

**STAFF SUMMARY AND RECOMMENDATION
SAN DIEGO HOSPITAL ASSOCIATION
Series 1992A and Series 1992B**

**First Amendment to Indentures
January 31, 2002**

ORIGINAL ISSUE AMOUNTS: Series 1992A, \$56,665,000
Series 1992B, \$39,000,000

PURPOSE OF AMENDMENT: To clarify that San Diego Hospital Association (“SDHA”) may purchase its outstanding Series 1992A and Series 1992B bonds that are otherwise redeemable under Section 4.01(B) of the respective Indentures, at a purchase price equal to the then applicable redemption price for the bonds. By purchasing the bonds, rather than issuing refunding bonds, SDHA will recognize considerable savings.

BACKGROUND: The Authority previously issued its Insured Hospital Revenue Bonds, Series 1992A and Series 1992B, each pursuant to the terms of an Indenture, dated June 15, 1992 and September 1, 1992, respectively. The Bonds are insured by MBIA Insurance Corporation (“MBIA”) and were issued for the purposes of refunding prior debt and financing various capital improvement projects. As of December 31, 2001, \$46,980,000 and \$33,605,000 remain outstanding for the Series 1992A bonds and the 1992B bonds, respectively. The bonds were issued at an average net interest cost of approximately 6.3%.

ISSUE: SDHA proposes to take advantage of lower interest rate conditions available in the current market and has evaluated the possibility of doing a current refunding for the bonds. However, the issuance costs for new bonds, particularly additional premiums on MBIA insurance (if obtainable) or other insurer, would substantially offset the savings. Cain Brothers LLC, SDHA’s financial advisor, has recommended restructuring the existing bonds through the purchase by SDHA of the outstanding bonds and the simultaneous sale to an investment trust through which SDHA would complete an interest rate swap and benefit from low variable interest rates, rather than a current refunding. The average annual gross savings to SDHA are estimated to be \$570,000, or a present value savings of \$7.2 million through the final maturity of 2020. The savings would be used to further SDHA’s charitable purposes in delivering quality health care to its communities.

This proposed amendment clarifies under each Indenture that SDHA may purchase the bonds without retiring them under the same terms and provisions under which they are optionally callable. Cain Brothers LLC is prepared to execute a certificate that states that it is their experience that bonds with this purchase in lieu of retirement language aligning with standard 10-year optional call provisions, when compared to similar bonds without this language, will initially price and subsequently trade at substantially identical prices and yields. The Cain Brothers certificate concludes that it is their opinion that the proposed amendments will not have a material economic effect (favorable or unfavorable) on the prices for the bonds. In reliance on this Cain Brothers certificate and other information supporting the finding, the bond trustee is prepared to make the finding

required by each indenture that the proposed amendments do not materially adversely affect the interests of the holders. Neither Orrick, Herrington & Sutcliffe LLP, as Bond Counsel, nor the State Attorney General's office have any information that would cause them to question the conclusion reached by the Cain Brothers certificate and the bond trustee's finding. Furthermore, MBIA has consented to the proposed amendment, as required under each indenture and has agreed that the bonds will continue to be MBIA insured after the purchase without additional premiums. This proposed purchase will not increase risk to the Authority, but rather, will provide greater protection to the Authority than if SDHA were to do a stand alone, uninsured refunding.

RECOMMENDATION: Staff recommends the Authority approve and authorize execution and delivery of the First Amendment to Indenture for San Diego Hospital Association Insured Revenue Refunding Bonds 1992 SeriesA and San Diego Hospital Association Insured Revenue Bonds 1992 SeriesB which adds to each Indenture Section 3.05, Purchases of Bonds.