

**STAFF SUMMARY AND RECOMMENDATION
SAN DIEGO HOSPITAL ASSOCIATION
Series 1992A and Series 1992B**

**Supplemental Tax Certificate and
File Form 8038 with the Internal Revenue Service**

February 27, 2003

ORIGINAL ISSUE AMOUNTS: **Series 1992A, \$56,665,000**
 Series 1992B, \$39,000,000

PURPOSE OF REQUEST: To permit San Diego Hospital Association (“SDHA”) to tender and purchase its outstanding Series 1992A and Series 1992B bonds (the “Bonds”). After the tendering and purchasing of all the Bonds delivered by current Bondholders in response to a tender offer, SDHA would waive its right to optionally call the Bonds under the existing terms of each Indenture. The tendered Bonds would then be sold without the optional call rights in the market. Bonds not tendered will be redeemed. By selling the Bonds in this manner, rather than issuing refunding bonds, SDHA would recognize considerable savings.

SDHA has informed the Authority that it has been advised by Orrick, Herrington & Sutcliffe LLP, bond counsel to the Authority in connection with the issuance of the Bonds, that this transaction may result in a “reissuance” of the Bonds for purposes of federal income taxation. SDHA has requested the Authority to execute and file such forms and to take such other action as may be necessary to preserve the tax-exempt status of the Bonds following this transaction.

BACKGROUND: The Authority previously issued its Insured Hospital Revenue Bonds, Series 1992A and Series 1992B, each pursuant to the terms of an Indenture, dated June 15, 1992 and September 1, 1992, respectively. The Bonds are insured by MBIA Insurance Corporation (“MBIA”) and were issued for the purposes of refunding prior debt and financing various capital improvement projects. On January 31, 2002, the Authority approved a resolution to amend the bond documents to permit the Bonds to be subject to a mandatory purchase from the existing holders in lieu of redemption. The Bonds would then have been resold at lower rates in the marketplace. This technique, however, required the consent of MBIA, which it has been unwilling to give under terms considered acceptable by SDHA.

As of December 31, 2002, \$45,605,000 and \$32,770,000 remain outstanding for the Series 1992A bonds and the 1992B bonds, respectively. The bonds were issued at an average net interest cost of approximately 6.3%.

ISSUE: SDHA still proposes to take advantage of lower interest rate conditions available in the current market and has evaluated the possibility of doing a current refunding for the Bonds. However, the issuance costs for new bonds, particularly additional premiums on MBIA insurance (if obtainable) or from another insurer, would substantially offset the savings. SDHA is now evaluating another method to arrive at

debt service savings. Under this method, existing bondholders would be requested to voluntarily tender their Bonds for purchase in a tender offer. The Bonds not voluntarily tendered would be redeemed and cancelled under the terms of the Bond documents. SDHA would waive its right to optionally call the Bonds purchased in the tender offer, and these Bonds would be sold without optional call rights in the market. By selling the Bonds in this manner, SDHA would receive savings analogous to those that would be received in a refunding. The existing MBIA policy on the Bonds would remain intact.

No amendments to the Bond documents are required to accomplish the tender offer, waiver of call rights by SDHA, or resale of the Bonds, and the Authority would not be involved in the transactions. Under federal income tax law, however, the Bonds would be considered “reissued” for tax purposes upon their resale without call rights. To preserve the tax-exempt nature of the Bonds, it would be necessary for the Authority to execute a supplemental tax certificate and to file a Form 8038 with the Internal Revenue Service, just as it would do for a new issue of bonds.

The total gross savings to SDHA are estimated to be \$6.8 million through the final maturity of 2020. The savings would be used to further SDHA’s charitable purposes in delivering quality health care to its communities.

RECOMMENDATION: Staff recommends the Authority approve and authorize execution and delivery of the supplemental tax certificates and the filing of one or more Forms 8038 with the Internal Revenue Service for San Diego Hospital Association Insured Revenue Refunding Bonds Series 1992A and San Diego Hospital Association Insured Revenue Bonds Series 1992B.