



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Scott P. Johnson

SUBJECT: DAUGHTERS OF CHARITY
HEALTH SYSTEM -- TEFRA
HEARING

DATE: April 8, 2004

Approved

Date

COUNCIL DISTRICT: 6
SNI AREA: N/A

RECOMMENDATION

It is recommended that the City Council take the following actions, on behalf of Daughters of Charity Health System, regarding the O'Connor Hospital, located at 2105 Forest Avenue, San Jose. CA 95128:

- a. Hold a TEFRA Hearing for the issuance of \$550,000,000 of tax-exempt 501(c)(3) revenue bonds by the California Statewide Community Development Authority ("CSCDA").
- b. Adoption of a resolution approving the issuance of Tax-Exempt Fixed Rate Revenue Bonds, Series 2004 by the California Statewide Community Development Authority in an aggregate principal amount not to exceed \$550,000,000 to be used to (1) refund existing \$450,000,000 California Statewide Communities Development Authority Series 2001 Fixed Rate Revenue Bonds (the "2001 Bonds"); (2) equip certain hospitals and related facilities; and (3) pay certain expenses incurred in connection with the issuance of the Bonds.

BACKGROUND

Daughters of Charity Health System ("DCHS"), a California nonprofit religious corporation has requested that the California Statewide Communities Development Authority (the "CSCDA") participate in the issuance of uninsured fixed rate revenue bonds in an aggregate principal amount not to exceed \$550,000,000 (the "Bonds").

The proceeds of the Bonds will be used to (1) refund the \$450,000,000 California Statewide Communities Development Authority Series 2001 Fixed Rate Revenue Bonds (the "2001

Bonds”); (2) equip the campuses of the hospitals and related facilities located at the following addresses: O’Connor Hospital, 2105 Forest Avenue, San Jose, CA; Robert F. Kennedy Medical Center, 4500 West 116th Street, Hawthorne, CA; Saint Louise Regional Medical Center, 9400 No Name Uno, Gilroy, CA; Seton Medical Center, 1900 Sullivan Avenue, Daly City, CA; Seton Medical Center Coastside, 600 Marine Boulevard, Moss Beach, CA; St. Francis Medical Center Lynwood, 3630 East Imperial Highway, Lynwood, CA; and St. Vincent Medical Center, 2131 West Third Street, Los Angeles, CA; and (3) pay certain expenses incurred in connection with the issuance of the Bonds.

DCHS is the sole corporate member of six California nonprofit religious corporations that, together with DCHS, established a new health system (the “DCHS System”) that owns and operates seven acute care hospitals and other facilities in the State of California. The proceeds of the 2001 Bonds were used to acquire these hospitals from Catholic Healthcare West, a California nonprofit public benefit corporation and certain of its affiliates. Proceeds were also used to finance routine capital expenditures at DCHS.

CSCDA was established in 1988 under the California Government Code as a statewide Joint Powers Authority to provide local governments and private industry access to tax-exempt low-interest financing to achieve public benefit goals. The City is a member of CSCDA. To date, CSCDA has issued more than \$16 billion in tax-exempt debt.

Pursuant to Section 147(f) of the Internal Revenue Code of 1986, the issuance of the Bonds by CSCDA must be approved by the City because one of the facilities, O’Connor Hospital, is located within the territorial limits of the City. Proceeds of the Bonds will be used to refund outstanding debt related to O’Connor Hospital and may also be used for routine capital expenditures, primarily the acquisition of equipment.

ANALYSIS

The hearing under Section 147 (f), known as a TEFRA Hearing, which is scheduled to be held as part of the action items on the April 27, 2004 Council Agenda, is a method of notifying the community of the CSCDA’s intent to approve an issue of tax-exempt private activity bonds for this project. The City, as a member of CSCDA, is one of the applicable elected representatives required to approve the issuance of the Bonds by CSCDA under Section 147(f) of the Code and under the terms of the Joint Powers Agreement establishing CSCDA. The public hearing notice will be published in the *San Jose Mercury News*, announcing the time and location of the public hearing.

Federal tax law limits the types of projects that may be funded with tax-exempt bond proceeds since the interest earned on such bonds is exempt from federal taxation. The purpose of the TEFRA public hearing is to identify projects which may subsequently receive funding from the sale of private activity tax-exempt bonds. These hearings will also provide interested individuals or parties the opportunity to provide testimony on any matters related to such potential bond issues, including the nature and location of the project.

HONORABLE MAYOR AND CITY COUNCIL

Subject: Daughters of Charity Health System–TEFRA Hearing

April 8, 2004

Page 3

PUBLIC OUTREACH

The TEFRA Hearing to be held as part of the action items on the April 27, 2004 Council Agenda is a method of notifying the community of the CSCDA's intent to issue tax-exempt private activity bonds for this project. The public hearing notice will be published on or about April 12, 2004 in the *San Jose Mercury News*, announcing the time and location of the public hearing.

FISCAL IMPACT

The TEFRA hearing will have no fiscal impact on the City as there are no City funds in this project. The tax-exempt bonds issued by CSCDA will be secured solely by DCHS's revenues.

COORDINATION

This report has been prepared by the Finance Department in coordination with the City Attorney's Office.

CEQA

SCOTT P. JOHNSON
Director, Finance Department