**California Health Facilities Financing Authority ("Authority")**

**Agenda Item Six – Resolution No. 2011-04**

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

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

## Background

The Authority issued $68,845,000 in revenue bonds (the "Bonds") for the benefit of Downey Regional Medical-Center Hospital, Inc. (formerly known as Downey Community Hospital, hereinafter "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 within the next several months 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 seeks the Authority's approval to amend its existing Indenture and Loan Agreement.

Specifically, Downey proposes to implement the 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 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 set forth in the Second Supplemental Indenture and Second Supplemental Loan Agreement. All of the amendments have been requested by the Purchaser as a condition to the provision of exit financing to Downey and have been agreed to by Downey.

The Purchaser has requested (i) amendment of certain terms of the Bonds, including provisions relating to maturity (extending the final maturity date by one year), interest rate, interest payment dates (principal and interest deferred until maturity) and mandatory sinking account payment dates, and (ii) amendment of certain provisions of the Loan Agreement, including provisions relating to collateral which secures, or will secure, the Bonds upon purchase by the Purchaser, limitations on debt, and limitations on encumbrances. As required by the Purchaser and agreed to by Downey, amendment of the provisions of the Loan Agreement relating to encumbrances will include provisions permitting subordination of the security interest in certain collateral to the security interest granted to secure a working capital line of credit to be provided as part of the exit financing.

Staff concludes that it is desirable to assist Downey to secure the exit financing it needs to conclude Downey's pending Chapter 11 Proceedings within the next several months by authorizing the amendments proposed which are set forth in the Second Supplemental Indenture and Second Loan Agreement[1].

**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 Second Supplemental Indenture and Second Supplemental Loan Agreement, and the taking of such other actions as shall be necessary to implement such amendments.

[1] Please note that any actions taken by Downey, even if approved by the Authority, will likely also be subject to approval of the bankruptcy court.