expected.

Mr. Wiesman asked if the larger facility being built will replace the smaller facility in Edmonds and if so, how much capacity is being added and in what areas.

Mr. Farrell replied that the existing facility is a leased facility and will be replaced by this new facility, which will be double the size for medical services and add dental and pharmacy services as well.

Mr. Wiesman asked if additional primary care providers will be added.

Mr. Farrell replied that medical providers will increase from 4 to 9 and 4 dental providers and pharmacy staff will be added.

After further discussion, without public comment and upon motion by Mr. Sperling and seconded by Ms. Gellerman, Resolution No. 2013-08 was unanimously adopted.

Review, discussion and possible action regarding the application for financial assistance submitted by Catholic Health Initiatives (CHI).

Ms. Murr introduced Ms. Albrecht from CHI, Mr. Fitzgerald from the Franciscan Health Systems, and Ms. Daugherty from Ponder & Co. who were present for the meeting. Ms. Murr summarized the application for financial assistance submitted by CHI, a multi-state hospital system, of which Franciscan Health System is an affiliate member, which have hospitals located in Tacoma, Lakewood, Federal Way, Gig Harbor, Enumclaw, Burien, Bremerton, and Silverdale. The application is for \$479,375,000. The purpose of the application is to refinance debt previously issued by Harrison Medical Center and Highline Medical Center and a previous CHI bond issue. Approximately \$55 million is reimbursement for new money projects. Ms. Murr reviewed page three of the application summary provided to the board which had a breakdown of the proposed financing.

Ms. Albrecht and Ms. Daugherty went into greater detail regarding the financing for CHI's health system across the country and how this financing in Washington is a part of that.

Ms. Murr explained that certificates of need are required for a portion of this project and they are listed on page three of the application summary. An additional certificate of need was issued for Harrison Medical Center for a facility that was built with bonds the Authority issued in 2012 and that certificate of need is in the process of being transferred to the Franciscan Health System.

Mr. Gottlieb has done the due diligence on this and can explain what will be necessary to move forward with this piece of the puzzle.

Mr. Gottlieb explained that in 2012 the Authority issued bonds to finance the construction of a new orthopedic facility at the Silverdale campus of Harrison Memorial Hospital. That orthopedic facility was going to have 50 new medical surgical beds and Harrison received a certificate of need for that which was required for the Authority to issue the bonds. The facility will open on September 16, 2013. As part of the affiliation between Franciscan Health System and Harrison Medical Center, the parties received from the Department of Health a determination of non-reviewability that said that the affiliation did not require a certificate of need. But if it occurred before completion of the orthopedic facility and the set up of the 50 new beds at Harrison, then the certificate of need for those 50 beds would need to be transferred to Franciscan. The affiliation of Franciscan and Harrison closed before the opening of the facility, and the parties are pursuing the transfer of the certificate of need. It does not prevent the facility from being opened, or these bonds to be issued, but it will affect the timing of the set-up of the 50 new beds in the facility. Harrison has indicated that it will be providing services in the new facility that do not require certificate of need approval when they open on September 16, but they will not set up any new beds until the certificate of need is transferred. Bond counsel is comfortable with

moving forward with the application with the expectation that the certificate of need will be transferred.

Mr. Sperling asked if the Department of Health had indicated its position on this transaction. Mr. Gottlieb referred to the email received from the Department of Health regarding the certificate of need for this project stating that the project is far enough along to qualify for a transfer but they haven't received the request yet and the parties are aware of the requirement.

Mr. Sperling wanted to know what present value savings will be for the refinance of the Harrison and Highline bonds.

Ms. Albrecht answered the current expected net present value savings for Highline is 3.2% and Highline is at a little bit of a negative at this point, but the facility will now be able to operate without the overhead finance costs associated with the prior bonds. Refinancing the debt these hospitals carry will help the hospitals by lowering overhead costs.

Mr. Wiesman asked what the renovations at St. Claire are and sought clarification of the changes at St. Joseph regarding the increase of 6 new psych beds.

Mr. Fitzgerald replied the renovations at St. Claire included several things that related to the infrastructure of St. Claire. The HVAC system upgrade was one of the biggest items. With the psych beds changes, it was a transfer of psych beds from St. Francis to St. Joseph. St. Joseph was expanded to include the consolidation of the St. Francis psych unit.

After further discussion, without public comment and upon motion by Mr. Sperling and seconded by Ms. Gellermann, the application for financial assistance for CHI was accepted.

Executive Director's Report:

Ms. Murr reviewed the Executive Director's report, which was distributed to the board prior to the meeting. There are currently five transactions now in process with the acceptance of CHI's application. The first closing of this fiscal year is due to close on September 20th.

Adjournment:

There being no further business, the meeting was adjourned at 3:06 p.m.

John Wiesman, Secretary