

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
Beckman Research Institute of the City of Hope
Amendment to Loan Agreement

Staff Summary
Resolution No. 2004-01

February 26, 2004

ISSUE:

Beckman Research Institute of the City of Hope (“Beckman”) is requesting an amendment to its Loan Agreement and the related deed of trust to: (i) pay down a portion of the existing tax-exempt notes in order to change the use of a portion of the facility financed with tax-exempt note proceeds that results in an ineligible use of funding; and (ii) relax certain of the existing covenants, primarily relating to additional debt and liens. As a result of these amendments, interest on the portion of the loan to be paid down would cease to be excluded from gross income for federal income tax purposes. Beckman is proposing to convert a portion of the financed facility to for-profit purposes and to secure a separate loan from Wells Fargo Bank (“Wells Fargo”) to provide funds to prepay this portion of the notes in the approximate amount of \$5.4 million. In addition, Beckman proposes making certain modifications in the financial terms of the notes with Wells Fargo. The purpose of the conversion is to permit Beckman to lease existing facility space to private users, which would not be permitted without a paydown of this portion of the notes.

BACKGROUND:

The Authority approved the issuance of a loan for Beckman in the aggregate amount of \$12,650,000 on March 30, 2000, for the purposes of construction, renovation, equipment purchases and seismic retrofitting projects in Duarte. The notes were privately placed with Wells Fargo in April 2000 in the amount of \$12,650,000. As of January 31, 2004, \$11,385,000 remains outstanding.

The majority of note proceeds were used to provide for construction and equipping of a 20,650 square foot Center for Applied Biomedicine and Genetics (“CABG”) to support research in bone marrow transplantation and radioimmunotherapy. This new facility allowed Beckman and the City of Hope to go directly from laboratory discoveries to initial evaluation in patients. Beckman proposes to convert the use of the top floor of the two-story CABG building (representing approximately 51% of the total square footage of the CABG building) to private uses, such as the leasing (for profit or otherwise) of research and laboratory space to private companies from time to time.

Beckman anticipates prepaying approximately \$5.4 million of the note with Wells Fargo leaving approximately \$6 million outstanding on the note. Wells Fargo, as sole

noteholder, is in support of these amendments, as well as certain covenant relief amendments to the Loan Agreement and related deed of trust as requested by Beckman.

STAFF RECOMMENDATION:

Staff recommends the Authority approve: (i) the proposed changes to the Loan Agreement to change a portion of the facility financed with tax-exempt note proceeds by prepaying a portion of the loan with proceeds from a Wells Fargo Bank loan; and (ii) the other proposed changes to the Loan Agreement and the related deed of trust, reflecting such changes to the restrictive covenants as are acceptable to Wells Fargo Bank, as noteholder.