

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: DEBORAH LAUCHNER, CHIEF FINANCIAL OFFICER
FINANCE DEPARTMENT
FRANK KASIMOV, PROGRAM SPECIALIST
HOUSING AND COMMUNITY SERVICES
SUBJECT: TEFRA PUBLIC HEARING – SANTA ROSA COMMUNITY
HEALTH CENTERS, LOCATED AT 3569 ROUND BARN CIRCLE

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Finance Department that the Council, by resolution, approve the issuance by the California Municipal Finance Authority of tax exempt, revenue refunding bonds for Santa Rosa Community Health Centers in an amount not to exceed \$15,000,000 to refund the outstanding Insured Revenue Bonds (Southwest Community Health Center), Series 2010, for the property located at 3569 Round Barn Circle.

EXECUTIVE SUMMARY

Santa Rosa Community Health Centers (SRCHC) has requested the California Municipal Finance Authority (CMFA) to issue tax exempt revenue bonds in an amount not to exceed \$15,000,000 to refund the outstanding CMFA Insured Revenue Bonds issued in 2010 that were used to purchase a building, construct tenant improvements, and purchase equipment and furniture for the building, located at 3569 Round Barn Circle. The sole purpose of the refunding bonds proceeds is to pay off the existing bonds. Refinancing at a lower interest rate will save the organization \$5 - \$6 million in financing costs and reduce the overall cost of providing medical care to uninsured and underinsured patients over the term of the bonds. All financial obligations for the project are the responsibility of the owner. The issuance of tax exempt, private activity bonds, even by an outside joint powers authority, must be approved by the governing body in whose jurisdiction the project is located following a public hearing.

BACKGROUND

SRCHC's goal is to enhance the health and contribute to the improvement of a very large segment of our population that otherwise would have difficulty accessing healthcare services. It is a Federally Qualified Health Center with a principal mission of providing primary medical, dental and mental health care to uninsured and underinsured patients. SRCHC currently has a total of nine sites around the City of Santa Rosa, including the subject site, with nearly 50,000 patients, accounting for around 25% of the residents of Santa Rosa. SRCHC provides approximately 225,000 patient visits annually with a staff of about 450 employees.

The CMFA is a joint powers authority that assists local governments, non-profit organizations and businesses with the issuance of taxable and tax-exempt bonds for any purpose or activity permitted under the Joint Exercise of Powers Act Government Code §6500, et seq. terms of a Joint Exercise of Powers Agreement Relating to the California Municipal Finance Authority, dated January 1, 2004. To date, over 225 municipalities, including the City of Santa Rosa, have become members of CMFA.

In 2010, the CMFA issued Insured Revenue Bonds to make a loan to SRCHC to finance (i) the purchase of an approximately 42,500 square foot building situated on 2.83 acres at 3569 Round Barn Circle, (ii) the construction of tenant improvements to the building, and (iii) the purchase of equipment and furniture for the building, for use as a community clinic. The facility includes exam rooms, mental health rooms, procedure rooms, consultation rooms, patient group rooms and conference rooms for community, resident and staff education. SRCHC relocated its administrative, billing, and finance staff from previously leased space to this site. The facilities are owned and operated by SRCHC.

PRIOR CITY COUNCIL REVIEW

On January 5, 2010, the City Council, conducted a Tax Equity and Fiscal Responsibility Act (TEFRA) public hearing and adopted Resolution No. 27555, "Approving, Authorizing and Directing Execution of a Joint Exercise of Powers Agreement Relating to the California Municipal Finance Authority and Approving the Issuance of the California Municipal Finance Authority Revenue Bonds (Southwest Community Health Center), Series 2010, in an Aggregate Principal Amount not to Exceed \$16,000,000 for the Purpose of Financing the Acquisition, Construction, Improvement and Equipping of Community Clinic Facilities for the Benefit of Southwest Community Health Center and Certain Other Matters Relating Thereto."

ANALYSIS

The sole purpose of the refunding bonds is to pay off the existing bonds, not to provide funding for any additional renovations at any of SRCHC's locations. Refinancing at a lower interest rate will save the organization \$5 - \$6 million in financing costs and reduce the overall cost of providing medical care to uninsured and underinsured patients over the term of bonds.

The issuance of private activity bonds, even by an outside joint powers authority, must be approved by the governing body in whose jurisdiction the project is located following a public hearing, which is often referred to as a TEFRA Public Hearing because it is held in accordance with the Tax Equity and Fiscal Responsibility Act ("TEFRA") of 1982, Section 147(f) of the Internal Revenue Code of 1986.

FISCAL IMPACT

Approval of this action does not have a fiscal impact on the General Fund. All financial obligations for the project will be the responsibility of SRCHC. The Bonds to be issued by the CMFA for the project will be the sole responsibility of SRCHC, and the City will have no financial or legal obligation, liability or responsibility for the project or the repayment of the bonds for the financing of the project. Financing documents with respect to the issuance of the bonds will contain clear disclaimers that the bonds are not obligations of the City, but are to be paid for solely from funds provided by SRCHC. The primary source of repayment will be a revenue fund pledge of the Corporation (SRCHC) from the operation of all of its facilities.

Additionally, these bonds will be insured by the State of California Cal-Mortgage program¹ and will have a rating of AA- by Standard & Poor's as a result of the credit enhancement provided through the insurance.

The Board of Directors of the California Foundation for Stronger Communities, a California non-profit public benefit corporation (the Foundation), acts as the Board of Directors for the CMFA. Through its conduit issuance activities, the CMFA shares a portion of the issuance fees it receives with its member communities and donates a portion of these issuance fees to the Foundation, which then donates to California non-profits and charities. To date the Foundation has donated over \$7,500,000.

CMFA will grant to the City's general fund a portion of the issuance fee, in this case approximately \$7,500, depending on the final bond issuance amount. This grant may be used for any lawful purpose of the City. The CMFA will send a check to the City after the bond financing has closed and the CMFA has received its issuance fee.

¹ Cal-Mortgage administers the California Health Facility Construction Loan Insurance Program (Program). Cal-Mortgage provides credit enhancement for eligible health care facilities when they borrow money for capital needs. Cal-Mortgage insured loans are guaranteed by the "full faith and credit" of the State of California. This guarantee permits borrowers to obtain lower interest rates, similar to the rates received by the State of California. The Insurance provides a guarantee of payment of principal and interest should the health facility be unable to meet its debt payment obligations. Cal-Mortgage Loan Insurance is unconditional and irrevocable for the life of the loan.

ENVIRONMENTAL IMPACT

This action is exempt from the California Environmental Quality Act (CEQA) because it is not a project which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guideline section 15378.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not Applicable.

NOTIFICATION

A notice of public hearing was published in the Press Democrat on May 16, 2016.

ATTACHMENTS

- Attachment 1 – Request for TEFRA hearing
- Attachment 2 – Locational Graphic
- Resolution

CONTACT

Deborah Lauchner, Chief Financial Officer, dlauchner@srcity.org (707) 543-3089