

**MINUTES OF GROSSMONT HEALTHCARE DISTRICT
INDEPENDENT CITIZENS' BOND OVERSIGHT COMMITTEE
Regular Meeting
January 18, 2007**

The Independent Citizens' Bond Oversight Committee of the Grossmont Healthcare District held a regular meeting on January 18, 2007, at 6:00 p.m., in the Main Auditorium of Grossmont Hospital, 5555 Grossmont Center Drive, La Mesa, California.

A. CALL TO ORDER:

The meeting was called to order at 6:00 p.m., by Interim Chairman Ernie Ewin.

B. PLEDGE OF ALLEGIANCE:

Mr. Ewin asked Patrick Donnelly to lead the Committee members in the pledge of allegiance. After the pledge, Chairman Ewin declared a quorum for the transaction of business

C. ROLL CALL:

Barry Jantz, CEO of the Gossmont Healthcare District next called the roll. Andrew Knutson was not present. (Michael Peddecord arrived at 6:07 p.m. and James Johnson at 6:22 p.m.)

Mr. Ewin noted that it was his pleasure to introduce Debbie McElravy, the new member of the Healthcare District Board and also Joanne Boyle from the Grossmont Hospital Corporation Board.

D. APPROVAL OF AGENDA:

There were no objections to the agenda as posted.

E. APPROVAL OF MINUTES OF THE NOVEMBER 16, 2006, MEETING:

Motion to approve the minutes of the meeting of November 16, 2006, was made by Joseph Powell, seconded by Patrick Donnelly and unanimously carried.

F. PUBLIC COMMENTS:

No member of the public addressed the Committee

G. PRESENTATIONS:

1. Presentation on the Bond Underwriting Process, Including Negotiated and Competitive Pricing – Steven Hollis, Goldman Sachs & Co.

Mr. Jantz noted that in contemplation of a potential G.O. Bond election, about two years ago the District Board contracted with Mr. Steven Hollis of Goldman Sachs & Co. to provide financial advisory services as underwriter for a negotiated sale of G.O. Bonds. Mr. Hollis had been providing financial advisory services to the District since 1995. In connection with the G.O. Bond process, Mr. Hollis provided significant services in working with the Hospital and District to ensure that the ballot measure met the financial requirements of a G.O. Bond.

Mr. Hollis, Vice President of Goldman Sachs & Co., next addressed the Committee. Mr. Hollis stated that over the last 20 years he had represented public and non-profit hospitals in a variety of financial advisory matters. He next provided the Committee with an overview of a negotiated and a competitive sale of Bonds. He stated that during the last five years over 80% of Municipal debt has been financed through a negotiated sale. Mr. Hollis indicated that there were pros and cons for both processes.

In a competitive process a financial advisor and legal team are selected, an Official Statement is prepared and sent to underwriters with competitive bid parameters. The underwriters bid on the Bonds and sell the bonds to investors. Mr. Hollis stated that the market is so perfect, that typically, the spread between the winning bid and cover bid is often measured in hundredths of a basis point.

In a negotiated process, an investment banker and legal team are selected and a Preliminary Official Statement is prepared. This is used by the underwriter for a period of time to pre-market the Bonds to investors. Presentations are made to the investment groups so they understand unique aspects of the offering. The information received from the investors is used to structure the bond issue to suit a particular investor. The underwriter then offers to buy the bonds at certain interest rates. One difference with a negotiated structure is that only one interest rate quote exists. That is why it is important to have a separate Financial Advisor in a negotiated sale to compare the rate to insure that the interest rate is very competitive. Mr. Hollis next reviewed the pros and cons for the Committee.

Competitive Sale:

Advantages include:

- Easy to explain: “low bid wins”.
- Promotes appearance of a fair and open process.

Disadvantages include:

- Lack of flexibility in timing and structure – the bonds cannot be structured to meet specific investor demands and preference.
- Underwriters bid without the benefit of pre-marketing and receiving investor feedback.
- Will get the lowest price among the bidders on that particular day, but no market exercise to ever know if it was the lowest price actually achievable.

Negotiated Sale:

Advantages include:

- Benefit of support from investment banking team.
- Allows for cost-effective introduction of a new or unique credit.
- Maximizes flexibility in structure and timing, with the ability to achieve better pricing as the bonds are about to go to market.

Disadvantages include:

- Perceived lack of pricing transparency.
- Potential exposure of issuer to charges of favoritism.

Throughout the presentation, Mr. Hollis addressed questions from the Committee and emphasized that because of the unique relationship between the District and Sharp Healthcare, this was an unusual situation that lends itself to utilizing a negotiated process.

Mr. Ewin asked that the Committee members discuss it now if there are any concerns or issues about the District selecting a negotiated sale. Various Committee Members indicated that they believed the District Board went the right direction in utilizing a negotiated process. A question was raised regarding the selection process in using Goldman Sachs & Co. as the underwriter, with Mr. Jantz answering that the Board had opted for the trusted, long-term relationship the District has with Mr. Hollis, as well the oversight role in the negotiated sale to be provided by Gary Hicks, the selected Financial Advisor. After further Committee discussion, Chairman Ewin summarized by noting that the District Board elected to work with a relationship that had already been established, rather than going through an RFP process for underwriters. Mr. Ewin stated that the basic premise for the Committee was to understand that the elected officials acted in ways they believed were in the best interests of their constituents and it is important for the Committee to understand the process, not to second guess the elected officials. As such, when the Committee gives its reports it will be in an informed position so as to properly advise the public on how

the funds were expended. Mr. Ewin requested that the Committee be provided with the mechanics of how the tax rate is determined. Mr. Ewin thanked Mr. Hollis for his informative presentation.

2. Timeline of Bond Issuance and Construction Phases – Barry Jantz

Mr. Jantz next introduced Mr. Lou Smith, Vice President of Facilities for Sharp Healthcare. Mr. Smith provided the Committee with a timeline overview of various construction phases of the project. Mr. Smith highlighted the timeline on a chart which included the build out of the shelled floors of the new ED/CCU structure, the renovation work in the East Wing of Grossmont Hospital, work in the Hospital's Central Plant, the new Diagnostic Treatment "link building" and the earthquake seismic upgrades that need to be done in the existing Hospital tower.

Mr. Smith emphasized that the construction has been deliberately staggered to avoid disruption at the Hospital and reviewed various timelines for the project. Preliminary estimates are that there will be three bond sales over the next six to eight year period.

Mr. Hollis next presented a draft financing timetable for the first Bond issuance. Highlights included distribution of the Preliminary Official Statement by the week of March 12, 2007, reception of insurance bids during the week of April 9, determination of the final size of the 2007 Bonds the week of April 16, signing of the Bond Purchase Agreement the week of April 25, and a closing on May 9. Mr. Hollis emphasized that this was a rough timeline estimate and could change depending upon the construction schedule. Mr. Ewin stated that it was important that the Committee be kept informed as to whether the dates change as the process moves forward.

Mr. Jantz indicated that the Bond Issuance and Construction Phase timeline should be simplified to include the major design and construction components involving costs and color-coding to indicate which portions are associated with each Bond issuance.

3. Process and Outcomes: Peer Review for Emergency Department/Critical Care Towers Floors 2, 4 and 5 – Dan McDaniel

Dan McDaniel, Director of Campus Planning and Facilities Development at Grossmont Hospital next updated the Committee on the Peer Review report which had recently been completed by the consulting firm of Freeman White. Freeman White was chosen by the District Board after an extensive RFP process. Mr. McDaniel stated that the value of a Peer Review was to get another pair of eyes to view the construction drawings in an objective manner. He noted that the Peer

Review report included over 350 individual comments that were provided regarding the design of the Project. All of the comments cross-reference specific drawing numbers. The nature of the review comments demonstrates a clear intent to provide feedback to help clarify design intent. Mr. McDaniel indicated that the Hospital staff is working to integrate the comments into the drawings with the project architect, Design Partnership. Mr. McDaniel also addressed questions from the Committee concerning the Peer Review process.

H. DISCUSSION/ACTION ITEMS:

1. Report on the December 2006 and January 2007 District Board Meeting/Ongoing Developments – Barry Jantz

Mr. Jantz provided the Committee with a written update of the activities from the District Board during December 2006 and January 2007, which included various documents and contracts. Activities included approval of the RFP for Architectural/Engineering Services for the Diagnostic and Treatment Building, approval of the ICBOC By-laws and the appointment of Debbie McElravy to fill the vacancy of Elizabeth Evans on the District Board. In addition, the Board continues to discuss the need to be part of a Financing Joint Powers Authority (JPA) to proceed with a negotiated Bond sale. The Board approved a purchase order for articulating arms for the Critical Care unit. In January, the Board also approved the Memorandum of Understanding (MOU) between the District and Grossmont Hospital Corporation for the respective Program and Project Management services that will be providing on the project. The Board is also in the process of reviewing the RFPs for the Health Occupations Training Center. Mr Jantz also reported that information was being provided to ICBOC Committee members regarding Gary Hicks of G.L. Hicks Financial, the firm retained by the District as Financial Advisor. Lastly, Michael Emerson has been appointed to the Grossmont Hospital Corporate Board as Director McElravy's designee, as such he will no longer be eligible to serve as an ICBOC alternate.

2. ICBOC Bylaws – Ernest Ewin

Mr. Ewin asked if there were any questions concerning the final draft of the ICBOC Bylaws. Committee member Walt Heiser raised a question about the section relating to the minimum number of Subcommittees which the ICBOC can establish. Mr. Ewin noted that Construction, Finance and Audit were the minimum Subcommittees and this should not preclude the ICBOC from establishing additional Subcommittees.

Member Heiser also raised questions regarding the section relating to Legal Counsel. Mr. Heiser asked for clarification regarding wording that only the Chair may utilize the District's legal counsel. Mr. Ewin noted that the Chair would serve as a focal point so that counsel would not receive inquiries from several different Committee members.

Mr. Heiser also questioned the statement that the Committee may not obtain other legal counsel without authorization from the District Board. He noted, in some cases it might be necessary to seek outside counsel. Mr. Ewin stated that retaining outside legal counsel was not within the enabling authorization of the ICBOC but if a situation arose where outside counsel was needed, it could be requested of the District. It was also noted that the current provision does not preclude the Committee from asking for a separate opinion, which is different than retaining separate counsel. The consensus was that the Committee would take up a review of the Bylaws in 60 days and then request changes, rather than requesting the District Board make piecemeal changes.

After further discussion, it was moved by George Hawkins, seconded by Joseph Powell, and unanimously carried to accept for a 60-day period the Bylaws as approved by the District Board.

3. ICBOC Subcommittees – Chairman Ewin

Mr. Ewin indicated that according to the enabling authority of the ICBOC, the Committee meets every two months during the first two years. Mr. Ewin stated that a process used by the Bond Oversight Committee for Grossmont College's Prop. R bond, was that after six months the Committee met quarterly and established Subcommittees for the detailed work, with each in turn reporting to the full Committee. The Prop. G requirement to meet every other month should not preclude establishing Subcommittees, but at this point in time, the information will be coming to the ICBOC body as a whole. At some point in time, perhaps after the first Bond is issued, Mr. Ewin suggested that the Committee establish Subcommittees. It was the consensus of the Committee to proceed in this fashion.

4. ICBOC Website – Chairman Ewin

Mr. Ewin stated that the website should be the primary means of communication to the public. A secondary means could be an ad in the newspaper directing the public to the website for the annual report. A third means could be a written report that could be sent to interested parties. The website will show what the Committee is doing, as many of the documents the Committee received tonight would be on the website. This will foster the Committee's goal of transparency.

Mr. Jantz noted that he had engaged the services of GafCon Construction Consultants to help him draft an RFP to provide administrative services for the ICBOC which would include the development of a website.

5. Roundtable discussion and closing comment – All

Committee member Heiser indicated that he thought the meeting was very helpful and the presentations were excellent. Other members expressed satisfaction with the meeting. Michele Tarbet, CEO for Grossmont Hospital, indicated that the March ICBOC meeting would be in the Cancer Center which is the building in front of the Hospital on the South side.

G. ADJOURNMENT:

There being no further business, Mr. Ewin adjourned the meeting at 8:23 p.m.

Respectfully submitted,

Ernest Ewin, Interim Chairman