

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY ("CHFFA")
STAFF SUMMARY AND RECOMMENDATION**

**California Health Facilities Financing Authority
Revenue Bonds (County Program), 1986 Series B**

Resolution Number 2010-02

May 27, 2010

PURPOSE OF THE REQUEST:

Staff requests board approval to authorize such actions as shall be necessary to facilitate the mandatory redemption of California Health Facilities Financing Authority Revenue Bonds (County Program), 1986 Series B, (the "Bonds") on July 1, 2010 and the execution and delivery of termination agreements and such other documents as shall be necessary to facilitate the mandatory redemption of the Bonds on July 1, 2010.

BACKGROUND:

The Bonds were issued in 1986 pursuant to an Indenture, dated as of August 1, 1986 (as amended and supplemented, the "Indenture") to finance the costs of projects for participating health institutions, comprised of cities and counties (the "Program Participants"), each of which entered into one or more lease agreements with the Authority. When the Bonds were issued, a debt service reserve fund (the "Reserve Fund") was established to provide security for payment of debt service on the Bonds. The amount required to be on deposit in the Reserve Fund is \$18,000,000. Funds on deposit in the Reserve Fund were invested in guaranteed investment contracts, each entered into for a certain specified term. The most recent guaranteed investment contract matured in 2009. For so long as the Reserve Fund was invested in an investment contract, interest earnings on the Reserve Fund were sufficient to cover the interest expense on an amount of Bonds equal to the amount on deposit in the Reserve Fund and to provide credits against payments required to be made by the Program Participants. Based on current market conditions, it is not possible to invest in a new guaranteed investment contract or any other investment permitted under the Indenture which will provide interest earnings at least equal to the interest cost on the Bonds. As a result, monthly interest payments paid by the Program Participants have increased significantly since the most recent guaranteed investment contract matured.

The amount of Bonds currently outstanding is \$19,690,000. Pursuant to the Indenture, all Bonds are subject to mandatory redemption at a redemption price equal to the principal amount of Bonds outstanding, if twenty (20) days prior to an interest payment date, there is on deposit in the principal fund and the Reserve Fund an amount sufficient to redeem all Bonds. The next interest payment date on the Bonds is July 1, 2010. The Authority has advised the Program Participants of this option and each of the Program Participants has advised that Authority that it intends to take such actions as are necessary to facilitate the mandatory redemption of all Bonds on July 1, 2010.

As indicated above, \$18,000,000 is currently on deposit in the Reserve Fund, all of which would be applied to the mandatory redemption. The remaining amount needed to fund the mandatory redemption would be funded from amounts being held under the Indenture and from additional payments to be made by the Program Participants.

Upon mandatory redemption of the Bonds, each of the lease agreements, site leases and assignment agreements entered into by the Authority in connection with the County Program will need to be terminated. Staff requests permission to take such action as is necessary to facilitate the mandatory redemption of all Bonds on July 1, 2010 and to execute all relevant documentation, including without limitation, termination agreements relating to all lease agreements, site leases and assignment agreements, and to execute such other documents as shall be necessary to facilitate the mandatory redemption of all Bonds on July 1, 2010.

RECOMMENDATION:

Staff recommends the Authority authorize such actions as shall be necessary to facilitate the mandatory redemption of all Bonds on July 1, 2010 and the execution and delivery of all relevant documentation, including without limitation, termination agreements relating to all lease agreements, site leases and assignment agreements, and such other documents as shall be necessary to facilitate the mandatory redemption of all Bonds on July 1, 2010.