CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

September 26, 2002

Resolution No. 2002-14

Issue: The Authority must replace the existing Letter of Credit bank, Dexia Credit Local, ("Dexia", formerly known as Credit Local de France) on its SAVRS 1989 Series A & B pool. Dexia has indicated it will not extend the Letter of Credit providing enhancement on the program, which expires December 22, 2002.

Background: The California Health Facilities Financing Authority issued its 1989 Series A & B Revenue Bonds in the initial aggregate amount of $195,000,000 to refinance the CHFFA County Program Series 1986A. The 1986A bonds were for financing the acquisition, construction and installation of health facilities for the benefit of participating counties and cities pursuant to lease agreements between the counties/cities and the Authority. The current credit provider, Dexia, has secured the Authority's bonds pursuant to a Reimbursement Agreement dated December 22, 1993. The Letter of Credit, as with prior credit providers for this program, enhances the security so as to obtain a AAA rating on the bonds. Dexia, however, has indicated that they will not extend the Letter of Credit that expires December 22, 2002.

Authority staff, Orrick Herrington & Sutcliffe (Bond Counsel) and Joseph Dyson (Program Administrator) have been working since June of 2002 to secure an alternate credit provider for the program. Requests for Proposals went out to all of the AAA rated banks and bond insurance companies known to still be in the business of providing credit enhancement on health care bonds. While a number of facilities expressed interest in obtaining more information on the program and its participants, only one indicated that they might provide a bid: MBIA Insurance Corporation. Not one Letter of Credit Bank that currently holds a AAA rating was interested.

MBIA has been cooperative in discussions with staff and issued a commitment on August 23, 2002 to insure the balance of the bonds outstanding, in the approximate amount of $8,429,000.

Discussion: The commitment from MBIA calls for:

- 1.25% of total debt service to be paid upfront at closing or 0.35% of outstanding par paid annually with the first two years paid in advance. The remaining participants (City of Long Beach, County of Los Angeles, and County of Sacramento) have indicated that they prefer the latter option. This compares favorably with the current fees of 75 basis points on each participant's lease outstanding and 12.5 basis points on the Debt Service Reserve Fund ("DSRF") for the bond issue. In addition, the MBIA policy will run to the final maturity, eliminating the need to secure an alternate credit provider again.

- Amending the lease agreement which participants have entered into with the Authority.

- Entering into a Reimbursement Agreement with MBIA.

- Amending the Indenture to conform with MBIA insurance requirements.

- Payment by the participants of Insurer's legal fees associated with the substitution of the Insurer as provider of the alternate credit facility, in an amount not to exceed $30,000.

- DSRF shall remain funded in an amount equal to $5 million through maturity (December 1, 2020), and Insurer to approve all investments for the DSRF.

- Conformance with MBIA criteria for auction rate securities. The obligations will be subject to a maximum interest rate of 14%.

The participants in the program have been paying their proportionate share of the Letter of Credit fees and other expenses of the program on a monthly basis, along with their debt service payments on each individual lease. The MBIA insurance will allow the program to continue essentially in the same auction rate mode with borrower costs slightly lower than current fees. However, payment of the two-year premium in advance, along with legal fees of MBIA and of Bond Counsel, will result in a significant one time cost to the participants at closing. Staff is requesting authorization from the Authority to assist with payment of these program fees, if necessary, in order to secure the MBIA insurance necessary to continue the program. Any advance by the Authority would be repaid by the participants though monthly invoices from the Trustee.

<u>Recommendation:</u>

Staff recommends the Authority approve the MBIA Commitment to provide insurance on its 1989 Series A & B Revenue Bonds, the Supplemental Indenture and form of Supplemental Lease Agreement and other documents more fully described in the attached Resolution No. 2002-1, and the payment of any premium or other amount necessary to secure delivery of the Alternate Credit Facility in advance of receipt of payment of such amounts from the Lessees.