

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

Delegation Authority to Certain Officers of the Authority

February 26, 2009

Background: In March 2008, the Board approved Resolution No. 2008-02, specifically authorizing the Executive Director, together with the Chair or the Deputy of the Chair of the Authority to, amongst other things, execute and deliver, such consents, amendments to existing bond documents and supplemental documents as the Authorized Officers executing such consents and/or documents deemed appropriate, with the advice of the Attorney General or other counsel to the Authority, to speed, aid, and facilitate various matters to be specified within said resolution, including without limitation, the following matters:

- (1) conversion of outstanding bonds of the Authority to different interest rate modes,
- (2) addition of letters of credit, lines of credit, bond insurance or other credit enhancement or liquidity support to outstanding bonds of the Authority,
- (3) establishment of intercreditor relationships between existing bond insurers and the providers of additional credit enhancement or liquidity support,
- (4) suspension or termination of bond insurance that is no longer cost effective,
- (5) compliance with federal tax law in connection with any such actions.

Impetus for Resolution 2008-02 was the economic tumult facing the bond market in early 2008. At that time, auction and variable rate bond markets were experiencing dramatic changes, causing many hospitals and other institutions to experience significant and very costly interest rate increases in their outstanding debt. At CHFFA's February 28, 2008, meeting, CHFFA's financial advisor, John Bonow of Public Financial Management in Seattle, provided the board with an overview of the dramatic changes in the market and the ways in which CHFFA could respond to help borrowers quickly refund or convert their debt to more stable rates.

At that time, the Authority recognized that one of the most valuable means of support would be to facilitate borrower conversion of debt on an expedited basis. In order to accomplish this expedited means of accessing the market, the Authority determined that it would be necessary to provide authority to certain officers of the Authority to execute various documents, grant consents and to approve and execute amendments to certain documents without the need for formally bringing the matters before the board. Consequently, the Authority duly noticed an additional meeting for the month of March 2008 to properly consider a request for delegated authority. Resolution 2008-02 was unanimously approved at that meeting.

Presently, a number of borrowers, both major and stand-alone, continue to evaluate the effects of the credit crunch and may be developing requests for action or review by the Authority, as well as other issuers. Banks that provide credit and liquidity support are

revising their requirements and pricing for renewals which may trigger further conversions and/or refundings. As the fixed rate bond market returns to some sense of normalcy, there will be a strong desire for many to get into the favorable pricing windows.

It appears that for the remainder of 2009, health care organizations will continue to feel the effects of last years' and this year's higher interest rates, lower utilization by customers paying the full cost of services, losses to investment portfolios, more stringent auditor requirements for categorization of debt as short-term and more restrictive debt markets. Coupled with that are government payor changes and healthcare reform that make those borrowers with current or prospective debt needs seek Authority assistance quickly and with as streamlined an administrative process as is reasonable.

The Authority should know that market participants, attorneys and bankers are more focused on full disclosure and transparency of borrower financials than ever before so there would not be a "short-cut" on information. Rather, it is more a matter of sequencing applications, approvals, signatures from the Authority and the other bond processes to which maximum flexibility could prove important.

Request: Continue Resolution, No. 2008-02 in the form and content set forth in Resolution No. 2009-01 for an additional year to give CHFFA the continued flexibility it needs to assist borrowers during a continuing challenging financial market. CHFFA staff would also continue to report on a quarterly basis, as to all actions taken, thereby edifying the board as to transactional history and giving the board the opportunity to terminate the Resolution should the board determine the need for its existence to have ended.

Staff Recommendation: Staff recommends that the Authority approve a one year continuation of Resolution No. 2008-02 as set forth with more particularity in Resolution No. 2009-01.