

**California Health Facilities Financing Authority (“Authority”)**

**Agenda Item 12 – Resolution No. 2011-13**

**Downey Regional Medical-Center Hospital, Inc.**

**Request for Approval of Amendment of Indenture and Loan Agreement**

September 29, 2011

**Background**

Downey Regional Medical-Center Hospital, Inc. (formerly known as Downey Community Hospital, hereinafter “Downey”), a tax-exempt bond borrower of the Authority, came before the board at its June 13, 2011 meeting and was granted permission by the board to amend Downey’s existing indenture and loan agreement to permit a mandatory purchase in lieu of redemption of its outstanding bonds. Downey now seeks additional amendments prompted by Downey’s selection of Union Bank as successor trustee for its outstanding revenue bonds.

As a reminder, the Authority issued \$68,845,000 in revenue bonds (the "Bonds") for the benefit of Downey in September 1993, \$16,470,000 of which are outstanding.

Currently a 199 bed non-profit full service hospital, Downey is located in Downey, California - roughly 13 miles southeast of downtown Los Angeles. In response to substantial liquidity challenges, Downey initiated Chapter 11 bankruptcy proceedings (the "Chapter 11 Proceedings") in September 2009. Prior to and during the course of the Chapter 11 Proceedings, Downey has continued to timely service its Bond obligations.

When Downey initiated the Chapter 11 Proceedings in September 2009, Downey’s intention was to continue operations and Downey has thus far succeeded in that goal. Downey now seeks to conclude its Chapter 11 Proceeding prior to the end of this calendar year and has formulated an exit strategy. The good news for local patients is that Downey intends to continue its hospital operations, which originally began in 1920 with a six bed facility. To enable Downey to implement its exit strategy, Downey sought the approval of the Authority to amend its existing Indenture and Loan Agreement at the Authority's June 13, 2011 meeting, which the Authority authorized in Resolution No. 2011-04 ("Resolution No. 2011-04").

Specifically, at the June meeting, Downey proposed to implement its proposed amendments in phases. First, with the consent of a majority of the holders of the Bonds as provided in Section 9.01(A) of the Indenture, the Indenture will be amended to permit a mandatory purchase of in lieu of redemption of all outstanding Bonds by Downey. Subsequent to the effective date of the mandatory purchase in lieu of redemption amendment, Downey will purchase all of the Bonds from the existing holders and will sell the Bonds to the purchaser providing exit financing, RCB Equities #1, LLC (the "Purchaser"). The Purchaser will purchase 100% of the Bonds outstanding and, also as provided in Section 9.01(A) of the Indenture, as owner of 100% of the Bonds, will consent to the additional amendments of the Indenture and Loan Agreement requested by the Purchaser as a condition to its provision of exit financing to Downey, all of which have been agreed to by Downey. Such additional amendments were included and/or described in the form of Second Supplemental Indenture and form of Second Supplemental Loan Agreement approved pursuant to Resolution No. 2011-04.

Concurrently with the purchase of the Bonds, the Purchaser will also be purchasing certain taxable bonds being issued for the benefit of Downey. Union Bank, N.A. ("Union Bank"), will serve as trustee for the taxable bonds. Subsequent to the June meeting, the Purchaser and Downey also requested that Union Bank be appointed as successor trustee for the Bonds. In connection with appointment of Union Bank as successor trustee, it has been requested (i) that the amendments required to provide for the mandatory purchase in lieu of redemption of the Bonds be retained in the Second Supplemental Indenture and Second Supplemental Loan Agreement (which have not been executed yet) approved pursuant to Resolution No. 2011-04 and (ii) that the remainder of the amendments relating to the modification of the terms of the Bonds and the security for the Bonds described in the staff report prepared in connection with Resolution 2011-04 be deleted from the Second Supplemental Indenture and Second Supplemental Loan Agreement and be set forth in a Third Supplemental Indenture and Third Supplemental Loan Agreement.

Staff concludes that it is desirable to assist Downey to secure the exit financing it needs to conclude Downey's pending Chapter 11 Proceedings by authorizing amendment of the terms of the Bonds and the security for the Bonds as contemplated in the Third Supplemental Indenture and Third Supplemental Loan Agreement.

### **Recommendation**

Staff recommends authorizing any and all actions as might be necessary to amend the Indenture and Loan Agreement as requested by Downey in order to enable Downey to secure exit financing, including the execution of the Third Supplemental Indenture and Third Supplemental Loan Agreement, and the taking of such other actions as shall be necessary to implement such amendments.