

**SANTA BARBARA COUNTY
BOARD AGENDA LETTER**



Clerk of the Board of Supervisors
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Agenda Number:

Prepared on: 3/18/02
Department Name: Treasurer-Tax Collector
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If Yes, date from:
Document File Name:

TO: Board of Supervisors

FROM: Bernice James
Assistant Treasurer-Tax Collector

STAFF CONTACT: Harry Hagen, x2150
Treasury Finance Chief

SUBJECT: Conduit Financing for Sansum-Santa Barbara Medical Foundation Clinic

Recommendation(s):

That the Board of Supervisors:
Adopt RESOLUTION APPROVING COOPERATING MEMBERSHIP BY THE COUNTY OF SANTA BARBARA IN THE ASSOCIATION OF BAY AREA GOVERNMENTS AND ASSOCIATE MEMBERSHIP BY THE COUNTY OF SANTA BARBARA IN THE ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS AND THE EXECUTION OF AN ASSOCIATE MEMBERSHIP AGREEMENT RELATING TO ASSOCIATE MEMBERSHIP OF THE COUNTY OF SANTA BARBARA IN THE AUTHORITY AND APPROVAL OF THE ISSUANCE OF BONDS BY THE AUTHORITY TO BENEFIT SANSUM-SANTA BARBARA MEDICAL FOUNDATION CLINIC.

Alignment with Board Strategic Plan:

The recommendation is primarily aligned with actions required by law and with our organizational values regarding collaboration and partnering.

Executive Summary and Discussion:

TEFRA Hearing

The Federal Tax Equity and Financial Responsibility Act (TEFRA) requires that a public hearing be held by the governing body of the public jurisdiction in which the project or projects are located. The purpose of the hearing is to allow for public comments on the use of tax-exempt financing for the proposed projects.

ABAG Finance Authority

The ABAG Finance Authority for Nonprofit Corporations (the “Authority”) is a Joint Powers Authority of California Cities and Counties managed by, but operating separately from the Association of Bay Area Governments. The Authority provides economical conduit financing for health and social services, affordable housing, education, and other nonprofit organizations serving the public in its member jurisdictions. Pooled financing is offered for smaller State-insured health care loans and for insured affordable housing projects. The bylaws of the Authority allow that all public agencies throughout the State are eligible to join the Authority, subject to the approval of the Board.

The conduit debt financings for nonprofit borrowers issued on behalf of local jurisdictions through the Authority are payable solely from amounts received pursuant to the terms and provisions of financing agreements. Participating local jurisdictions are never party to financing agreements and documentation. Authority debt is never secured by any form of taxation or any obligation of either the member jurisdiction or the Authority. The borrower must provide comprehensive indemnification to the Authority and all of its members. Member jurisdiction sponsoring any particular project may also receive direct indemnification from the borrower in the financing documentation.

Sansum-Santa Barbara Medical Foundation Clinic

The Sansum-Santa Barbara Medical Foundation Clinic (the “Foundation”) is a nonprofit public benefit corporation formed to provide health care and related charitable, educational, and scientific services. Originally formed in 1921 as the Santa Barbara Medical Clinic, the Foundation was founded for the purpose of providing multi-specialty medical services to the residents of Santa Barbara County; it was one of approximately 100 group practices established nationwide in the decade following World War I.

Increased specialization in the medical profession and the population growth in the Santa Barbara area contributed to the growth of the Foundation and led to the consideration of alternative organizational structures in the 1970’s. To ensure stability and accommodate growth, the Foundation formed the current nonprofit corporation structure in 1973, thereby gaining approval for tax-exempt status pursuant to the Internal Revenue Service Code. During this time the Foundation’s physicians formed the Medical Clinic and entered into a professional services agreement with the Foundation for physician services. In October 1998, the Foundation acquired the assets of the Sansum Medical Clinic, a major competitor located in Santa Barbara.

Today, the Foundation provides health services under a professional services agreement with the Sansum-Santa Barbara Medical Clinic, Inc., a professional corporation which employs approximately 160 full-time equivalent (FTE) physician and non-physician providers. It employs over 750 non-physician FTE employees. It is the single largest provider of outpatient health care in the County, a position that has enabled it to remain financially strong. The Foundation serves more than 150,000 prepaid plan and fee-for-service patients each year through its two main clinics in the City of Santa Barbara and 12 branches and two pharmacies located in the southern and northern portions of Santa Barbara County. The branch offices provide full-time primary

care and urgent care. The main clinics provide services in all medical and surgical specialties with the exception of anesthesiology.

Projects and Financing Structure

The Authority and the Foundation are requesting that the County hold the required public hearing so that tax-exempt private activity debt can be issued for the following four separate projects:

- A) The Foundation will refinance approximately \$12.2 million aggregate principal amount of 1989 CHFFA Bonds. The original proceeds from the 1989 issuance were used for the acquisition of a building, remodeling of the main clinic, and the purchase of equipment. The average interest rate on these bonds is 7.0% with all debt maturing in 2019. The refinancing of this debt at the estimated maximum coupon rate of 5.3% is expected to result in present value savings of more than \$1.0 million.
- B) The Foundation will purchase approximately \$7.8 million in equipment, including \$883,000 for an MRI upgrade, \$2.2 million for a Digital Radiology System, \$1.3 million for a Practice Management System, and \$3.5 million for an Electronic Medical Record System.
- C) The Foundation will construct a new 22,000 square foot clinic in Lompoc, on a 2.8 acre site purchased in 1995, at a cost of approximately \$5.5 million. This location will consolidate the services that are currently being provided at four separate leased sites totaling 16,000 square feet. Construction is expected to be completed by December 2002.
- D) The Foundation will use approximately \$6.0 million to refinance and restructure short-term borrowings used to purchase a 49,000 square foot building in the City of Goleta. Additionally, the Foundation will use approximately \$2.1 million to remodel the facility for maintenance, storage, and laboratory functions. The remodeling is anticipated to be completed in 2002.

The proposed financing is for an approximate \$32.6 million fixed-rate, public offering of Cal-Mortgage Insured tax-exempt revenue bonds, with a projected 25-year final maturity date. The Authority's Bonds are expected to carry a Standard & Poors rating of A+. Principal of and interest on the bonds would be insured by the State of California under its Cal-Mortgage Health Facilities Loan Insurance Program.

Conclusion

Federal law provides a process for qualified 501(c)(3) organizations to participate in tax-exempt financing under Section 147(f) of the Internal Revenue Code. Under the section, the County has the limited role of approving the financing, but is not a party to the Purchase Agreement and assumes no liability by its approval. The County has participated in similar financings on behalf of Samarkand Retirement Facility, Casa Dorinda Retirement and Health Care Facility, the Devereux Foundation, Vista Del Monte Continuing Care Retirement Facility, and Peoples' Self-Help Housing Corporation. This request is consistent with prior requests and meets the criteria set forth in the County Debt Management Policy. The approval of the financing is solely for tax law purposes. The County will have no legal, financial, or moral obligations with respect to this tax-exempt financing.

Mandates and Service Levels:

There are no anticipated changes in programs or service levels.

Fiscal and Facilities Impacts:

There is no financial or legal impact to the County. The Foundation is responsible for all debt servicing. This financing will not impact the credit rating of the County.

Special Instructions:

Please return three signed copies of the resolution and the associate membership agreement to Harry Hagen at the Treasurer-Tax Collector's office.

Concurrence:

Debt Advisory Committee