

# ADDENDUM A2

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**Document No. 1 - Summary of Financing Documentation**

## **Summary of Financing Documentation**

### **Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2007A**

#### **Financing Documents**

First Supplemental Paying Agent Agreement, between Palomar Pomerado Health (the "District") and Wells Fargo Bank, National Association, as paying agent, supplements the Paying Agent Agreement entered into in connection with the initial series of general obligation bonds issued in 2005, sets forth the specific terms and provisions of the second series of general obligation bonds being issued, the above-referenced Series 2007A Bonds.

Tax Certificate, executed and delivered by the District, sets forth the requirements which the District must comply with to maintain the tax-exempt status of interest on the Series 2007 A Bonds.

#### **Disclosure Documents**

Official Statement in preliminary form (the "Official Statement"), approved and executed by the District, describes the terms and provisions of the Series 2007 A Bonds, the ad valorem property taxes which are the security and source of payment for the Series 2007A Bonds, and certain other matters related to the Series 2007A Bonds.

Appendix A - Information Concerning Palomar Pomerado Health, Appendix to Official Statement, describes the District, including its organizational structure and governance, includes current financial and operational data concerning the District, and includes a discussion of risks related to health care operations.

Appendix C - Economic and Demographic Profile of San Diego County, Appendix to Official Statement, presents certain general background information concerning San Diego County.

Continuing Disclosure Undertaking, executed by the District, sets forth the District's agreement to provide ongoing financial disclosure to the financial markets.

#### **Underwriting Document**

Bond Purchase Agreement, executed and delivered by Citigroup Global Markets Inc. ("Citigroup"), agreed to and accepted by the District and the North San Diego Health Facilities Financing Authority (the "JPA"), provides for the sale of the Series 2007A Bonds by the District to the JPA and the simultaneous resale by the JPA to Citigroup, as underwriter.

**Document No. 2 - Resolution**

PALOMAR POMERADO HEALTH

RESOLUTION NO. 11.12.07 ( ) - \_\_

**RESOLUTION OF THE BOARD OF DIRECTORS OF PALOMAR POMERADO HEALTH AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$250,000,000 AGGREGATE PRINCIPAL AMOUNT OF PALOMAR POMERADO HEALTH GENERAL OBLIGATION BONDS, ELECTION OF 2004; APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF A FIRST SUPPLEMENTAL PAYING AGENT AGREEMENT SETTING FORTH THE TERMS OF SAID BONDS; APPROVING THE NEGOTIATED SALE OF SAID BONDS; APPROVING THE FORM OF BOND PURCHASE AGREEMENT PROVIDING FOR SAID SALE AND AUTHORIZING THE EXECUTION AND DELIVERY OF SUCH BOND PURCHASE AGREEMENT; APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DISTRIBUTION OF AN OFFICIAL STATEMENT FOR SAID BONDS; APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF A CONTINUING DISCLOSURE UNDERTAKING FOR SAID BONDS, AND AUTHORIZING THE TAKING OF CERTAIN OTHER ACTIONS IN CONNECTION WITH THE ISSUANCE AND SALE OF SAID BONDS.**

WHEREAS, pursuant to Resolution No. 08.04.04 (01)-8, adopted on August 4, 2004, by the Board of Directors of Palomar Pomerado Health, a local health care district duly organized and existing under the laws of the State of California (the "District"), an election was duly called and regularly held in the District on November 2, 2004, at which election a proposition (hereinafter referred to as "Measure BB") was submitted to the electorate of the District to authorize the issuance of general obligation bonds by the District in an amount not to exceed \$496,000,000;

WHEREAS, an election was regularly held in the District on November 2, 2004 and the Registrar of Voters of the County of San Diego did duly and regularly canvass the returns of said election and did certify that Measure BB received at said election the affirmative vote of more than two-thirds of the votes cast on Measure BB at said election and that Measure BB was thereby carried and adopted by said election;

WHEREAS, pursuant to said favorable vote, the Board of Directors of the District (the "Board of Directors") is authorized to issue said general obligation bonds pursuant to and in accordance with Chapter 4 of Division 23 (commencing with Section 32300) of the California Health and Safety Code ("The Local Health Care District Law") and other applicable law;

WHEREAS, on July 7, 2005, the District issued \$80,000,000 aggregate principal amount of Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2005A, of which \$68,360,000 aggregate principal amount remain outstanding, pursuant to a Paying Agent

Agreement, dated as of June 1, 2005 (the "Original Paying Agent Agreement"), between the District and Wells Fargo Bank, National Association, as paying agent (the "Paying Agent"), for the purpose of financing a portion of the hospital and health care facilities projects as referenced and described in Measure BB;

**WHEREAS**, for the purpose of financing an additional portion of the hospital and health care facilities projects as referenced and described in Measure BB (hereinafter referred to as the "Project"), the Board of Directors desires to authorize the issuance of certain additional general obligation bonds (hereinafter referred to as the "Bonds"), in an aggregate principal amount not to exceed \$250,000,000 aggregate principal amount;

**WHEREAS**, the Bonds will be issued pursuant to and in accordance with the provisions of The Local Health Care District Law and other applicable law and the Original Paying Agent Agreement, as supplemented and amended by the First Supplemental Paying Agent Agreement (the "First Supplemental Paying Agent Agreement," and, together with the Original Paying Agent Agreement, hereinafter collectively referred to as the "Paying Agent Agreement"), to be entered into between the District and the Paying Agent;

**WHEREAS**, there has been prepared and presented to the Board of Directors a proposed form of First Supplemental Paying Agent Agreement;

**WHEREAS**, the proceeds of the Bonds shall be applied as provided in Measure BB to finance or reimburse the District for its prior payment of costs of the Project and to pay costs of issuance of the Bonds;

**WHEREAS**, in order to facilitate such financing or reimbursement, the District has requested the assistance of the North San Diego County Health Facilities Financing Authority (the "Authority"), which was established and created pursuant to a joint exercise of powers agreement (the "JPA Agreement"), between the District and Tri-City Healthcare District;

**WHEREAS**, pursuant to a request received from Grossmont Healthcare District, a local health care district duly organized and existing under the laws of the State of California ("Grossmont"), and a "public agency" as such term is defined in the JPA Agreement, the Board of Directors of the Authority approved the addition of Grossmont as an additional Member (as such term is defined in the JPA Agreement) on May 11, 2007 in accordance with the provisions set forth in Section 19 of the JPA Agreement;

**WHEREAS**, pursuant to Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California and the JPA Agreement, the District may sell the Bonds to the Authority, which is authorized to purchase the Bonds from the District, and to sell the Bonds so purchased from the District to public or private purchasers at public or negotiated sale;

**WHEREAS**, the Board of Directors deems it desirable to authorize the sale of the Bonds to the Authority and the simultaneous resale of the Bonds by the Authority to Citigroup Global Markets Inc. (hereinafter referred to as the "Purchaser") pursuant to a bond purchase

agreement (the "Bond Purchase Agreement"), which is proposed to be executed by the Purchaser and agreed to and accepted by the District and the Authority;

**WHEREAS**, there has been prepared and presented to the Board of Directors a proposed form of Bond Purchase Agreement;

**WHEREAS**, the Board of Directors hereby determines and finds that the issuance and sale of the Bonds as described herein to finance the Project is necessary in order to enable the District to continue to provide accessible health care services, including trauma, emergency room and acute care services, and is necessary and proper and in the best interests of the District and its residents;

**WHEREAS**, in order to facilitate the offering of the Bonds by the Purchaser, the Board of Directors proposes to approve, execute and deliver an official statement (the "Official Statement") describing the Bonds and certain related matters;

**WHEREAS**, there has been prepared and presented to the Board of Directors a proposed form of Official Statement in preliminary form describing the Bonds and certain related matters;

**WHEREAS**, in order to assist the Purchaser in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) ("Rule 15c2-12"), the Board of Directors proposes to execute and deliver a continuing disclosure undertaking (the "Continuing Disclosure Undertaking");

**WHEREAS**, there has been prepared and presented to the Board of Directors a proposed form of Continuing Disclosure Undertaking;

**WHEREAS**, in order to obtain the lowest cost of borrowing obtainable at a prudent level of risk, it may be desirable to obtain bond insurance for the Bonds of one or more stated maturity dates;

**WHEREAS**, in order to accomplish the foregoing, it will be necessary for the District to enter into or execute or approve and deliver the following documents and agreements, forms of which have been prepared and presented to this meeting:

- (1) First Supplemental Paying Agent Agreement;
- (2) Bond Purchase Agreement;
- (3) Official Statement; and
- (4) Continuing Disclosure Undertaking.

**WHEREAS**, on October 31, 2006, there was published in a newspaper of general circulation in the District, a notice of public hearing concerning the proposed issuance by the District of obligations, including general obligation bonds, pursuant to a plan of financing;



**WHEREAS**, on November 20, 2006, the Board of Directors held a public hearing for purposes of Section 147(f) of the Internal Revenue Code of 1986 (the "Code") at which interested persons were given an opportunity to express their views concerning the issuance of the above-referenced obligations and on the nature and location of the facilities proposed to be financed pursuant to the above-referenced plan of financing;

**WHEREAS**, the Board of Directors desires to approve the issuance of the Bonds for purposes of Section 147(f) of the Code, to authorize and direct the execution and delivery of each of the above-identified documents and agreements (hereinafter collectively referred to as the "Financing Documents"), to authorize the issuance and sale of the Bonds pursuant to Measure BB and the Financing Documents, to authorize the negotiation of, and, as applicable, the securing of bond insurance to provide credit support for the Bonds, and to authorize the taking of such other actions as shall be necessary to consummate the financing of the Project as referred to and described in Measure BB, the Financing Documents and herein; and

**WHEREAS**, the Board of Directors has determined that the issuance of the Bonds will not cause the total outstanding bonded indebtedness of the District to exceed any applicable statutory or contractual debt limitation;

**NOW, THEREFORE, BE IT RESOLVED THAT:**

**Section 1. Recitals.** The foregoing recitals are true and correct, and this Board of Directors so finds and determines.

**Section 2. Authorization of Issue; Designation of Bonds; Approval for Purposes of Section 147(f) of the Internal Revenue Code.** This Board of Directors hereby authorizes and approves the issuance and sale of not to exceed \$250,000,000 aggregate principal amount of general obligation bonds of the District, such Bonds to be designated as the "Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2007A" on the terms and conditions set forth herein, in the Original Paying Agent Agreement and in the First Supplemental Paying Agent Agreement, as finally executed and delivered.

It is the purpose and intent of the Board of Directors that this Resolution constitute approval of the issuance of the Bonds for purposes of Section 147(f) of the Code.

**Section 3. First Supplemental Paying Agent Agreement and Terms of the Bonds.** The proposed form of First Supplemental Paying Agent Agreement presented to this meeting is hereby approved. The President and Chief Executive Officer of the District (the "President") or the Chief Financial Officer of the District (the "Chief Financial Officer") is hereby authorized and directed, for and in the name of and on behalf of the District, to execute and deliver a First Supplemental Paying Agent Agreement, in substantially said form, with such changes therein as the officer executing the same (each, an "Authorized District Representative"), with the advice of counsel to the District ("District Counsel"), may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

The Bonds shall be dated their date of delivery, or such other date as shall be set forth in the First Supplemental Paying Agent Agreement as finally executed and delivered. The

Bonds shall mature on such date or dates, in each of the years, not exceeding thirty (30) years from the date of issuance, and in such aggregate principal amounts or accreted values at maturity as shall be set forth in the First Supplemental Paying Agent Agreement, as finally executed and delivered. The maximum interest rate on the Bonds shall not exceed 12% per annum (in accordance with Section 53531 and Section 53532 of the Government Code of the State of California), computed on the basis of a 360-day year of twelve 30-day months. The Bonds shall be issued as capital appreciation bonds or current interest serial bonds or current interest term bonds, shall be subject to redemption prior to their respective stated maturity dates at the option of the District as set forth in the First Supplemental Paying Agent Agreement, as finally executed and delivered, and in the Bonds, and may also be subject to mandatory sinking fund redemption as specified in the First Supplemental Paying Agent Agreement, as finally executed and delivered, and in the Bonds. The First Supplemental Paying Agent Agreement may provide that the Bonds of any maturity shall not be subject to optional or mandatory sinking fund redemption as further set forth therein. The Bonds shall be signed by the manual or facsimile signature of the Chairperson of the Board of Directors of the District, under seal attested by the manual or facsimile signature of the Secretary of the Board of Directors of the District. The time, manner and place or places of payment of the Bonds, the registration provisions and other terms of the Bonds shall be as set forth in the First Supplemental Paying Agent Agreement, as finally executed and delivered.

**Section 4. Bond Purchase Agreement; Sale of Bonds.** The proposed form of Bond Purchase Agreement presented to this meeting is hereby approved. The sale of the Bonds by the District to the Authority and the simultaneous resale of the Bonds by the Authority to the Purchaser, at a purchase price to be set forth therein are hereby approved; provided, that (i) the true interest cost for the Series 2007A Bonds shall not be in excess of 6.00%, (ii) the Purchaser's compensation shall not exceed 0.5% of the aggregate principal amount of the Bonds, plus any original issue premium, and excluding any costs of issuance the Purchaser agrees to pay pursuant to the provisions of the Bond Purchase Agreement; and (iii) the Bonds shall otherwise conform to the limitations specified herein. Each Authorized District Representative is hereby authorized and directed, for and in the name of and on behalf of the District, to execute and deliver a Bond Purchase Agreement, providing for the sale of the Bonds by the District to the Authority and the simultaneous resale of the Bonds by the Authority to the Purchaser, such Bond Purchase Agreement to be in substantially said form, with such changes therein as the Authorized District Representative executing the same, with the advice of District Counsel may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

**Section 5. Official Statement.** The Official Statement in preliminary form presented to this meeting is hereby approved. The Official Statement in preliminary form may be deemed final as of its date, within the meaning of Rule 15c2-12 (except for the omission of certain final pricing, rating and related information as permitted by Rule 15c2-12) by either Authorized District Representative for purposes of compliance with Rule 15c2-12 and the distribution of the Official Statement in such preliminary form as is deemed final by an Authorized District Representative to persons who may be interested in the purchase of Bonds is hereby authorized. Each Authorized District Representative is hereby authorized and directed, for and in the name and on behalf of the District to execute and deliver to the Purchaser a final

Official Statement, in substantially said form, with such changes therein as the officer executing the same, with the advice of District Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof. The Purchaser is hereby authorized and directed to deliver a copy of the Official Statement, as finally executed, to all actual purchasers of Bonds.

**Section 6. Continuing Disclosure Undertaking.** The proposed form of Continuing Disclosure Undertaking presented to this meeting is hereby approved. Each Authorized District Representative is hereby authorized and directed to execute and deliver a Continuing Disclosure Undertaking, in substantially said form, with such changes therein as the Authorized District Representative executing the same, with the advice of District Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

**Section 7. Bond Insurance.** The Chief Financial Officer is hereby authorized and directed, for and in the name and on behalf of the District, to negotiate with bond insurance companies, and, if the Chief Financial Officer determines that it is in the best interest of the District to commit to purchase bond insurance for Bonds of one or more stated maturity dates, the Chief Financial Officer is authorized to commit to purchase bond insurance on such terms as the Chief Financial Officer, with the advice of District Counsel, the financial advisor to the District, and the Purchaser, determines are appropriate.

**Section 8. Request for Necessary County Actions.** The Board of Supervisors of the County of San Diego (the "County") and the Treasurer-Tax Collector and other appropriate officials of the County are hereby requested to take and authorize such actions as may be necessary pursuant to all applicable laws of the State of California to provide for the levy and collection of a property tax on all taxable property within the District sufficient to provide for payment of all principal of, redemption premium, if any, and interest on the Bonds as the same shall become due and payable, and to transfer such moneys as directed by the District for deposit in the bond interest and sinking fund previously established by the District pursuant to the Paying Agent Agreement and in accordance with Section 32127 of The Local Health Care District Law.

**Section 9. Notices to State Debt Commission.** An Authorized District Representative is hereby authorized and directed to cause notices of the proposed sale and final sale of the Bonds to be filed in a timely manner with the California Debt and Investment Advisory Commission pursuant to Section 8855 of the Government Code of the State of California.

**Section 10. Additional Actions.** Each Authorized District Representative or the designee of either Authorized District Representative, acting singly, is, and each of them hereby is, authorized and directed, for and in the name and on behalf of the District, (i) to do any and all things and to execute and deliver any and all documents, instruments and certificates, including signature certificates, no-litigation certificates and tax certificates, and to enter into any and all agreements necessary or advisable in order to carry out, give effect to and comply with the terms and intent of this Resolution and the transactions contemplated by any of the

documents and agreements authorized to be executed and delivered pursuant to this Resolution, including, without limitation, such documents, agreements, instruments or certificates as may be required or necessary to arrange for bond insurance for Bonds of one or more stated maturity dates, and (ii) to authorize payment of all reasonable fees and expenses incurred or to be incurred by the District in connection with the transactions contemplated by any of the documents and agreements authorized to be executed and delivered pursuant to this Resolution.

The Secretary of the Board of Directors of the District is hereby authorized to attest to the seal of the District and/or any signature of the Chairperson of the Board of Directors or Authorized District Representative on any of the documents, instruments, certificates and agreements (including the Bonds) authorized by this Resolution.

**Section 11. Ratification of Actions.** All actions heretofore taken by the officers, representatives or agents of the District, including without limitation, the Chairperson of the Board of Directors and each Authorized District Representative, in connection with the issuance and sale of the Bonds are hereby ratified, confirmed and approved.

**Section 12. Effective Date.** This Resolution shall take effect from the date of adoption hereof.

**PASSED AND ADOPTED** by the Board of Directors of Palomar Pomerado Health on the 12th day of November, 2007, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAINING:

**Dated:** November 12, 2007.

By: \_\_\_\_\_

Marcelo Rivera, M.D.  
Chair, Board of Directors  
Palomar Pomerado Health

**Attested:**

\_\_\_\_\_  
Linda C. Greer, R. N.  
Secretary, Board of Directors

**Document No. 3 - First Supplemental Paying Agent Agreement**

FIRST SUPPLEMENTAL PAYING AGENT AGREEMENT

between

PALOMAR POMERADO HEALTH

and

WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Paying Agent

Dated as of December 1, 2007

Relating  
to  
Palomar Pomerado Health  
General Obligation Bonds, Election of 2004,  
Series 2007A

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## FIRST SUPPLEMENTAL PAYING AGENT AGREEMENT

This FIRST SUPPLEMENTAL PAYING AGENT AGREEMENT, dated as of December 1, 2007 (this "Supplemental Paying Agent Agreement"), between WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association duly organized and existing under the laws of the United States of America, as paying agent (the "Paying Agent"), and PALOMAR POMERADO HEALTH, a local health care district duly organized and existing under the laws of the State of California (the "District"),

### WITNESSETH:

WHEREAS, this Supplemental Paying Agent Agreement is supplemental to the Paying Agent Agreement, dated as of June 1, 2005 (as supplemented or amended pursuant to this Supplemental Paying Agent Agreement, and as it may from time to time be further supplemented or amended pursuant to the provisions thereof, the "Paying Agent Agreement"), between the District and the Paying Agent;

WHEREAS, the Paying Agent Agreement provides that the District may issue general obligation bonds (as more fully defined in Section 1.01 of the Paying Agent Agreement, the "Bonds") in one or more Series (as such term is defined in the Paying Agent Agreement) from time to time as authorized by a supplemental paying agent agreement;

WHEREAS, pursuant to and in accordance with Chapter 4 of Division 23 (commencing with Section 32300) of the California Health and Safety Code and other applicable law in order to finance hospital and health care facilities projects as referenced and described in Measure BB (as such term is defined in the Paying Agent Agreement), the District has determined to issue a second Series of Bonds, which Bonds shall be designated as "Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2007A (the "Series 2007A Bonds");

WHEREAS, a portion of the proceeds of the Series 2007A Bonds will be applied to pay costs of issuance of the Series 2007A Bonds as provided pursuant to Section 32300.1 of the California Health and Safety Code and Measure BB;

WHEREAS, issuance and delivery of the Series 2007A Bonds was authorized and approved by the Board of Directors of the District pursuant to Resolution No. \_\_\_\_\_ (the "Series 2007A Bond Resolution"), adopted by the Board of Directors of the District on November [12], 2007; and

WHEREAS, all acts, conditions and things required by law and the Paying Agent Agreement to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Supplemental Paying Agent Agreement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Supplemental Paying Agent Agreement;

NOW, THEREFORE, the District and the Paying Agent hereby agree as follows:

## ARTICLE X

### DEFINITIONS

SECTION 10.01 Definitions. Unless otherwise specifically provided herein to the contrary or the context otherwise requires, capitalized terms used and not otherwise defined herein shall have the meanings ascribed to such terms in Section 1.01 of the Paying Agent Agreement.

SECTION 10.02 Additional Definitions. Unless the context otherwise requires, the terms defined in this Section 10.02 shall, for all purposes of this Supplemental Paying Agent Agreement, and of any paying agent agreement supplemental hereto, have the meanings herein specified in this Section 10.02.

"Capital Appreciation Series 2007A Bonds" means Series 2007A Bonds on which interest is compounded and paid at maturity.

"Current Interest Series 2007A Bonds" means Series 2007A Bonds which pay interest at least semiannually, commencing [February, 1 2008].

"Interest Payment Date" with respect to the Current Interest Series 2007A Bonds shall mean February 1 and August 1 of each year, commencing [February 1, 2008].

"Record Date" with respect to the Current Interest Series 2007A Bonds shall mean the fifteenth day of the month prior to the month in which an Interest Payment Date occurs, whether or not such day is a Business Day.

"Series 2007A Bonds" shall mean the Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2007A, comprised of the Capital Appreciation Series 2007A Bonds and the Current Interest Series 2007A Bonds.

["Series 2007A Bond Insurance Policy" shall mean the financial guaranty insurance policy issued by the Series 2007A Insurer insuring the payment when due of the principal of and interest on the Series 2007A Insured Bonds as provided therein.]

"Series 2007A Bond Purchase Agreement" shall mean the Bond Purchase Agreement, dated December \_\_, 2007, among the Series 2007A Underwriter, the District and the Authority, providing for the sale of the Series 2007A Bonds by the District to the Authority and the simultaneous resale of the Series 2007A Bonds by the Authority to the Series 2007A Underwriter.

"Series 2007A Continuing Disclosure Undertaking" shall mean that certain Continuing Disclosure Undertaking, dated the date of issuance and delivery of the Series 2007A Bonds, executed and delivered by the District, as originally executed and as it may be supplemented, modified or amended from time to time in accordance with its terms.

["Series 2007A Insured Bonds" shall mean the Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2007A, maturing August 1, 20\_\_ through August 1, 20\_\_.]

["Series 2007A Insurer" shall mean \_\_\_\_\_, a \_\_\_\_\_ and its successors and assigns, the issuer of the bond insurance policy insuring the Series 2007A Insured Bonds.]

"Series 2007A Measure BB Costs of Issuance Fund" shall mean the fund designated as "Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2007A Measure BB Costs of Issuance Fund " created pursuant to Section 12.04.

"Series 2007A Measure BB Project Fund" shall mean the fund designated as "Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2007A Measure BB Project Fund " created pursuant to Section 12.03.

"Series 2007A Underwriter" shall mean Citigroup Global Markets Inc., as purchaser of the Series 2007A Bonds from the Authority pursuant to the Series 2007A Bond Purchase Agreement.

## ARTICLE XI

### THE SERIES 2007A BONDS

SECTION 11.01 Authorization of 2007A Bonds. The Board of Directors hereby approves and authorizes the issuance of \$\_\_\_\_\_ aggregate principal amount of Series 2007A Bonds in accordance with the Series 2007A Bond Resolution and the Paying Agent Agreement. The Series 2007A Bonds shall be comprised of: (i) the Capital Appreciation Series 2007A Bonds, which are authorized to be issued in the aggregate principal amount of \$\_\_\_\_\_; and (ii) the Current Interest Series 2007A Bonds, which are authorized to be issued in the aggregate principal amount of \$\_\_\_\_\_.

SECTION 11.02 Purpose and Use of Proceeds of 2007 Series A Bonds. The Series 2007A Bonds shall be issued for the purpose of providing funds to pay Measure BB Costs. Proceeds of the sale of the Series 2007A Bonds shall be applied to pay Measure BB Costs and may also be applied to pay Costs of Issuance of the Series 2007A Bonds.

SECTION 11.03 Terms of the Capital Appreciation Series 2007A Bonds. (a) The Capital Appreciation Series 2007A Bonds shall be issued as fully registered bonds in denominations of five thousand dollars (\$5,000) accreted value at maturity ("maturity value") or any integral multiple of five thousand dollars (\$5,000)[, provided that one Capital Appreciation Series 2007A Bond may be issued in a denomination such that the maturity value of such Capital Appreciation Series 2007A Bond is not in an integral multiple of \$5,000]. Each Capital Appreciation Series 2007A Bond shall be dated the date of its initial delivery, shall be numbered from R-1 consecutively upwards in order of delivery, and shall mature on the date and in the accreted value at maturity set forth in the following schedule:

Maturity (August 1)	Initial Principal Amount	Accreted Value at Maturity
	\$ _____	\$ _____

[Copy to Come]

(b) The Capital Appreciation Series 2007A Bonds shall not bear current interest. Each Capital Appreciation Series 2007A Bond shall increase in value by the accumulation of earned interest from its initial principal (denominational) amount on the date of issuance thereof to its stated accreted value at maturity as set forth in the Table of Accreted Values attached hereto as Attachment I. Interest on the Capital Appreciation Series 2007A Bonds shall be computed on the basis of a 360-day year comprised of twelve 30-day months, shall be compounded commencing on [February 1, 2008], and semiannually thereafter on February 1 and August 1 in each year and shall be payable only upon maturity.

(c) The stated accreted value at maturity of the Capital Appreciation Series 2007A Bonds shall be payable in like lawful money to the Bondholder thereof upon the surrender thereof at the Principal Corporate Trust Office of the Paying Agent. So long as Cede & Co. or its registered assigns shall be the registered owner of any of the Capital Appreciation Series 2007A Bonds, payment shall be made thereto by wire transfer as provided in Section 2.09(c).

SECTION 11.04 Terms of the Current Interest Series 2007A Bonds. (a) The Current Interest Series 2007A Bonds shall be issued as fully registered bonds in denominations of five thousand dollars (\$5,000) or any integral multiple of five thousand dollars (\$5,000), shall be dated the date of their initial delivery, shall be numbered from R-1 consecutively upwards in order of delivery, and shall mature on the dates and in the principal amounts and shall bear interest at the rates per annum set forth in the following schedule:

Maturity (August 1)	Principal Amount	Interest Rate
	\$ _____	_____%

[Copy to Come]

(b) Interest on the Current Interest Series 2007A Bonds shall be payable on February 1 and August 1 of each year, commencing [February 1, 2008] and shall be computed on the basis of a 360-day year comprised of twelve 30-day months.

(c) Interest on the Current Interest Series 2007A Bonds shall be payable in lawful money of the United States of America to the person whose name appears in the bond registration books maintained by the Paying Agent under Section 2.08 as the Bondholder thereof as of the close of business on the Record Date immediately preceding each Interest Payment Date, such interest to be paid by check mailed by first class mail to such Bondholder at such Bondholder's address as it appears in such bond registration books or at such address as the Bondholder may have filed with the Paying Agent for that purpose (except that upon the written request of the Bondholder of Current Interest Series 2007A Bonds aggregating not less than one million dollars (\$1,000,000) in principal amount, given no later than the close of business on the Record Date immediately preceding the applicable Interest Payment Date, the interest due on such Interest Payment Date shall be paid by wire transfer in immediately available funds to an account maintained in a state or national bank in the United States of America at such wire address as such Bondholder shall specify in such written request). The principal of and redemption premium, if any, on the Current Interest Series 2007A Bonds shall be payable in like lawful money to the Bondholder thereof upon the surrender thereof at the Principal Corporate Trust Office of the Paying Agent. So long as Cede & Co. or its registered assigns shall be the registered owner of any of the Current Interest Series 2007A Bonds, payment shall be made thereto by wire transfer as provided in Section 2.09(c).

SECTION 11.05 Provisions Regarding Maturity Dates for Series 2007A Bonds.  
 The Capital Appreciation Series 2007A Bonds may mature in the same year or years as the Current Interest Series 2007A Bonds, without limitation.

SECTION 11.06 Form of Series 2007A Bonds. The Capital Appreciation Series 2007A Bonds, the Paying Agent's certificate of authentication, and the form of assignment to appear thereon shall be in substantially the forms, respectively, attached hereto as Exhibit A, with necessary or appropriate variations, omissions and insertions as permitted or required by the Paying Agent Agreement.

The Current Interest Series 2007A Bonds, the Paying Agent's certificate of authentication, and the form of assignment to appear thereon shall be in substantially the forms, respectively, attached hereto as Exhibit B, with necessary or appropriate variations, omissions and insertions as permitted or required by the Paying Agent Agreement.

SECTION 11.07 Transfer and Exchange of Series 2007A Bonds. The provisions set forth in Section 2.06 and Section 2.07 of the Paying Agent Agreement shall apply to the Series 2007A Bonds, provided however, a Capital Appreciation Series 2007A Bond may only be transferred or exchanged for a Capital Appreciation Series 2007A Bond and a Current Interest Series 2007A Bond may only be transferred or exchanged for a Current Interest Series 2007A Bond.

SECTION 11.08 Registration of Series 2007A Bonds. The Capital Appreciation Series 2007A Bonds shall be initially registered in the name of "Cede & Co., as nominee of DTC and shall be evidenced by a single authenticated bond certificate for each stated maturity of Capital Appreciation Series 2007A Bonds, representing the accreted value at maturity of the Capital Appreciation Series 2007A Bonds of such maturity. Registered ownership of the Capital Appreciation Series 2007A Bonds, or any portion thereof, may not thereafter be transferred except as set forth in Section 2.09 or, in the event the use of a depository for the Bonds is discontinued, in accordance with Section 2.06.

The Current Interest Series 2007A Bonds shall be initially registered in the name of "Cede & Co., as nominee of DTC and shall be evidenced by a single authenticated bond certificate for each stated maturity of Current Interest Series 2007A Bonds, representing the aggregate principal amount of the Current Interest Series 2007A Bonds of such maturity. Registered ownership of the Current Interest Series 2007A Bonds, or any portion thereof, may not thereafter be transferred except as set forth in Section 2.09 or, in the event the use of a depository for the Bonds is discontinued, in accordance with Section 2.06.

## ARTICLE XII

### DELIVERY OF SERIES 2007A BONDS; APPLICATION OF PROCEEDS; ESTABLISHMENT OF FUNDS

SECTION 12.01 Delivery of Series 2007A Bonds. Upon receipt of a Request of the District, the Paying Agent is hereby authorized to authenticate and deliver the Series 2007A Bonds to Series 2007A Underwriter pursuant to the Series 2007A Bond Purchase Agreement.

SECTION 12.02 Application of Proceeds of Sale of Series 2007A Bonds. Upon the delivery of the Series 2007A Bonds to the Series 2007A Underwriter as described in Section 12.01 and receipt from the Series 2007A Underwriter of the amount due in connection with the

Bonds, \$ \_\_\_\_\_, comprised of the principal amount of the Bonds (\$ \_\_\_\_\_), less an underwriting discount in the amount of \$ \_\_\_\_\_, [plus net original issue premium in the amount of \$ \_\_\_\_\_,] [less the premium due in connection with the Series 2007A Bond Insurance Policy in the amount of \$ \_\_\_\_\_ paid directly to Series 2007A Bond Insurer by the Series 2007A Underwriter on behalf of the District], the Paying Agent shall set aside and deposit \$ \_\_\_\_\_ in the Series 2007A Measure BB Project Fund established pursuant to Section 12.03, [\$ \_\_\_\_\_ in the Series 2007A Measure BB Funded Interest Account established pursuant to Section 12.05] and \$ \_\_\_\_\_ in the Series 2007A Measure BB Costs of Issuance Fund established pursuant to Section 12.04.

**SECTION 12.03      Establishment and Application of the Series 2007A Measure BB Project Fund.** The Paying Agent shall establish and maintain and hold in trust a separate fund designated as the "Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2007A Measure BB Project Fund" (the "Series 2007A Measure BB Project Fund"). All money on deposit in the Series 2007A Measure BB Project Fund shall be applied solely for the payment of authorized costs of a Project. Before any payment from the Series 2007A Measure BB Project Fund shall be made by the Paying Agent, the District shall file or cause to be filed with the Paying Agent a Requisition of the District, such Requisition of the District to be in substantially such form as is set forth in Exhibit C hereto and to include a certification to the effect that all Measure BB Costs identified on such Requisition of the District relate to Projects for which CEQA Compliance has been achieved.

All money in the Series 2007A Measure BB Project Fund shall be invested by the Paying Agent in Investment Securities specified by the District in a Request of the District. Investment earnings on the Series 2007A Measure BB Project Fund shall be retained in the Series 2007A Measure BB Project Fund.

When the District determines that the portion of the Measure BB Costs to be paid from the proceeds of the Series 2007A Bonds have been paid, a Certificate of the District shall be delivered to the Paying Agent by the District stating that all of such Measure BB Costs thereof have been determined and paid (or that all of such costs have been paid less specified claims which are subject to dispute and for which a retention in the Series 2007A Measure BB Project Fund is to be maintained in the full amount of such claims until such dispute is resolved). Upon receipt of such Certificate of the District, the Paying Agent shall transfer any remaining balance in the Series 2007A Measure BB Project Fund, less the amount of any such retention, to such other Measure BB Project Fund then existing as the District shall specify in the Certificate of the District delivered pursuant to this paragraph.

Upon receipt of a Request of the District, the Paying Agent shall transfer the Series 2007A Measure BB Project Fund to the District. In the event that the District shall request such transfer, the District shall hold the Series 2007A Measure BB Project Fund transferred to the District by the Paying Agent pursuant to such Request of the District as a separate fund and shall withdraw moneys from such fund solely for the payment of authorized costs of a Project. Before the District shall make payment from the Series 2007A Measure BB Project Fund, the District shall prepare a Requisition of the District, such Requisition of the District to be in substantially such form as is set forth in Exhibit C hereto and to be maintained in



the records of the District and to include a certification to the effect that all Measure BB Costs identified on such Requisition of the District relate to Projects for which CEQA Compliance has been achieved.

Subsequent to the transfer of the Series 2007A Measure BB Project Fund to the District, all money in the Series 2007A Measure BB Project Fund shall be invested by the District in Investment Securities in accordance with Section 5.06 of the Paying Agent Agreement. Investment earnings on the Series 2007A Measure BB Project Fund shall be retained therein.

When the District determines that the portion of the Measure BB Costs to be paid from the proceeds of the Series 2007A Bonds have been paid, the District shall transfer any amount remaining on deposit in the Series 2007A Measure BB Project Fund to such other Measure BB Project Fund as shall then be in existence.

**SECTION 12.04**      Establishment and Application of the Series 2007A Measure BB Costs of Issuance Fund. The Paying Agent shall establish and maintain and hold in trust a separate fund designated as the "Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2007A Measure BB Costs of Issuance Fund" (the "Series 2007A Measure BB Costs of Issuance Fund"). All money on deposit in the Series 2007A Measure BB Costs of Issuance Fund shall be applied solely for the payment of authorized Costs of Issuance. Before any payment from the Series 2007A Measure BB Costs of Issuance Fund shall be made by the Paying Agent, the District shall file or cause to be filed with the Paying Agent a Requisition of the District, such Requisition of the District to be in substantially such form as is set forth in Exhibit D hereto.

All money in the Series 2007A Measure BB Costs of Issuance Fund shall be invested by the Paying Agent in Investment Securities specified by the District in a Request of the District. Investment earnings on the Series 2007A Measure BB Costs of Issuance Fund shall be transferred to the [Series 2007A Measure BB Funded Interest Account/Interest and Sinking Fund].

Any amounts remaining in the Series 2007A Measure BB Costs of Issuance Fund one hundred eighty (180) days after the date of issuance of the Series 2007A Bonds shall be transferred to the Interest and Sinking Fund.

**SECTION 12.05**      [Establishment and Application of Series 2007A Funded Interest Account. The Paying Agent shall establish, maintain and hold in trust a separate account within the Interest and Sinking Fund designated as the "Series 2007A Measure BB Funded Interest Account" (the "Series 2007A Measure BB Funded Interest Account"). Net original issue premium on the Series 2007A Bonds in the amount of \$ \_\_\_\_\_ shall be deposited in the Series 2007A Measure BB Funded Interest Account. All amounts in the Series 2007A Measure BB Funded Interest Account shall be applied by the Paying Agent to the payment of interest coming due on the Current Interest Series 2007A Bonds on or prior to February 1, \_\_\_\_\_.]

**SECTION 12.06**      [Payment Provisions for the Series 2007A Bond Insurance Policy. As long as the Series 2007A Bond Insurance Policy shall be in full force and effect, the District

and the Paying Agent agree to comply with the following provisions:] [Copy to Come, if Applicable]

ARTICLE XIII

REDEMPTION OF SERIES 2007A BONDS

SECTION 13.01 Capital Appreciation Series 2007A Bonds Not Subject to Optional or Mandatory Redemption. The Capital Appreciation Series 2007A Bonds shall not be subject to optional or mandatory redemption prior to their respective stated maturities.

SECTION 13.02 Terms of Redemption of Current Interest Series 2007A Bonds.

(a) Optional Redemption. Current Interest Series 2007A Bonds maturing on or before August 1, 20\_\_, are not subject to redemption prior to their respective stated maturity dates. Current Interest Series 2007A Bonds maturing on and after August 1, 20\_\_, are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date, on or after August 1, 20\_\_ at the principal amount of the Current Interest Series 2007A Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

If less than all the Outstanding Current Interest Series 2007A Bonds are to be redeemed on any one date, the District shall select the maturity date or dates of the Current Interest Series 2007A Bonds to be redeemed, and if less than all the Current Interest Series 2007A Bonds of any one maturity date are to be redeemed on any one date, the Paying Agent shall select the Current Interest Series 2007A Bonds or the portions thereof of such maturity date to be redeemed on such date in any manner deemed fair by the Paying Agent, and the Paying Agent shall promptly notify the District in writing of the numbers of the Current Interest Series 2007A Bonds so selected by it for redemption, and for purposes of such selection the Current Interest Series 2007A Bonds shall be deemed to be composed of five thousand dollars (\$5,000) multiples and any such multiple may be separately redeemed.

(b) Mandatory Sinking Fund Redemption. Current Interest Series 2007A Bonds maturing on August 1, 20\_\_ are also subject to redemption prior to their stated maturity, in part, by lot, from mandatory sinking fund payments deposited in the Interest and Sinking Fund, on any August 1 on or after August 1, 20\_\_, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, according to the following schedule:

**Mandatory Sinking Fund  
Payment Date  
(August 1)**

**Mandatory Sinking Fund  
Payment Date**

\$ \_\_\_\_\_

\_\_\_\_\_\*

\*Final maturity

(c) Mandatory Sinking Fund Redemption. Current Interest Series 2007A Bonds maturing on August 1, 20\_\_ are also subject to redemption prior to their stated maturity, in part, by lot, from mandatory sinking fund payments deposited in the Interest and Sinking Fund, on any August 1 on or after August 1, 20\_\_, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, according to the following schedule:

**Mandatory Sinking Fund  
Payment Date  
(August 1)**

**Mandatory Sinking Fund  
Payment Date**

\$ \_\_\_\_\_

\_\_\_\_\_\*

\_\_\_\_\_  
\*Final maturity

The principal amount of each mandatory sinking fund payment of any maturity shall be reduced proportionately, in \$5,000 increments, by the amount of any Current Interest Series 2007A Bonds of that maturity optionally redeemed prior to the mandatory sinking fund payment date.

#### ARTICLE XIV

#### [GENERAL PROVISIONS RELATING TO THE SERIES 2007A BOND INSURANCE POLICY AND THE SERIES 2007A INSURER]

SECTION 14.01 [General Provisions. Each of the covenants contained in this Article XIV is for the benefit of the Series 2007A Insurer and shall be in effect only so long as the Series 2007A Bond Insurance Policy remains in full force and effect and the Series 2007A Insurer is not then failing to make a payment as required in connection therewith. Any covenant contained in this Article XIV may be modified, amended or waived with the prior written consent of the Series 2007A Insurer without the consent of the District, the Paying Agent or any Holder.]

SECTION 14.02 [Consents. Any provision of the Paying Agent Agreement expressly recognizing or granting rights in or to the Series 2007A Insurer may not be amended in any manner which affects the rights of the Series 2007A Insurer hereunder without the prior written consent of the Series 2007A Insurer.]

SECTION 14.03 Notices and Other Information to be Provided to Series 2007A Insurer. (a) While the Series 2007A Bond Insurance Policy is in effect, the District shall furnish to the Series 2007A Insurer, upon request, (i) a copy of any financial statement, audit and/or annual report of the District and (ii) such additional information as the Series 2007A Insurer may reasonably request.]

(b) [While the Series 2007A Bond Insurance Policy is in effect, the Paying Agent shall furnish to the Series 2007A Insurer a copy of any notice to be given to the Holders of the Series 2007A Insured Bonds, including, without limitation, notice of any redemption of or defeasance of Series 2007A Insured Bonds.]

SECTION 14.04 Series 2007A Insurer as Third Party Beneficiary. To the extent that the Paying Agent Agreement confers upon or gives or grants to the Series 2007A Insurer any right, remedy or claim under or by reason of the Paying Agent Agreement, the Series 2007A Insurer is hereby explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right remedy or claim conferred, given or granted hereunder.]

## ARTICLE XV

### MISCELLANEOUS

SECTION 15.01 Terms of Series 2007A Bonds Subject to the Paying Agent Agreement. Except as in this Supplemental Paying Agent Agreement expressly provided, every term and condition contained in the Paying Agent Agreement shall apply to this Supplemental Paying Agent Agreement and to the Series 2007A Bonds with the same force and effect as if the same were herein set forth at length, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to this Supplemental Paying Agent Agreement.

This Supplemental Paying Agent Agreement and all the terms and provisions herein contained shall form part of the Paying Agent Agreement as fully and with the same effect as if all such terms and provisions had been set forth in the Paying Agent Agreement. The Paying Agent Agreement is hereby ratified and confirmed and shall continue in full force and effect in accordance with the terms and provisions thereof, as supplemented and amended hereby.

SECTION 15.02 Effective Date of Supplemental Paying Agent Agreement. This Supplemental Paying Agent Agreement shall take effect upon its execution and delivery.

SECTION 15.03 Execution in Counterparts. This Supplemental Paying Agent Agreement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Paying Agent Agreement to be duly executed by their officers duly authorized as of the date first written above.

PALOMAR POMERADO HEALTH

By: \_\_\_\_\_  
Chief Financial Officer

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Paying Agent

By \_\_\_\_\_  
Authorized Officer

**Attachment I**

**Table of Accreted Values**

[Copy to Come]

**Exhibit A**

**[Form of Capital Appreciation Series 2007A Bond]**

Number	<b>United States of America</b>	Maturity Value
R - ___	<b>State of California</b>	\$ _____
	<b>County of San Diego</b>	

**Palomar Pomerado Health  
General Obligation Bond, Election of 2004,  
Series 2007A**

**Capital Appreciation Bond**

<b>Maturity Date</b>	<b>Date</b>	<b>CUSIP No.</b>
August 1, 20__	December __, 2007	_____

Registered Owner: Cede & Co.

Initial Principal Amount: \_\_\_\_\_ Dollars

Accreted Value at Maturity \_\_\_\_\_ Dollars

**Palomar Pomerado Health**, a local health care district organized and existing under and pursuant to The Local Health Care District Law of the State of California (herein called the "District"), acknowledges itself obligated to and promises to pay to the registered owner identified above or registered assigns on the maturity date set forth above, the accreted value at maturity specified above in lawful money of the United States of America, such accreted value at maturity consisting of the initial principal amount hereof plus interest earned thereon and accumulated from the date hereof to such date as reflected in the Table of Accreted Values hereinafter set forth, compounded on February 1 and August 1 of each year, commencing [February 1, 2008], assuming in any such semiannual period that this Bond shall increase in value by the accumulation of earned interest in equal daily amounts on the basis of a 360-day year of twelve 30-day months, until the obligation represented hereby shall have been discharged, upon the surrender hereof at the principal corporate trust office of the hereinafter defined Paying Agent in accordance with the provisions of that certain Paying Agent Agreement, dated as of June 1, 2005, as supplemented and amended from time to time pursuant to its terms, including as supplemented and amended by the First Supplemental Paying Agent Agreement, dated as of December 1, 2007 (hereinafter collectively referred to as the "Paying Agent Agreement"), between the District and Wells Fargo Bank, National Association, as paying agent (together with any successor paying agent, the "Paying Agent"). All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Paying Agent Agreement.

This Bond is one of a duly authorized issue of general obligation bonds designated as "Palomar Pomerado Health General Obligation Bonds, Election of 2004 (the "Bonds") of the Series designated above (each, a "Series 2007A Bond," and, collectively, the "Series 2007A Bonds"). The Series 2007A Bonds are issued and sold by the District, pursuant to and in strict conformity with the provisions of the Constitution and laws of the State of California, a resolution of the Board of Directors of the District, adopted on [November 12], 2007 (the "Resolution"), and the Paying Agent Agreement. The Series 2007A Bonds comprise a portion of \$496,000,000 aggregate principal amount of general obligation bonds authorized by the affirmative vote of more than two-thirds of the votes cast on a ballot measure, Measure BB, at an election duly and legally called, held and conducted in the District on November 2, 2004. The Series 2007A Bonds are comprised of capital appreciation bonds (each, a "Capital Appreciation Series 2007A Bond," and, collectively, the "Capital Appreciation Series 2007A Bonds") and current interest Series 2007A Bonds (each, a "Current Interest Series 2007A Bond," and, collectively, the "Current Interest Series 2007 A Bonds"). This Series 2007A Bond is a Capital Appreciation Series 2007A Bond.

The Capital Appreciation Series 2007A Bonds are issuable as fully registered bonds in the denomination of \$5,000 accreted value at maturity or any integral multiple thereof, [except that one Capital Appreciation Series 2007A Bond may be issued in an accreted value at maturity other than in an integral multiple of \$5,000]. Subject to the limitations and conditions and upon payment of the charges, if any, as provided in the Paying Agent Agreement, Capital Appreciation Series 2007A Bonds may be exchanged for a like aggregate accreted value at maturity of Capital Appreciation Series 2007A Bonds of the same maturity of other authorized denominations.

This Capital Appreciation Series 2007A Bond is transferable by the registered owner hereof, in person or by attorney duly authorized in writing, at said office of the Paying Agent, but only in the manner, subject to the limitations and upon payment of the charges provided in the Paying Agent Agreement, and upon surrender and cancellation of this Capital Appreciation Series 2007A Bond. Upon such transfer, a new Capital Appreciation Series 2007A Bond or Capital Appreciation Series 2007A Bonds of authorized denomination or denominations for the same maturity and same aggregate accreted value at maturity will be issued to the transferee in exchange herefor.

The District and the Paying Agent may treat the registered owner hereof as the absolute owner hereof for all purposes, and the District and the Paying Agent shall not be affected by any notice to the contrary.

The Capital Appreciation Series 2007A Bonds are not subject to optional and mandatory sinking fund redemption prior to maturity.

The Board of Directors hereby certifies and declares that the total amount of indebtedness of the District, including the amount of this Capital Appreciation Series 2007A Bond, is within the limit provided by law, that all acts, conditions and things required by law to be done or performed precedent to and in the issuance of this Capital Appreciation Series 2007A Bond have been done and performed in strict conformity with the laws authorizing the issuance



of this Capital Appreciation Series 2007A Bond, that this Capital Appreciation Series 2007A Bond is in the form prescribed by order of the Board of Directors of the District duly made and entered in the minutes of the Board of Directors of the District, that this Capital Appreciation Series 2007A Bond shall be payable out of the Interest and Sinking Fund, and that the money for the payment of the accreted value at maturity of this Capital Appreciation Series 2007A Bond shall be raised by taxation upon the taxable property of said District.

This Capital Appreciation Series 2007A Bond shall not be entitled to any benefit under the Resolution or the Paying Agent Agreement, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been signed by the Paying Agent.

IN WITNESS WHEREOF Palomar Pomerado Health has caused this Capital Appreciation Series 2007A Bond to be executed in its name and on its behalf by the facsimile signature of the Chairperson of the Board of Directors of the District and its seal to be reproduced hereon by facsimile and attested by the facsimile signature of the Secretary of the Board of Directors of the District, as of the date set forth above.

PALOMAR POMERADO HEALTH

By: \_\_\_\_\_  
Chairperson of the Board of Directors

(Seal)

By: \_\_\_\_\_  
Secretary of the Board of Directors

**[Form of Certificate of Authentication]**

This is one of the Capital Appreciation Series 2007A Bonds described in the within-mentioned Paying Agent Agreement authenticated on \_\_\_\_\_.

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Paying Agent/Registrar and  
Transfer Agent

By: \_\_\_\_\_  
Authorized Officer

**[Form of Statement of Insurance]**

[Copy to Come, if Applicable.]

**[Form of DTC Legend]**

Unless this Capital Appreciation Series 2007A Bond is presented by an authorized representative of The Depository Trust Company to the District or its agent for registration of transfer, exchange or payment, and any Capital Appreciation Series 2007A Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment is made to Cede & Co., **any transfer, pledge or other use hereof for value or otherwise by or to any person is wrongful** since the registered owner hereof, Cede & Co., has an interest herein.

**[Form of Assignment]**

For value received the undersigned do(es) hereby sell, assign and transfer unto \_\_\_\_\_ the within-mentioned Capital Appreciation Series 2007A Bond and hereby irrevocably constitute(s) and appoint(s) \_\_\_\_\_ attorney, to transfer the same on the books of the Paying Agent/Registrar and Transfer Agent with full power of substitution in the premises.

\_\_\_\_\_  
I.D. Number

\_\_\_\_\_  
NOTE:

The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Capital Appreciation Series 2007A Bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: \_\_\_\_\_

Signature Guaranteed by:: \_\_\_\_\_

Notice: Signature must be guaranteed by an eligible guarantor institution.

**Table of Accreted Values**

[Copy to Come]

**Exhibit B**

**[Form of Current Interest Series 2007A Bond]**

Number	<b>United States of America</b>	Amount
R - ___	<b>State of California</b>	\$ _____
	<b>County of San Diego</b>	

**Palomar Pomerado Health  
General Obligation Bond, Election of 2004,  
Series 2007A**

**Current Interest Bond**

<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Date</b>	<b>CUSIP No.</b>
___%	August 1, 20__	December __, 2007	_____

Registered Owner: Cede & Co.

Principal Sum: \_\_\_\_\_ Dollars

**Palomar Pomerado Health**, a local health care district organized and existing under and pursuant to The Local Health Care District Law of the State of California (herein called the "District"), acknowledges itself obligated to and promises to pay to the registered owner identified above or registered assigns on the maturity date set forth above or upon redemption prior thereto, the principal sum specified above in lawful money of the United States of America, and to pay interest thereon in like lawful money at the interest rate per annum stated above, computed on the basis of a 360-day year of twelve 30-day months, payable [February 1, 2008], and thereafter on February 1 and August 1 in each year (each, an "Interest Payment Date"), until payment of said principal sum. If this Bond is authenticated on any date prior to the close of business on [January 15, 2008], it shall bear interest from the date hereof. If authenticated during the period between any Record Date (defined as the fifteenth day of the month prior to the month in which an Interest Payment Date occurs) and the close of business on its corresponding Interest Payment Date, it shall bear interest from such Interest Payment Date. Otherwise, this Bond shall bear interest from the Interest Payment Date immediately preceding the date of its authentication.

All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Paying Agent Agreement, dated as of June 1, 2005, as supplemented and amended from time to time pursuant to its terms, including as supplemented and amended by the First Supplemental Paying Agent Agreement, dated as of December 1, 2007 (hereinafter collectively referred to as the "Paying Agent Agreement"), between the District and Wells Fargo Bank, National Association, as paying agent (together with any successor paying agent, the "Paying Agent").

The principal hereof is payable to the registered owner hereof upon the surrender hereof at the Principal Corporate Trust Office of the Paying Agent. The interest hereon is payable to the person whose name appears on the bond registration books of the Paying Agent as the registered owner hereof as of the close of business on the Record Date preceding each Interest Payment Date, whether or not such day is a Business Day, such interest to be paid: (i) by check mailed to such registered owner at the owner's address as it appears on such registration books, or at such other address filed with the Paying Agent for that purpose; or (ii) by wire transfer in accordance with the provisions set forth in the Paying Agent Agreement.

This Bond is one of a duly authorized issue of general obligation bonds designated as "Palomar Pomerado Health General Obligation Bonds, Election of 2004 (the "Bonds") of the Series designated above (each, a "Series 2007A Bond," and, collectively, the "Series 2007A Bonds"). The Series 2007A Bonds are issued and sold by the District, pursuant to and in strict conformity with the provisions of the Constitution and laws of the State of California, a resolution of the Board of Directors of the District, adopted on [November 12], 2007 (the "Resolution"), and the Paying Agent Agreement. The Series 2007A Bonds comprise a portion of \$496,000,000 aggregate principal amount of general obligation bonds authorized by the affirmative vote of more than two-thirds of the votes cast on a ballot measure, Measure BB, at an election duly and legally called, held and conducted in the District on November 2, 2004. The Series 2007A Bonds are comprised of capital appreciation bonds (each, a "Capital Appreciation Series 2007A Bond," and, collectively, the "Capital Appreciation Series 2007A Bonds") and current interest Series 2007A Bonds (each, a "Current Interest Series 2007A Bond," and, collectively, the "Current Interest Series 2007 A Bonds"). This Series 2007A Bond is a Current Interest Series 2007A Bond.

The Current Interest Series 2007A Bonds are issuable as fully registered bonds in the denomination of \$5,000 principal amount or any integral multiple thereof. Subject to the limitations and conditions and upon payment of the charges, if any, as provided in the Paying Agent Agreement, Current Interest Series 2007A Bonds may be exchanged for a like aggregate principal amount of Current Interest Series 2007A Bonds of the same maturity and interest rate of other authorized denominations.

This Current Interest Series 2007A Bond is transferable by the registered owner hereof, in person or by attorney duly authorized in writing, at said office of the Paying Agent, but only in the manner, subject to the limitations and upon payment of the charges provided in the Paying Agent Agreement, and upon surrender and cancellation of this Current Interest Series 2007A Bond. Upon such transfer, a new Current Interest Series 2007A Bond or Current Interest Series 2007A Bonds of authorized denomination or denominations for the same maturity, interest rate, and same aggregate principal amount will be issued to the transferee in exchange herefor.

The District and the Paying Agent may treat the registered owner hereof as the absolute owner hereof for all purposes, and the District and the Paying Agent shall not be affected by any notice to the contrary.

The Current Interest Series 2007A Bonds are subject to optional and mandatory sinking fund redemption as described below on the terms and subject to the conditions specified in the Paying Agent Agreement. If this Current Interest Series 2007A Bond is called for redemption and payment is duly provided therefor, interest shall cease to accrue hereon from and after the date fixed for redemption.

Current Interest Series 2007A Bonds maturing on or before August 1, 20\_\_, are not subject to redemption prior to their respective stated maturity dates. Current Interest Series 2007A Bonds maturing on and after August 1, 20\_\_, are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date, on or after August 1, 20\_\_, at the principal amount of Current Interest Series 2007A Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

Current Interest Series 2007A Bonds maturing on August 1, 20\_\_ and August 1, 20\_\_ are also subject to redemption prior to their stated maturity, in part, by lot, from mandatory sinking fund payments deposited in the Interest and Sinking Fund, at a redemption price equal to the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium.

The Board of Directors hereby certifies and declares that the total amount of indebtedness of the District, including the amount of this Current Interest Series 2007A Bond, is within the limit provided by law, that all acts, conditions and things required by law to be done or performed precedent to and in the issuance of this Current Interest Series 2007A Bond have been done and performed in strict conformity with the laws authorizing the issuance of this Current Interest Series 2007A Bond, that this Current Interest Series 2007A Bond is in the form prescribed by order of the Board of Directors of the District duly made and entered in the minutes of the Board of Directors of the District, that this Current Interest Series 2007A Bond shall be payable out of the Interest and Sinking Fund, and that the money for the payment of the principal of this Current Interest Series 2007A Bond, premium, if any, and the payment of interest hereon, shall be raised by taxation upon the taxable property of said District.

This Current Interest Series 2007A Bond shall not be entitled to any benefit under the Resolution or the Paying Agent Agreement, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been signed by the Paying Agent.

IN WITNESS WHEREOF Palomar Pomerado Health has caused this Current Interest Series 2007A Bond to be executed in its name and on its behalf by the facsimile signature of the Chairperson of the Board of Directors of the District and its seal to be reproduced hereon by facsimile and attested by the facsimile signature of the Secretary of the Board of Directors of the District, as of the date set forth above.

PALOMAR POMERADO HEALTH

By: \_\_\_\_\_  
Chairperson of the Board of Directors

(Seal)

By: \_\_\_\_\_  
Secretary of the Board of Directors



**[Form of Certificate of Authentication]**

This is one of the Current Interest Series 2007A Bonds described in the within-mentioned Paying Agent Agreement authenticated on \_\_\_\_\_.

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Paying Agent/Registrar and  
Transfer Agent

By: \_\_\_\_\_  
Authorized Officer

**[Form of Statement of Insurance]**

[Copy to Come, if Applicable.]

**[Form of DTC Legend]**

Unless this Current Interest Series 2007A Bond is presented by an authorized representative of The Depository Trust Company to the District or its agent for registration of transfer, exchange or payment, and any Current Interest Series 2007A Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment is made to Cede & Co., **any transfer, pledge or other use hereof for value or otherwise by or to any person is wrongful** since the registered owner hereof, Cede & Co., has an interest herein.

**[Form of Assignment]**

For value received the undersigned do(es) hereby sell, assign and transfer unto \_\_\_\_\_ the within-mentioned Current Interest Series 2007A Bond and hereby irrevocably constitute(s) and appoint(s) \_\_\_\_\_ attorney, to transfer the same on the books of the Paying Agent/Registrar and Transfer Agent with full power of substitution in the premises.

\_\_\_\_\_  
I.D. Number

\_\_\_\_\_  
NOTE:

The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Current Interest Series 2007A Bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: \_\_\_\_\_

Signature Guaranteed by:: \_\_\_\_\_

Notice: Signature must be guaranteed by an eligible guarantor institution.

**Exhibit C**

**[Form of Series 2007A Measure BB Project Fund Requisition]**

**Requisition No. \_\_\_\_**

**Series 2007A Measure BB Project Fund**

The undersigned, \_\_\_\_\_, hereby certifies as follows:

1. I am \_\_\_\_\_ of Palomar Pomerado Health, a local health care district duly organized and existing under the laws of the State of California (the "District").

2. Pursuant to the provisions of that certain Paying Agent Agreement, dated as of June 1, 2005, as supplemented and amended by the First Supplemental Paying Agent Agreement, dated as of December 1, 2007 (hereinafter collectively referred to as the "Paying Agent Agreement"), between the District and Wells Fargo Bank, National Association, as paying agent (the "Paying Agent"), I am an Authorized District Representative (as such term is defined in the Paying Agent Agreement) and I am delivering this Requisition on behalf of the District. All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Paying Agent Agreement.

3. The undersigned, acting on behalf of the District, does hereby authorize disbursement of funds from the Series 2007A Measure BB Project Fund created pursuant to Section 12.03 of the Paying Agent Agreement to the parties, in the amounts and for the purposes set forth in Schedule I hereto.

TOTAL DISBURSEMENT AMOUNT AUTHORIZED: \$ \_\_\_\_\_

4. The undersigned, acting on behalf of the District, hereby certifies that: (a) each item relates to a Project for which CEQA Compliance has been achieved; (b) obligations in the amounts set forth in Schedule I attached hereto have been incurred by the District and are presently due and payable; (c) each item is a proper charge against the Series 2007A Measure BB Project Fund; (d) each item has not been previously paid from the Series 2007A Measure BB Project Fund; and (e) there has not been filed with or served upon the District notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the amounts payable to any of the persons named in such Requisition, which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen's or mechanics' liens accruing by mere operation of law.

Dated: \_\_\_\_\_.

**Palomar Pomerado Health**

By: \_\_\_\_\_  
Authorized District Representative

**Schedule I To Requisition No. \_\_\_\_\_**

**Name and Address  
of Party To Be Paid**

**Payment  
Amount**

**Nature of  
Expenditure**

**Payment  
Instructions**

**Exhibit D**

**[Form of Series 2007A Measure BB Costs of Issuance Fund Requisition]**

**Requisition No. \_\_\_\_**

**Series 2007A Measure BB Costs of Issuance Fund**

The undersigned, \_\_\_\_\_, hereby certifies as follows:

1. I am \_\_\_\_\_ of Palomar Pomerado Health, a local health care district duly organized and existing under the laws of the State of California (the "District").

2. Pursuant to the provisions of that certain Paying Agent Agreement, dated as of June 1, 2005, as supplemented and amended by the First Supplemental Paying Agent Agreement, dated as of December 1, 2007 (hereinafter collectively referred to (the "Paying Agent Agreement")), between the District and Wells Fargo Bank, National Association, as paying agent (the "Paying Agent"), I am an Authorized District Representative (as such term is defined in the Paying Agent Agreement) and I am delivering this Requisition on behalf of the District. All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Paying Agent Agreement.

3. The undersigned hereby requests that the Paying Agent pay from the Series 2007A Measure BB Costs of Issuance Fund created pursuant to Section 12.04 of the Paying Agent Agreement the amounts specified in Schedule I hereto to the persons identified in Schedule I.

4. The undersigned, acting on behalf of the District, hereby certifies that: (a) obligations in the amounts set forth in Schedule I attached hereto have been incurred by the District and are presently due and payable; (b) each item is a proper charge against the Series 2007A Measure BB Costs of Issuance Fund; and (c) each item has not been previously paid from the Series 2007A Measure BB Costs of Issuance Fund.

Dated: \_\_\_\_\_.

**Palomar Pomerado Health**

By: \_\_\_\_\_  
Authorized District Representative

**Schedule I To Requisition No. \_\_\_\_\_**

**Name and Address  
of Party To Be Paid**

**Payment  
Amount**

**Nature of  
Expenditure**

**Payment  
Instructions**

**Document No. 4 - Tax Certificate**



**Tax Certificate to be provided for review and approval of Chief Financial Officer and District Counsel approximately 10 days prior to Closing.**

**Document No. 5 - Preliminary Official Statement**

PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER \_\_, 2007

NEW ISSUE – FULL BOOK-ENTRY

RATINGS: See “MISCELLANEOUS – Ratings”

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Palomar Pomerado Health, based on an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.*

[PPH Logo]

\$[250,000,000]\*

**PALOMAR POMERADO HEALTH**  
**General Obligation Bonds, Election of 2004, Series 2007A**

**Dated: Date of Delivery**

**Due: August 1, as shown on the inside cover**

The Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2007A (the “Bonds”) are being issued by Palomar Pomerado Health (the “District”), a local healthcare district located in north San Diego County, California. The Bonds were authorized at an election held on November 2, 2004 in the District, at which more than two-thirds of the persons voting on the proposition voted to authorize the issuance and sale of \$496,000,000 principal amount of general obligation bonds of the District, of which \$80,000,000 were issued in July 2005. The Bonds are the second series of bonds being issued pursuant to that voter authorization, and are being issued for the purpose of financing health care facilities of the District, as more fully described herein.

The Bonds represent general obligations of the District payable from ad valorem taxes levied and collected by the County of San Diego (the “County”). The Board of Supervisors of the County is empowered and is obligated to levy ad valorem taxes, without limitation as to rate or amount, upon all property within the District subject to taxation by the District (except certain personal property which is taxable at limited rates) for the payment of principal of and interest on the Bonds when due.

The Bonds will be issued as current interest bonds (the “Current Interest Bonds”) and capital appreciation bonds (the “Capital Appreciation Bonds”). The Bonds will be issued in book-entry form only and initially will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (collectively referred to herein as “DTC”). DTC will act as security depository for the Bonds. Purchasers of the Bonds (the “Beneficial Owners”) will not receive physical certificates representing their interests in the Bonds.

Interest with respect to the Current Interest Bonds accrues from their date of delivery, and is payable on February 1 and August 1 of each year, commencing [February 1, 2008]. The Current Interest Bonds are issuable as fully registered Bonds in denominations of \$5,000 or any integral multiple thereof. The Capital Appreciation Bonds will not bear current interest, but will increase in value by the accumulation of earned interest from their initial principal amounts on the date of issuance thereof to their respective accreted values at maturity. Interest on the Capital Appreciation Bonds will be compounded on each February 1 and August 1, commencing [February 1, 2008] and shall be payable at maturity. The Capital Appreciation Bonds are issuable as fully registered bonds in denominations of \$5,000 accreted value at maturity or any integral multiple thereof.

Payments of principal of and interest on the Bonds will be made by Wells Fargo Bank, National Association, as Paying Agent, to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Bonds. See “THE BONDS – General Provisions Book-Entry Only System” herein.

The Bonds are being sold by the District to the North San Diego County Health Facilities Financing Authority (the “Authority”) and will simultaneously be resold to the Underwriter identified below.

**The Current Interest Bonds are subject to optional and mandatory sinking fund redemption, as described herein. The Capital Appreciation Bonds are not subject to redemption prior to their respective maturity dates.**

[Payment of principal of and interest on the Bonds maturing in years \_\_\_\_\_ through \_\_\_\_\_ (the “Insured Bonds”) when due will be insured by a financial guaranty insurance policy to be issued by [Insurer] (the “Insurer”) simultaneously with the delivery of the Bonds. The Bonds maturing in the years \_\_\_\_ and \_\_\_\_ (the “Uninsured Bonds”) will not be insured. See “BOND INSURANCE” herein and APPENDIX H—“Form of Bond Insurance Policy.”]

**[Insurer Logo]**

**MATURITY SCHEDULE  
(See Inside Front Cover)**

**The cover page contains information for reference only. It is not a summary of this issue. Investors must read this entire Official Statement to obtain information essential to the making of an informed investment decision.**

The Bonds will be offered when, as and if issued, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. Certain legal matters are being passed upon for the Underwriter by Squire, Sanders & Dempsey, L.L.P. and for the District by Latham & Watkins LLP, special counsel to the District. It is anticipated that the Bonds in book-entry form will be available for delivery through the facilities of DTC on or about [December \_\_], 2007.

**Citi**

The date of this Official Statement is [December \_\_], 2007.

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\* Preliminary, subject to change

**MATURITY SCHEDULE\***  
**\$(250,000,000)**

**PALOMAR POMERADO HEALTH**  
**GENERAL OBLIGATION BONDS, ELECTION OF 2004, SERIES 2007A**

\$ \_\_\_\_\_ **CURRENT INTEREST BONDS**

<b>Maturity (August 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>CUSIP<sup>(1)</sup></b>
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\$ \_\_\_\_\_ % Current Interest Term Bond due August 1, 20\_\_ - Yield \_\_\_\_%

\$ \_\_\_\_\_ **CAPITAL APPRECIATION BONDS**

<b>Maturity (August 1)</b>	<b>Initial Principal Amount</b>	<b>Accretion Rate (approximate)</b>	<b>Accreted Value at Maturity</b>	<b>Yield to Maturity</b>	<b>CUSIP<sup>(1)</sup></b>
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\* Preliminary, subject to change

<sup>(1)</sup> Copyright 2007, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw Hill Companies, Inc. CUSIP numbers have been assigned by an independent company not affiliated with the District and are included solely for the convenience of the holders of the Bonds. The District is not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

This Official Statement does not constitute an offering of any security other than the original offering of the Bonds of the District. No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the District.

The issuance and sale of the Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

This Official Statement is not to be construed as a contract with any purchaser of the Bonds. The information set forth herein has been obtained from the District and other sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness. No representation is made that the past experience, as shown by financial and other information, will necessarily continue or be repeated in the future. This Official Statement contains, in part, estimates and matters of opinion, whether or not expressly stated to be such, which are not intended as statements or representation of fact or certainty, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District [or the Insurer] since the date hereof.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "budget," "project," "forecast" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The District does not plan to issue any updates or revisions to such forward-looking statements if or when the expectations, events, conditions or circumstances on which such statements are based, change or fail to occur.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of its responsibilities under the Federal Securities Laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

This Official Statement and the information contained herein is in a form deemed final by the District for purposes of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended.

**PALOMAR POMERADO HEALTH**

**District Board of Directors**

Marcelo Rivera, M.D., *Chairman*  
Nancy L. Bassett, R.N., MBA, *Vice-Chair*  
T. E. Kleiter, *Treasurer*  
Linda C. Greer, R.N., *Secretary*  
Bruce G. Krider, MBA, *Director*  
Alan W. Larson, M.D., *Director*

**District Administration**

Michael H. Covert, *President and Chief Executive Officer*  
Robert Hemker, *Chief Financial Officer*  
Gerald Bracht, *Chief Administrative Officer*  
Steve Gold, *Interim Chief Administrative Officer*  
Marcia Jackson, *Chief Planning Officer*  
Janine Sarti, Esq., *General Counsel*

**PROFESSIONAL SERVICES**

**Bond Counsel**

Orrick, Herrington & Sutcliffe LLP

**District Special Counsel**

Latham & Watkins LLP  
San Diego, California

**Underwriter's Counsel**

Squire, Sanders & Dempsey L.L.P.  
San Francisco, California

**Financial Advisor**

Kaufman Hall & Associates, Inc.  
Los Angeles, California

**Paying Agent**

Wells Fargo Bank, National Association  
Los Angeles, California

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S[250,000,000] \*  
**PALOMAR POMERADO HEALTH**  
**General Obligation Bonds, Election of 2004, Series 2007A**

**INTRODUCTION**

This Official Statement, which includes the cover page and appendices hereto, provides certain information in connection with the initial issuance and sale by Palomar Pomerado Health of S[250,000,000]\* aggregate principal amount of Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2007A (the "Bonds"). The Bonds are being issued as current interest bonds (the "Current Interest Bonds") and capital appreciation bonds (the "Capital Appreciation Bonds"), as more fully described herein.

*This introduction contains only a brief summary of certain of the terms of the Bonds being offered and a brief description of this Official Statement. A full review should be made of the entire Official Statement, including the cover page and the Appendices. All statements contained in this Introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the laws of the State of California (the "State") or any other documents referred to herein do not purport to be complete, and such references are qualified in their entirety by reference to the complete provisions. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.*

All capitalized terms used in this Official Statement and not otherwise defined herein have the same meaning as in the Paying Agent Agreement, dated as of July 1, 2005 (as supplemented and amended, the "Paying Agent Agreement"), between the District and Wells Fargo Bank, National Association, as paying agent (the "Paying Agent"), or if not defined therein, as in the Bond Resolution (defined below).

**The District**

Palomar Pomerado Health (the "District") is a local health care district, formed by a vote of the District's electorate in 1948, and organized pursuant to Division 23 of the Health and Safety Code of the State of California (the "Local Health Care District Law"). The District's boundaries encompass an area of approximately 800 square miles in northern San Diego County. Included within the District boundaries are the cities of Escondido, Poway, Ramona, Rancho Bernardo, Rancho Penasquitos, San Marcos, Valley Center, Pauma Valley Santa Ysabel and Julian. The total 2007-08 net assessed valuation of property within the District is \$63.3 billion. See APPENDIX A for certain information concerning the District, its operations and revenues from operations.

**Authority for Issuance and Sale of the Bonds**

The Bonds constitute the second series of bonds issued under a \$496,000,000 authorization ("Measure BB") approved by more than a two-thirds vote of the voters of the District voting at an election on November 2, 2004. The District issued its Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2005A (the "2005 GO Bonds") on July 7, 2005 in the aggregate principal amount of \$80,000,000, of which \$68,360,000 is currently outstanding. The Bonds are issued pursuant to certain

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\* Preliminary, subject to change.

provisions of the Local Health Care District Law and other applicable laws, and pursuant to a resolution adopted by the Board of Directors of the District (the "District Board") on November 12, 2007 (the "Bond Resolution"). See "THE BONDS – Authority for Issuance." The Bonds will be sold by the District to the North San Diego County Health Facilities Financing Authority (the "Authority") pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6484) of the California Government Code. The Bonds purchased by the Authority will be resold immediately to Citigroup Global Markets Inc. (the "Underwriter"), as described under "MISCELLANEOUS – Underwriting" herein.

### **Use of Bond Proceeds**

Prior to the adoption of Measure BB, the District Board approved a facilities master plan for the District, which it has amended from time to time, most recently on November 12, 2007 (as amended, the "Facilities Master Plan"). The Facilities Master Plan is intended to enable the District to meet expanding community needs, which are driven by a growing and aging population, as well as to meet the mandated State standards for earthquake safety. Proceeds of the Bonds will be used for paying portions of the costs of acquiring and constructing facilities contemplated in the initial phase of the Facilities Master Plan and authorized by Measure BB and may also be used to pay cost of issuance of the Bonds and/or to fund interest. The initial phase of the Facilities Master Plan is currently expected to be substantially completed before the end of fiscal year 2014 at a total cost currently estimated at approximately \$983 million. The District will use the 2005 GO Bonds and a portion of revenue obligations incurred by the District in 2006 in the aggregate principal amount of \$180 million to pay portions of the costs of the initial phase of the Facilities Master Plan. See APPENDIX A—"INFORMATION CONCERNING PALOMAR POMERADO HEALTH—FACILITIES MASTER PLAN, SERVICE AREA AND COMPETITION."

### **Source of Payment for the Bonds**

The Bonds represent general obligations of the District payable from ad valorem taxes. The Board of Supervisors of the County of San Diego (the "County") has the power and is obligated to annually levy ad valorem taxes upon all property subject to taxation by the District, without limitation as to rate or amount, for the payment of principal of and interest on the Bonds (except certain personal property which is taxable at limited rates). See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" herein.

References herein to payment of principal on the Bonds includes payment of principal of the Current Interest Bonds at their maturity and payment of the accreted value of Capital Appreciation Bonds at their maturity.

### **[Bond Insurance**

Payment of principal of and interest on the Bonds maturing on August 1, \_\_\_\_ (the "Insured Bonds") when due will be insured by a financial guaranty insurance policy to be issued by \_\_\_\_\_ (the "Insurer") simultaneously with the delivery of the Bonds. The Bonds maturing in the years \_\_\_\_ and \_\_\_\_ (the "Uninsured Bonds") will not be insured. See "BOND INSURANCE" and "MISCELLANEOUS – Rating" herein.]

### **Continuing Disclosure**

The District has covenanted that it will comply with and carry out all of the provisions of the Continuing Disclosure Undertaking of the District relating to disclosure of certain annual financial and operational information and notices of certain events. See "LEGAL MATTERS – Continuing Disclosure" herein and APPENDIX E—"FORM OF CONTINUING DISCLOSURE UNDERTAKING."

## Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

This Official Statement is intended to be made available through The Bond Buyer, Secondary Market Disclosure, 395 Hudson Street, 3rd Floor, New York, New York 10014, telephone: (212) 807-3814.

Copies of documents referred to herein and information concerning the Bonds are available from Palomar Pomerado Health, 15255 Innovation Drive, Suite 204, San Diego, California 92128, Attn: Office of CFO or by telephone: (858) 675-5567. The District may impose a charge for copying, mailing and handling.

## THE BONDS

### Authority for Issuance

The Bonds are being issued pursuant to the provisions of The Local Health Care District Law, other applicable laws and the Bond Resolution. The District received authorization to issue \$496,000,000 of general obligation bonds at an election held on November 2, 2004 by more than two-thirds of the votes cast by eligible voters within the District on Measure BB. The Bonds are the second series of bonds to be issued under the Measure BB authorization. Certain terms and provisions of the Bonds are set forth in the Paying Agent Agreement.

### General Provisions; Book-Entry Only System

The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee for DTC. Purchasers will not receive bond certificates representing their interest in the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, references in the Official Statement to "Holder," "Bondholder" or registered owners of the Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of such Bonds. The District and the Paying Agent shall treat the registered owner of the Bonds (which will be DTC so long as the Book-Entry Only System is in effect) as the absolute owner of the Bonds for the purposes of payment of debt service, giving all notices of redemption and all other matters with respect to the Bonds.

As long as DTC's Book-Entry Only System is used for the Bonds, the Paying Agent will send any notice of redemption or other notices to Bondholders only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the redemption of the Bonds called for redemption or of any other action premised on such notice. The Paying Agent, the District and the Underwriter of the Bonds have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests in the Bonds.

For a description of the method of payment of principal of and interest on the Bonds and matters pertaining to their exchange while the Book-Entry Only System is in place, see APPENDIX D—"BOOK-ENTRY ONLY SYSTEM."

**Current Interest Bonds.** Interest with respect to the Current Interest Bonds accrues from their date of delivery, and is payable on February 1 and August 1 of each year (each, an "Interest Payment Date"), commencing [February 1, 2008]. Interest on the Current Interest Bonds shall be computed on the

basis of a 360-day year of twelve 30-day months. The Current Interest Bonds are issuable in denominations of \$5,000 or any integral multiple thereof and will mature on August 1, in the years and amounts set forth on the inside cover page hereof.

Interest on the Current Interest Bonds shall be payable in lawful money of the United States of America to the person whose name appears in the bond registration books maintained by the Paying Agent as the Bondholder thereof as of the close of business on the Record Date immediately preceding each Interest Payment Date, such interest to be paid by check mailed by first class mail to such Bondholder at such Bondholder's address as it appears in such bond registration books or at such address as the Bondholder may have filed with the Paying Agent for that purpose (except that upon the written request of the Bondholder of Current Interest Bonds aggregating not less than \$1,000,000 in principal amount, given no later than the close of business on the Record Date immediately preceding the applicable Interest Payment Date, the interest due on such Interest Payment Date shall be paid by wire transfer in immediately available funds to an account maintained in a state or national bank in the United States of America at such wire address as such Bondholder shall specify in such written request). The principal of and redemption premium, if any, on the Current Interest Bonds shall be payable in like lawful money to the Bondholder thereof upon the surrender thereof at the Principal Corporate Trust Office of the Paying Agent. So long as Cede & Co. or its registered assigns shall be the registered owner of any of the Current Interest Bonds, payment shall be made to Cede & Co. by wire transfer as provided in the Paying Agent Agreement .

**Capital Appreciation Bonds.** The Capital Appreciation Bonds shall not bear current interest. Each Capital Appreciation Bond shall increase in value by the accumulation of earned interest from its initial principal (denominational) amount on the date of issuance thereof to its stated accreted value at maturity as set forth in the Table of Accreted Values attached hereto as APPENDIX G. Interest on the Capital Appreciation Bonds shall be computed on the basis of a 360-day year comprised of twelve 30-day months, shall be compounded commencing on [February 1, 2008], and semiannually thereafter on February 1 and August 1 in each year and shall be payable only upon maturity.

The Capital Appreciation Bonds shall be issued as fully registered bonds in denominations of \$5,000 accreted value at maturity ("maturity value") or any integral multiple of \$5,000, provided that one maturity value of such Capital Appreciation Bond may be issued such that the maturity value is not in an integral multiple of \$5,000. Each Capital Appreciation Bond shall be dated the date of its initial delivery and shall mature on the date and in the accreted value at maturity set forth on the inside cover page hereto.

The stated accreted value at maturity of the Capital Appreciation Bonds shall be payable in lawful money to the registered owner thereof upon the surrender thereof at the Principal Corporate Trust Office of the Paying Agent. So long as Cede & Co. or its registered assigns shall be the registered owner of any of the Capital Appreciation Bonds, payment shall be made to Cede & Co by wire transfer as provided in the Paying Agent Agreement.

## **Redemption**

**Capital Appreciation Bonds.** The Capital Appreciation Bonds are not subject to redemption prior to their respective stated maturities.

### **Current Interest Bonds.**

**Optional Redemption.** The Current Interest Bonds maturing on or before August 1, 2017 are not subject to redemption prior to their fixed maturity dates. The Current Interest Bonds maturing on or after August 1, 2018 are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of funds, in whole, or in part, on August 1, 2017, or on any date thereafter at the par amount thereof without premium, together with interest accrued thereon to the date of redemption.

If less than all the Outstanding Current Interest Bonds are to be optionally redeemed on any one date, the District shall select the maturity date or dates of such Bonds to be redeemed, and if less than all the Current Interest Bonds of any one maturity date are to be redeemed on any one date, the Paying Agent shall select such Bonds or the portions thereof of such maturity date in any manner deemed fair by the Paying Agent.

*Mandatory Sinking Fund Redemption.* The Current Interest Bonds maturing on August 1, 20\_\_, are subject to redemption prior to maturity from mandatory sinking fund payments on August 1 of each year, beginning August 1, \_\_ at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium. The principal amount represented by such Current Interest Bonds to be so redeemed and the dates therefor and the final principal payment date is as indicated in the following table:

Maturity Date: August 1, 20\_\_

<u>Redemption Date</u> (August 1)	<u>Principal Amount</u>
--------------------------------------	-------------------------

(Maturity)

The Current Interest Bonds maturing on August 1, 20\_\_, are subject to redemption prior to maturity from mandatory sinking fund payments on August 1 of each year, beginning August 1, \_\_ at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium. The principal amount represented by such Current Interest Bonds to be so redeemed and the dates therefor and the final principal payment date is as indicated in the following table:

Maturity Date: August 1, 20\_\_

<u>Redemption Date</u> (August 1)	<u>Principal Amount</u>
--------------------------------------	-------------------------

(Maturity)

**Notice of Redemption**

Notice of redemption of any Current Interest Bonds shall be mailed, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date (i) to the respective Bondholders thereof at the addresses appearing on the bond registration books maintained by the Paying Agent, (ii) to all organizations registered with the Securities and Exchange Commission as securities depositories, (iii) to such information services of national recognition which disseminate redemption information with respect to municipal securities as the District shall designate, and (iv) as may be further required in accordance with the Continuing Disclosure Undertaking of the District.

Each notice of redemption shall contain all of the following information: (i) the date of such notice; (ii) the name of the Current Interest Bonds and the date of issue of the Current Interest Bonds; (iii) the date of redemption (the "Redemption Date"); (iv) the redemption price; (v) the dates of maturity of the Current Interest Bonds to be redeemed; (vi) if less than all of the Current Interest Bonds of any maturity are to be redeemed, the distinctive numbers of the Current Interest Bonds of each maturity to be redeemed; (vii) in the case of Current Interest Bonds redeemed in part only, the respective portions of the principal amount of the Current Interest Bonds of each maturity to be redeemed; (viii) the CUSIP number,

if any, of each maturity of Current Interest Bonds to be redeemed; (ix) a statement that such Current Interest Bonds must be surrendered by the Bondholders at the Principal Corporate Trust Office of the Paying Agent, or at such other place or places designated by the Paying Agent; and (x) notice that further interest on such Current Interest Bonds will not accrue after the designated Redemption Date.

The District may rescind any optional redemption and any notice of thereof for any reason on any date prior to the date fixed for such optional redemption by causing written notice of the rescission to be given to the Bondholders of those Current Interest Bonds so called for redemption. Any optional redemption and any notice thereof shall be rescinded if for any reason on the date fixed for redemption moneys are not available in the Interest and Sinking Fund or otherwise held in trust in an escrow fund established for such purpose in an amount sufficient to pay in full on said date the principal of and interest due on the Current Interest Bonds called for redemption. Notice of rescission shall be given in the same manner in which notice of redemption was originally given.

The actual receipt by the Holder of any Current Interest Bond or by any other party designated to receive notice of such redemption or rescission shall not be a condition precedent to redemption or rescission, and failure to receive such notice, or any defect in the notice mailed, shall not affect the validity of the proceedings for the redemption of such Current Interest Bond or the cessation of interest on the date fixed for redemption, or such rescission, as applicable. A certificate of the Paying Agent that notice of call and redemption has been given to Holders and the other parties designated in the Paying Agent Agreement to receive such notice shall be conclusive as against all parties.

When notice of redemption has been given as provided in the Paying Agent Agreement, and when the redemption price of the Current Interest Bonds called for redemption is set aside in the Interest and Sinking Fund or the escrow fund established for such purpose, the Current Interest Bonds designated for redemption shall become due and payable on the specified redemption date and interest shall cease to accrue thereon as of the redemption date. The Holders of such Current Interest Bonds so called for redemption after such redemption date shall have no rights under the Paying Agent Agreement except to receive payment of the principal of and redemption premium, if any, on the Current Interest Bonds and the interest accrued thereon to the Redemption Date, such payment to be made solely from the funds provided therefor.

### **Defeasance**

The District may pay and discharge any or all of the Bonds by depositing in trust with the Paying Agent or an escrow agent selected by the District at or before maturity, money or non-callable direct obligations of the United States of America or senior debt obligations of other government sponsored agencies, in an amount which will, together with the interest to accrue thereon and available moneys then on deposit in the Interest and Sinking Fund, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal and interest) at or before their respective maturity dates.

### **Registration, Transfer and Exchange of Bonds**

The Paying Agent will keep or cause to be kept at its Principal Corporate Trust Office sufficient books for the registration and transfer of the Bonds, which shall at all times be open to inspection by the District, and, upon presentation for such purpose, the Paying Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as provided in the Paying Agent Agreement.

The Capital Appreciation Bonds shall be initially registered in the name of "Cede & Co.," as nominee of DTC and shall be evidenced by a single authenticated bond certificate for each stated maturity of Capital Appreciation Bonds, representing the accreted value at maturity of the Capital Appreciation Bonds of such maturity. Registered ownership of the Capital Appreciation Bonds, or any portion thereof, may not thereafter be transferred except as set forth in the Paying Agent Agreement.

The Current Interest Bonds shall be initially registered in the name of "Cede & Co.," as nominee of DTC and shall be evidenced by a single authenticated bond certificate for each stated maturity of Current Interest Bonds, representing the aggregate principal amount of the current Interest Series 2007A Bonds of such maturity. Registered ownership of the Current Interest Bonds, or any portion thereof, may not thereafter be transferred except as set forth in the Paying Agent Agreement.

*In the event that the Book-Entry Only System as described in APPENDIX D is no longer used with respect to the Bonds, the following provisions will govern the transfer, and exchange of the Bonds.*

Any Bond may, in accordance with its terms, be transferred upon the books required to be kept pursuant to the provisions of the Paying Agent Agreement by the person in whose name it is registered, in person or by the duly authorized attorney of such person, upon surrender of such Bond to the Paying Agent for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Paying Agent. Bonds may be exchanged at the Principal Corporate Trust Office of the Paying Agent or such other place as the Paying Agent shall designate, for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity and interest rate. A Capital Appreciation Bond may only be transferred or exchanged for a Capital Appreciation Bond and a Current Interest Bond may only be transferred or exchanged for a Current Interest Bond. No transfer or exchange of Bonds shall be required to be made by the Paying Agent during the period from any Record Date to the following Interest Payment Date or from the date on which notice of redemption is given with respect to such Bond to and including the specified Redemption Date for such Bond.

#### **Investment of Bond Proceeds**

The District expects to invest monies in the Series 2007A Measure BB Project Fund as permitted by the Paying Agent Agreement, which includes, without limitation, any one or more investments generally permitted to local health care districts under the laws of the State, including guaranteed investment contracts.



**Annual Debt Service on Bonds and 2005 GO Bonds**

The following table summarizes the debt service requirements for the 2005 GO Bonds, the Current Interest Bonds and the Capital Appreciation Bonds (assuming no optional redemptions on the 2005 GO Bonds or the Current Interest Bonds):

**DEBT SERVICE SCHEDULE**

Year Ending (August 1)	Current Interest Bonds		Capital Appreciation Bonds		Aggregate Annual Debt Service
	Total Debt Service on 2005 GO Bonds	Principal	Interest	Accreted Value	
<b>Total</b>					

\* For discussion of revenue obligations of the District, see APPENDIX A—"INFORMATION CONCERNING PALOMAR POMERADO HEALTH — MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE — Outstanding Long-Term Debt."

**ESTIMATED SOURCES AND USES OF FUNDS**

The proceeds of the Bonds are expected to be applied as follows:

Sources of Funds

Principal Amount of Bonds*	
[Net] Original Issue Premium	
Total Sources	<hr/>

Uses of Funds

Measure BB Project Costs	
Funded Interest	
Costs of Issuance <sup>(1)</sup>	
Total Uses	<hr/>

<sup>(1)</sup> All costs of issuance, including [bond insurance premium,] underwriter's discount, fees of the financial advisor, rating agency, Bond Counsel, District Counsel, and other costs of issuance. See "MISCELLANEOUS - Underwriting herein."

\* Aggregate of principal amount of Current Interest Bonds and the initial principal amount of the Capital Appreciation Bonds.

**[BOND INSURANCE]**

*[Payment of principal of and interest on the Insured Bonds when due will be insured by a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") to be issued by the Insurer simultaneously with the delivery of the Bonds.]*

The following information has been provided by the Insurer for use in this Official Statement. *This information relates only to Insured Bonds.* Reference is made to APPENDIX H for a specimen of the Insurer's Financial Guaranty Insurance Policy. The District and the Underwriter make no representation as to the accuracy or completeness of this information or as to the absence of material adverse changes in this information subsequent to the date hereof.]

***[TO BE PROVIDED BY THE INSURER]***

**SECURITY AND SOURCE OF PAYMENT FOR THE BONDS**

**General Obligation of District**

The Bonds represent general obligations of the District payable from ad valorem taxes. The Board of Supervisors of the County is empowered and is obligated to levy ad valorem taxes, without limitation as to rate or amount, upon all property subject to taxation by the District (except certain personal property which is taxable at limited rates) for the payment of the principal of and interest on the Bonds. Such taxes will be collected by the County and transferred by the County to the Paying Agent. Pursuant to the provisions of the Paying Agent Agreement, the County will be directed to transfer such taxes on a monthly basis and the Paying Agent, pursuant to the Paying Agent Agreement, shall deposit all such taxes in the Interest and Sinking Fund held by the Paying Agent, which is required to be used by the Paying Agent solely for the payment of general obligation bonds of the District, including the Bonds, the 2005 GO Bonds, and additional general obligation bonds issued under Measure BB (collectively, the "GO Bonds"), and interest thereon when due. Although the County is obligated to levy an ad valorem tax for the payment of the GO Bonds, the GO Bonds are not a debt of the County.

The moneys in the Interest and Sinking Fund, to the extent necessary to pay the principal of and interest on the Bonds as the same becomes due and payable, shall be transferred by the Paying Agent on each Interest Payment Date, or, with respect to the Capital Appreciation Bonds, the maturity date, to DTC for remittance by DTC to its Participants for subsequent disbursement to the Beneficial Owners of the Bonds.

The District is required by Section 32127 of the Local Health Care District Law to use moneys in its maintenance and operation fund whenever ad valorem taxes will be insufficient to pay principal and interest on its GO Bonds. The District anticipates that ad valorem taxes will be sufficient to pay its GO Bonds when due. For certain information concerning the District, its operations and revenues derived from its operations, see APPENDIX A—"INFORMATION CONCERNING PALOMAR POMERADO HEALTH."

### **Ad Valorem Property Taxation**

As required by State law, the District utilizes the services of the County for the assessment and collection of taxes for District purposes. District taxes are collected at the same time and on the same tax roll as are the County, school district, city and other special district taxes. Taxes are levied by the County for each fiscal year on taxable real and personal property which is located in the District as of the preceding January 1. See "- Tax Levies, Collections and Delinquencies" below.

The amount of the annual ad valorem tax levied by the County to repay the District's GO Bonds will be based on the assessed valuation of taxable property in the District and the amount of debt service due on its GO Bonds. The District calculates the tax rate on an annual basis based on: the assessed valuation of taxable property in the District as of the preceding January 1; and the amount of debt service due on its GO Bonds. In calculating the tax rate, the District utilizes an assumed delinquency rate. Subsequent to the District's annual calculation of the tax rate, the District, in accordance with County policy, adopts a resolution notifying the County of the tax rate so established. The County, in turn, levies and collects the ad valorem taxes and transfers such ad valorem taxes to the Paying Agent as described above.

***Certain Risks Related to Ad Valorem Property Taxation.*** A reduction in the assessed valuation of taxable property located in the District, such as may be caused by deflation of land values, economic recession, a relocation out of the District by one or more major property owners, or the complete or partial destruction of such property caused by, among other events, an earthquake, flood, fire or other natural disaster, could cause a reduction in the assessed value of the District's tax roll and necessitate an unanticipated increase in the annual tax levy necessary to pay debt service on its GO Bonds. A significant decrease in assessed valuation, an unanticipated increase in the rate of tax delinquencies, or a declaration of bankruptcy by the District, could delay the payment of debt service on the District's GO Bonds. As stated above, the District calculates the annual tax rate, in part, based on an assumed delinquency rate, which historic assumed delinquency rate has exceeded twice the historic rate of delinquencies in the County (see "—Tax Levies, Collections and Delinquencies" below). In any given fiscal year, to the extent the delinquency rate is less than that which was assumed for such year, any excess taxes collected will be used to pay debt service in the following fiscal year. Conversely, if in any given year, the delinquency rate is higher than that which was assumed for such year and to the extent there are not sufficient funds on deposit in the Interest and Sinking Fund to pay debt service on the GO Bonds for such year, the District is required to provide funds from its operations to make up any deficiencies in the Interest and Sinking Fund to provide for payment of the GO Bonds. While the levy of ad valorem tax to pay debt service of the Bonds and other GO Bonds is not limited as to rate or amount, the risks discussed in this paragraph could affect a tax payor's willingness or ability to pay taxes.

**Assessed Valuations**

The assessed valuation of property in the District is established by the San Diego County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the “full value” of the property, as defined in Article XIII A of the California Constitution. For a discussion of how properties currently are assessed, see “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS” herein.

Certain classes of property, such as churches, not-for-profit and public colleges, universities and hospitals, charitable institutions and governmental property, are exempt from property taxation and do not appear on the tax rolls.

Property located within the District has a total net taxable assessed valuation for fiscal year 2007-08 of \$63,378,635,652. The following table presents the ten-year history of assessed valuations in the District.

**PALOMAR POMERADO HEALTH**  
**Assessed Valuations of Real Property Within The District**

Fiscal Year	Local Secured	Utility	Unsecured	Total
1998-99	\$25,469,233,029	\$5,950,049	\$1,032,282,018	\$26,507,465,096
1999-00	28,113,223,336	5,745,070	1,178,159,557	29,297,127,963
2000-01	30,813,486,785	4,410,714	1,224,964,391	32,042,861,890
2001-02	33,780,505,569	2,710,662	1,409,669,406	35,192,885,637
2002-03	36,806,807,000	2,596,223	1,556,491,545	38,365,894,768
2003-04	40,289,884,045	2,109,932	1,514,796,896	41,806,790,873
2004-05	44,564,471,198	5,326,359	1,461,304,859	46,031,102,416
2005-06	50,322,146,725	204,643,139	1,589,632,696	52,116,422,560
2006-07	56,241,876,525	367,226,118	1,862,529,854	58,471,632,497
2007-08	61,369,060,961	197,696,241	1,811,878,450	63,378,635,652

Source: California Municipal Statistics, Inc.

<sup>(1)</sup> All years shown at full cash value and include secured, unsecured and utility property, but exclude tax-exempt property.

Under the Local Health Care District Law, the District’s 2007-08 gross bonding capacity is equal to 2.5% of the assessed valuation of the taxable property within its boundaries, being \$1,584,465,891. The District has voter approval by Measure BB to issue a total of \$496,000,000 of GO Bonds. The Bonds are the second issuance under that authorization. The 2005 GO Bonds were issued on July 7, 2005 and are currently outstanding in an aggregate principal amount of \$68,360,000.

The following table shows the assessed valuation of real property on the secured tax rolls within the District and the number of parcels by land uses for fiscal year 2007-08.

**PALOMAR POMERADO HEALTH  
Assessed Valuation and Parcels by Land Use**

	2007-08 Assessed Valuation <sup>(1)</sup>	% of Total	No. of Parcels	% of Totals
<b>Non-Residential:</b>				
Agricultural/Rural	\$ 422,102,365	0.69%	2,539	1.34%
Commercial	6,357,042,213	10.36	3,337	1.76
Vacant Commercial	286,258,473	0.47	818	0.43
Industrial	5,588,111,271	9.11	2,269	1.19
Vacant Industrial	521,999,200	0.85	859	0.45
Recreational/Open Space	300,433,714	0.49	2,561	1.35
Government/Social/Institutional	<u>76,009,806</u>	<u>0.12</u>	<u>862</u>	<u>0.45</u>
Subtotal Non-Residential	<u>\$13,551,957,042</u>	<u>22.08%</u>	<u>13,245</u>	<u>6.97%</u>
<b>Residential:</b>				
Single Family Residence	\$36,741,165,916	59.87%	98,811	52.03%
Condominium/Townhouse	5,482,870,410	8.93	24,667	12.99
Mobile Home	361,744,458	0.59	5,510	2.90
Mobile Home Park	160,418,158	0.26	111	0.06
2-4 Residential Units	532,899,635	0.87	1,625	0.86
5+ Residential Units/Apartments	3,037,534,667	4.95	801	0.42
Miscellaneous Residential Improvements	28,737,280	0.05	562	0.30
Timeshare	252,606,094	0.41	34,081	17.94
Vacant Residential	<u>1,219,127,301</u>	<u>1.99</u>	<u>10,515</u>	<u>5.54</u>
Subtotal Residential	<u>\$47,817,103,919</u>	<u>77.92%</u>	<u>176,683</u>	<u>93.03%</u>
<b>Total</b>	<u>\$61,369,060,961</u>	<u>100.00%</u>	<u>189,928</u>	<u>100.00%</u>

<sup>(1)</sup> Local Secured Assessed Valuation; excluding tax-exempt property.  
Source: California Municipal Statistics, Inc.

The table below shows the Fiscal Year 2007-08 aggregate, average and median assessed valuations of single family homes within the District and a breakdown of single family homes by assessed valuation range.

**PALOMAR POMERADO HEALTH**  
**Per Parcel 2007-08 Assessed Valuation of Single Family Homes**

	<u>No. of Parcels</u>	<u>2007-08 Assessed Valuation</u>	<u>Average Assessed Valuation</u>	<u>Median Assessed Valuation</u>		
Single Family Residential	98,881	\$36,741,165.916	\$371,570	\$320,154		
2007-08 Assessed Valuation <sup>(1)</sup>	No. of Parcels (1)	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$.0 - \$24,999	199	0.201%	0.201%	\$ 3,449,632	0.009%	0.009%
\$25,000 - \$49,999	1,492	1.509	1.710	61,062,141	0.166	0.176
\$50,000 - \$74,999	2,984	3.018	4.728	186,577,539	0.508	0.683
\$75,000 - \$99,999	2,780	2.811	7.539	242,567,758	0.660	1.344
\$100,000 - \$124,999	2,633	2.663	10.202	298,032,972	0.811	2.155
\$125,000 - \$149,999	3,561	3.601	13.803	492,498,750	1.340	3.495
\$150,000 - \$174,999	4,399	4.449	18.252	717,484,603	1.953	5.448
\$175,000 - \$199,999	5,467	5.529	23.781	1,026,448,919	2.794	8.242
\$200,000 - \$224,999	5,909	5.976	29.757	1,255,141,702	3.416	11.658
\$225,000 - \$249,999	5,726	5.791	35.548	1,358,609,905	3.698	15.356
\$250,000 - \$274,999	5,520	5.582	41.130	1,447,293,409	3.939	19.295
\$275,000 - \$299,999	5,078	5.135	46.266	1,458,401,047	3.969	23.264
\$300,000 - \$324,999	4,744	4.798	51.063	1,480,718,778	4.030	27.294
\$325,000 - \$349,999	3,994	4.039	55.103	1,347,761,021	3.668	30.963
\$350,000 - \$374,999	3,838	3.881	58.984	1,390,173,479	3.784	34.746
\$375,000 - \$399,999	3,569	3.609	62.593	1,382,183,574	3.762	38.508
\$400,000 - \$424,999	3,308	3.345	65.939	1,365,881,237	3.718	42.226
\$425,000 - \$449,999	3,108	3.143	69.082	1,359,875,598	3.701	45.927
\$450,000 - \$474,999	3,166	3.202	72.284	1,463,506,564	3.983	49.910
\$475,000 - \$499,999	2,980	3.014	75.298	1,452,370,902	3.953	53.863
\$500,000 and greater	24,426	24.702	100.000	16,951,126,386	46.137	100.000
Total	98,881	100.000%		\$36,741,165,916	100.000%	

<sup>(1)</sup> Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.  
Source: California Municipal Statistics, Inc.

The following table lists the major real property taxpayers in the District based solely on their 2007-08 secured assessed valuations.

**PALOMAR POMERADO HEALTH  
Largest 2007-08 Local Secured Taxpayers**

	Property Owner	Land Use	2007-08 Assessed Valuation	% of Total <sup>(1)</sup>
1.	Kilroy Realy LP	Office Buildings	\$170,990,076	0.28%
2.	North County Fair LLC	Shopping Center	165,370,429	0.27
3.	Hewlett-Packard Co.	Industrial	142,165,316	0.23
4.	Cymer Inc.	Office Buildings	132,581,936	0.22
5.	Pacific Carmel Mountain Holdings LP	Office Buildings	120,243,904	0.20
6.	McCrink Ranch Partners LLC	Residential Development	109,889,509	0.18
7.	Bernardo Summit LLC	Industrial	105,000,000	0.17
8.	Sony Electronics Inc.	Industrial	92,399,880	0.15
9.	Arden Realty LP	Office Buildings	90,288,803	0.15
10.	Sorrento West Properties Inc.	Industrial	86,930,820	0.14
11.	Alliance I LLC	Apartments	85,228,179	0.14
12.	I&G the Point Inc.	Office Buildings	75,964,500	0.12
13.	Slough Poway I LLC	Industrial	74,496,982	0.12
14.	BRE Properties Inc.	Apartments	72,222,500	0.12
15.	BAE Systems Mission Solutions Inc.	Industrial	72,063,845	0.12
16.	4S Regency Partners LLC	Shopping Center	67,572,260	0.11
17.	Apple Seven Hospitality Ownership Inc.	Hotel	67,150,000	0.11
18.	Grand Plaza LLC	Shopping Center	66,622,341	0.11
19.	NCR Corp.	Office Buildings	61,400,018	0.10
20.	Goal Line	Recreational	59,969,915	0.10
		<b>Total:</b>	<b>\$1,918,551,213.00</b>	<b>2.8628%</b>

<sup>(1)</sup> 2007-08 total Local Secured Assessed Valuation: \$61,369,060,961  
Source: California Municipal Statistics, Inc.

The following table sets forth a typical tax rate for property within the District for fiscal years 2000-01 through 2007-08.

**PALOMAR POMERADO HEALTH  
Typical Total Tax Rate**

2000-01	1.01714%
2001-02	1.01578%
2002-03	1.01456%
2003-04	1.01357%
2004-05	1.01250%
2005-06	1.02940%
2006-07	1.02869%
2007-08	1.03828%

Source: California Municipal Statistics, Inc.

**Tax Levies, Collections and Delinquencies**

Taxes are levied for each fiscal year on taxable real and personal property on the tax rolls as of the preceding January 1. A supplemental tax is levied when property changes hands or new construction is completed which produces additional revenue.

For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed public utilities property and real property having a tax lien

which is sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. Property on the secured roll with respect to which taxes are delinquent becomes tax defaulted on June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent property taxes and the delinquency penalty, plus a penalty of 1.5% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is subject to auction sale by the County's Treasurer – Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1.5% attaches to them on the first day of each month until paid. The County has four ways of collecting delinquent unsecured personal property taxes: (1) bringing a civil action against the taxpayer; (2) filing a certificate in the office of the Clerk of County specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property, improvements, or possessory interests belonging or assessed to the taxpayer.

There is no information on tax delinquency for the District. The County reports in its Comprehensive Annual Financial Report the following information concerning tax delinquencies related to property taxes administered County wide. For the fiscal year ended June 30, 2006, the County collected 98.96% of the tax levy for such fiscal year.

**COUNTY OF SAN DIEGO  
Property Tax Levies and Collections  
Fiscal Years 2001-02 through 2005-06\*  
(in thousands)**

Fiscal Year Ended June 30,	Total Tax Levy for Fiscal Year <sup>(1)</sup>	Collections within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections as of June 30, 2007	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2002	\$2,144,837	\$2,123,067	98.99%	\$16,544	\$2,139,611	99.76%
2003	2,328,624	2,304,083	98.95	16,059	2,320,142	99.64
2004	2,549,997	2,525,796	99.05	15,140	2,540,936	99.64
2005	2,808,178	2,777,733	98.92	18,851	2,796,584	99.59
2006	3,179,585	3,146,615	98.96	N/A	3,146,615	98.96

<sup>(1)</sup> Includes the Secured, Unsecured and Unitary Tax Levy for the County and school districts, cities and special districts under the supervision of independent governing boards.

Source: County of San Diego. Comprehensive Annual Financial Report for fiscal year ended June 30, 2007.

\*Most current data available.



## **Overlapping Debt Obligations**

Set forth on the following page is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and dated as of October 11, 2007, for debt outstanding as of November 1, 2007. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District in whole or in part. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District.

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the District in whole or in part; (2) the second column shows the respective percentage of the assessed valuation of the overlapping public agencies identified in column 1 which is represented by property located in the District; and (3) the third column is an apportionment of the dollar amount of each public agency's outstanding debt (which amount is not shown in the table) to property in the District, as determined by multiplying the total outstanding debt of each agency by the percentage of the District's assessed valuation represented in column 2.

## PALOMAR POMERADO HEALTH

### Statement of Direct and Overlapping Bonded Debt

2007-08 Assessed Valuation: \$63,378,635,652  
 Incremental Assessed Valuation: \$11,276,173,804  
 Adjusted Assessed Valuation: \$52,102,461,848

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable <sup>(1)</sup></u>	<u>Debt 11/1/07</u>
Metropolitan Water District	2.896%	\$ 10,399,970
Palomar Pomerado Community College District	64.734	103,574,400
Poway Unified School District School Facilities Improvement District No. 2002-1	96.634	170,738,523
San Diego Unified School District	1.042	14,601,833
San Marcos Unified School District School Facilities Improvement District	71.699	11,563,628
Escondido Union High School District	99.772	34,978,046
Escondido Union School District	99.762	56,839,022
Other School Districts	Various	10,852,852
City of Escondido	100.	83,180,000
Other Cities	Various	840,285
City of San Diego Open Space Park Facilities District	10.285	1,388,475
<b>Palomar Pomerado Hospital District</b>	<b>100.</b>	<b>68,360,000<sup>(2)</sup></b>
Community Facilities Districts	Various	471,816,552
1915 Act Bonds (Estimate)	Various	41,140,456
<b>TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$1,080,274,042</b>
Less: City of San Diego Open Space Park Facilities District		1,388,475
<b>TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$1,078,885,567</b>

#### OVERLAPPING GENERAL FUND OBLIGATION DEBT:

San Diego County General Fund Obligations	15.257%	\$ 50,818,016
San Diego County Pension Obligations	15.257	201,546,941
San Diego County Superintendent of Schools Certificates of Participation	15.257	2,734,436
Poway Unified School District Certificates of Participation	81.620	44,143,353
Ramona Unified School District Certificates of Participation	99.942	24,319,247
Escondido Union School District Certificates of Participation	99.762	29,798,909
Other School District General Fund Obligations	Various	9,282,912
City of Escondido General Fund Obligations	100.	76,617,090
City of Poway Certificates of Participation	100.	52,060,000
City of San Diego General Fund Obligations	10.285	48,720,559
City of San Marcos General Fund Obligation	91.285	49,449,085
Other City General Fund Obligations	Various	647,665
Rainbow Municipal Water District Certificates of Participation	10.441	53,771
<b>TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT</b>		<b>\$590,191,984</b>

**GROSS COMBINED TOTAL DEBT** **\$1,670,466,026<sup>(3)</sup>**  
**NET COMBINED TOTAL DEBT** **\$1,669,077,551**

<sup>(1)</sup> Based on 2006-07 ratios.

<sup>(2)</sup> Excludes Bonds to be sold.

<sup>(3)</sup> Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

#### Ratios to 2007-08 Assessed Valuation:

Direct Debt (\$68,360,000) ..... 0.11%  
 Total Gross Direct and Overlapping Tax and Assessment Debt..... 1.70%  
 Total Net Direct and Overlapping Tax and Assessment Debt ..... 1.70%

#### Ratios to Adjusted Assessed Valuation:

Gross Combined Total Debt..... 3.21%  
 Net Combined Total Debt ..... 3.20%

#### STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/07: \$0

Source: California Municipal Statistics, Inc.

## **CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS**

*The principal of and interest on the Bonds are payable from the proceeds of an ad valorem tax levied by the County for the payment thereof. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein. Articles XIII A, XIII B, XIII C and XIII D of the Constitution, and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the District to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the District to levy ad valorem taxes for payment of the Bonds. The ad valorem tax levied by the County for payment of the Bonds was approved by the District's voters in compliance with Article XIII A, Article XIII C, and all applicable laws.*

### **Article XIII A of the California Constitution**

Article XIII A ("Article XIII A") of the State Constitution, adopted and known as Proposition 13, limits the amount of ad valorem taxes on real property to 1% of "full cash value" as determined by the county assessor. Article XIII A defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975-76 bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed or a change in ownership has occurred after the 1975 assessment," subject to exemptions in certain circumstances of property transfer or reconstruction. The "full cash value" is subject to annual adjustment to reflect increases, not to exceed 2% for any year, or decreases in the consumer price index or comparable local data, or to reflect reductions in property value caused by damage, destruction or other factors.

Article XIII A requires a vote of two-thirds of the qualified electorate of a city, county, special district (such as the District) or other public agency to impose special taxes, while totally precluding the imposition of any additional ad valorem, sales or transaction tax on real property. Article XIII A exempts from the 1% tax limitation any taxes above that level required to pay debt service (a) on any indebtedness approved by the voters prior to July 1, 1978, or (b), as the result of an amendment approved by State voters on July 3, 1986, on any bonded indebtedness approved by two-thirds percent of the votes cast by the voters for the acquisition or improvement of real property on or after July 1, 1978, or (c) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% or more of the votes cast on the proposition, but only if certain accountability measures are included in the proposition. The tax for payment of the Bonds falls within the exception described in (b) of the immediately preceding sentence. In addition, Article XIII A requires the approval of two-thirds of all members of the state legislature to change any state taxes for the purpose of increasing tax revenues.

Both the United States Supreme Court and the California State Supreme Court have upheld the general validity of Article XIII A.

### **Legislation Implementing Article XIII A**

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the annual adjustment not to exceed 2% are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

### **Unitary Property**

Some amount of property tax revenue of the District is derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions ("unitary property"). Under the State Constitution, such property is assessed by the State Board of Equalization ("SBE") as part of a "going concern" rather than as individual pieces of real or personal property. State-assessed unitary and certain other property is allocated to the counties by SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the District) according to statutory formulae generally based on the distribution of taxes in the prior year.

The California electric utility industry has been undergoing significant changes in its structure and in the way in which components of the industry are regulated and owned. Sale of electric generation assets to largely unregulated, nonutility companies may affect how those assets are assessed, and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation may be proposed or adopted in response to industry restructuring, or whether any future litigation may affect ownership of utility assets or the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the District. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

### **Article XIII B of the California Constitution**

In addition to the limits Article XIII A imposes on property taxes that may be collected by local governments, certain other revenues of the State and most local governments are subject to an annual "appropriation limit" imposed by Article XIII B of the State Constitution which effectively limits the amount of such revenues those entities are permitted to spend. Article XIII B, as subsequently amended by Propositions 98 and 111, limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and in population and for transfers in the financial responsibility for providing services and for certain declared emergencies.

The appropriations of an entity of local government subject to Article XIII B limitations include the proceeds of taxes levied by or for that entity and the proceeds of certain state subventions to that entity. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to the entity from (a) regulatory licenses, user charges and user fees (but only to the extent that these proceeds exceed the reasonable costs in providing the regulation, product or service), and (b) the investment of tax revenues.

Appropriations subject to limitation do not include (a) refunds of taxes, (b) appropriations for debt service, such as the Bonds, (c) appropriations required to comply with certain mandates of the courts or the federal government, (d) appropriations of certain special districts, (e) appropriations for all qualified capital outlay projects as defined by the legislature, (f) appropriations derived from certain fuel and vehicle taxes and (g) appropriations derived from certain taxes on tobacco products.

Article XIII B includes a requirement that all revenues received by an entity of government other than the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years.

The State and each local government entity has its own appropriation limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another governmental entity of financial responsibility for providing the services. The District is required to establish an appropriation limit each year. In fiscal year 2007-08, the District had an appropriation limit of \$46,267,934 and appropriation subject to limitation of approximately \$13,500,000.

### **Article XIII C and Article XIII D of the California Constitution**

On November 5, 1996, the voters of the State of California approved Proposition 218, popularly known as the "Right to Vote on Taxes Act." Proposition 218 added to the California Constitution Articles XIII C and XIII D (respectively, "Article XIII C" and "Article XIII D"), which contain a number of provisions affecting the ability of local agencies to levy and collect both existing and future taxes, assessments, fees and charges.

According to the "Title and Summary" of Proposition 218 prepared by the California Attorney General, Proposition 218 limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." Among other things, Article XIII C establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes), prohibits special purpose government agencies such as hospital districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds percent vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIII C further provides that no tax may be assessed on property other than ad valorem property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds percent vote under Article XIII A, Section 4. Article XIII D deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIII C or XIII D will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The District does not impose any taxes, assessments, or property-related fees or charges which are subject to the provisions of Proposition 218. It does receive a portion of the basic one percent ad valorem property tax levied and collected by the County pursuant to Article XIII A of the California Constitution.

### **Future Initiatives**

Article XIII A, Article XIII B, and Proposition 218 were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, further affecting District revenues or the District's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the District.

### **THE DISTRICT**

Certain information concerning the District, its operations and revenues derived from its operations is discussed in APPENDIX A. As discussed under "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" herein, the Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment of the Bonds.

### **THE AUTHORITY**

The Authority was created by a Joint Exercise of Powers Agreement, dated as of May 27, 2005, between the District and Tri-City Health Care District. Pursuant to a resolution adopted by the Grossmont Healthcare District on April 20, 2007 and accepted by the Authority on May 11, 2007,

Grossmont Health Care District, became a member of the Authority. Pursuant to Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "JPA Act"), the Authority has legal authority to exercise any powers common to the District, Tri-City and Grossmont and to exercise additional powers granted to it under the JPA Act. Under the JPA Act, the Authority is authorized to purchase bonds issued by the District at negotiated sale and sell such bonds at negotiated sale to the Underwriter. The Bonds are being issued by the District for sale to the Authority and will be simultaneously resold by the Authority to the Underwriter.

## TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX F hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Holders of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a purchaser's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and

compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, this opinion is not intended to, and may not be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. As one example, on May 21, 2007, the United States Supreme Court agreed to hear an appeal from a Kentucky state court which ruled that the United States Constitution prohibited the state from providing a tax exemption for interest on bonds issued by the state and its political subdivisions but taxing interest on obligations issued by other states and their political subdivisions. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the beneficial owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and their appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or the beneficial owners to incur significant expense.

## LEGAL MATTERS

### Continuing Disclosure

The District has covenanted for the benefit of Bondholders (including Beneficial Owners of the Bonds) to provide certain financial information and operating data relating to the District (the "Annual Report") by not later than six months following the end of the District's fiscal year (which currently ends June 30), commencing with the report for the 2007-08 Fiscal Year, and to provide notices of the

occurrence of certain enumerated events, if material. The Annual Report shall be filed by the District with each Nationally Recognized Municipal Securities Information Repository (and with the appropriate State information depository, if any) or may be filed with DisclosureUSA.org. The notices of material events shall also be filed by the District with the Municipal Securities Rulemaking Board (and with the appropriate State information depository, if any), or may be filed with DisclosureUSA.org. The specific nature of the information to be contained in the Annual Report and any notices of material events is included in APPENDIX E—"FORM OF CONTINUING DISCLOSURE UNDERTAKING" attached hereto. These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). Under a continuing disclosure undertaking with respect to certain revenue bonds of the District, the District failed, five years ago, to timely file its annual continuing disclosure, and on three occasions, it failed to timely file a notice regarding certain ratings changes. These filings were eventually made. The District is committed to meeting its disclosure obligations with respect to previous continuing disclosure undertakings and to its Continuing Disclosure Undertaking with respect to the Bonds.

### **No Litigation**

No litigation of any nature is pending or threatened concerning the validity of the Bonds, and a certificate to that effect will be furnished by the District to the Underwriter at the time of the original delivery of the Bonds. The District is not aware of any litigation pending or threatened questioning the existence or powers of the District, the District's ability to receive ad valorem taxes to pay the Bonds or to collect other revenues or the District's ability to issue and retire the Bonds.

From time to time there are lawsuits and claims pending against the District. In the opinion of the District, the aggregate amount of the uninsured liabilities of the District under these lawsuits and claims will not materially affect the operations of finances of the District.

### **Legal Opinions**

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Bond Counsel. A complete copy of the proposed form of opinion of Bond Counsel is contained in APPENDIX F hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon by Latham & Watkins LLP, San Diego, California, as special counsel for the District, and by Squire, Sanders & Dempsey L.L.P., San Francisco, California, as counsel for the Underwriter. These law firms undertake no responsibility for the accuracy, completeness or fairness of this Official Statement, except as otherwise stated in their respective opinions delivered upon the issuance of the Bonds, and none of such opinions is addressed to or may be relied upon by purchasers of the Bonds.

### **INDEPENDENT AUDITORS**

The financial statements of the District as of and for the years ended June 30, 2007 and 2006 included in this Official Statement in APPENDIX B have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing therein.

### **MISCELLANEOUS**

#### **Ratings**

[The Insured Bonds are expected to receive ratings of "Aaa" and "AAA" by Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch"), respectively, based on the issuance by the Insurer of its Financial Guaranty Insurance Policy with respect to the Insured Bonds.] The [Uninsured] Bonds have been assigned a rating of "\_\_\_" by Moody's and "\_\_\_" by Fitch.



The ratings reflect only the views of the respective ratings agency, and any explanation of the significance of such ratings should be obtained from Fitch and Moody's at the following addresses: Moody's Investors Service, 99 Church Street, New York, NY 10007; and Fitch Ratings, One State Street Plaza, New York, NY 10004. In order to obtain such ratings, the District furnish to the rating agency certain information and materials, some of which has not been included in this Official Statement. Generally, rating agencies base their ratings on such information and materials and their own investigation, studies and assumptions. There is no assurance that the ratings will be maintained for any given period of time or that they will not be revised downward or withdrawn entirely by a rating agency if, in its judgment, circumstances so warrant. The District undertakes no responsibility to oppose any such revision or withdrawal. Any such downward revision or withdrawal of the ratings obtained may have an adverse effect on the market price of the Bonds.

The District expects to furnish to each rating agency such information and materials as it may request. The District, however, assumes no obligation to furnish requested information and materials, and may issue debt for which a rating is not requested. The failure to furnish requested information and materials, or the issuance of debt for which a rating is not requested, may result in the suspension or withdrawal of a rating on the Bonds.

### **Underwriting**

The Bonds are being purchased by the Authority for resale to the Underwriter pursuant to a bond purchase agreement among the Underwriter, the District, and the Authority. The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the Authority at a price of \$ \_\_\_\_\_ (principal amount of the Bonds of \$[250,000,000], [plus/less] a net original issue [premium/discount] of \$ \_\_\_\_\_, less underwriter's discount of \$ \_\_\_\_\_). Under the terms of the bond purchase agreement, the Underwriter will be obligated to purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions to be satisfied by the District and the Authority. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the offering prices stated on the front inside cover page. The offering prices may be changed from time to time by the Underwriter.

### **Financial Advisor**

Kaufman Hall & Associates, Inc. ("KHA"), Los Angeles, California, was engaged by the District to provide financial advisory services in connection with the execution and delivery of the Bonds. KHA is a national consulting firm which acts as a capital advisor to health care organizations.

### **Additional Information**

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations from and summaries and explanations of the Bonds, the Bond Resolution, the Paying Agent Agreement and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

Certain financial data contained herein has been obtained from California Municipal Statistics, Inc. Appropriate District officials, acting in their official capacities, have reviewed this Official Statement and have determined that, as of the date hereof, the information contained herein (excluding the chart entitled "Statement of Direct and Overlapping Bonded Debt") is, to the best of their knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading. This Official Statement and its distribution has been approved by the Board of the District.

**PALOMAR POMERADO HEALTH**

By: \_\_\_\_\_

**Michael H. Covert**  
**President and Chief Executive Officer**

**APPENDIX A**

**INFORMATION CONCERNING PALOMAR POMERADO HEALTH**

**(Included as separate document in Finance Committee Packet. See Document No. 6.)**

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF PALOMAR POMERADO HEALTH

(Provided to Finance Committee separately.)

APPENDIX C

ECONOMIC AND DEMOGRAPHIC PROFILE OF SAN DIEGO COUNTY

(Included as separate document in Finance Committee Packet. See Document No. 7.)

**APPENDIX D**

**BOOK-ENTRY ONLY SYSTEM**

**(Standard disclosure  
information provided by The  
Depository Trust Company to  
be inserted prior to printing.)**

**APPENDIX E**

**FORM OF CONTINUING DISCLOSURE UNDERTAKING**

**(Included as separate document in Finance Committee Packet. See Document No. 8.)**

**APPENDIX F**

**PROPOSED FORM OF OPINION OF BOND COUNSEL**

**(To be provided by Bond Counsel and inserted prior to printing.)**



APPENDIX G

TABLE OF ACCRETED VALUES OF CAPITAL APPRECIATION BONDS

(To be provided by Citigroup subsequent to pricing of Series 2005A Bonds.)

APPENDIX H

FORM OF FINANCIAL GUARANTY INSURANCE POLICY

(To be provided by Bond Insurer selected and inserted prior to printing.)

**Document No. 6 - Appendix A to Preliminary Official Statement**  
**Information Concerning Palomar Pomerado Health**

APPENDIX A

INFORMATION CONCERNING PALOMAR POMERADO HEALTH

APPENDIX A

INFORMATION CONCERNING PALOMAR POMERADO HEALTH

*As discussed under "SECURITY AND SOURCE OF PAYMENT OF THE BONDS," in the front part of this Official Statement, the Bonds are payable from ad valorem taxes. The Board of Supervisors of the County of San Diego has the power and is obligated to annually levy ad valorem taxes upon all property subject to taxation within the boundaries of Palomar Pomerado Health as a political subdivision, without limitation as to rate or amount, for the payment of principal of and interest on the Bonds (except certain personal property which is taxable at limited rates). Palomar Pomerado Health anticipates that ad valorem taxes will be sufficient to pay principal of and interest on the Bonds, the 2005 GO Bonds and any additional general obligation bonds authorized by Measure BB. However, pursuant to Section 32127 of the Local Health Care District Law, the Palomar Pomerado Health is required to use moneys in its maintenance and operation fund whenever ad valorem taxes are insufficient to pay such principal and interest.*

The information contained in this APPENDIX A has been obtained from Palomar Pomerado Health

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## **BACKGROUND AND HISTORY**

### **Palomar Pomerado Health - Introduction**

Palomar Pomerado Health (the “District”) is a local health care district formed by a vote of the District’s electorate in 1948, and is a political subdivision in the State of California organized pursuant to Division 23 of the Health and Safety Code of the State of California. Originally known as the Northern San Diego County Hospital District, the District has been known as Palomar Pomerado Health since 2001. The District is located inland in the northern portion of San Diego County (the “County”) and is the largest California local health care district in terms of geographical area, covering approximately 800 square miles. The 2006 population within the District’s boundaries was estimated, by Claritas, to be approximately 480,220. Included within those boundaries are all or a portion of the cities and communities of Escondido, Poway, Ramona, Rancho Bernardo, Rancho Penasquitos, San Marcos, Valley Center, Pauma Valley, Santa Ysabel and Julian.

The District owns and operates two acute care hospital facilities, the 324-bed Palomar Medical Center (“PMC”) in Escondido that opened in 1950, and the 107-bed Pomerado Hospital (“Pomerado”) in Poway that opened in 1977. The District also owns and operates: two skilled nursing facilities, the 96-bed Palomar Continuing Care Center in Escondido and the 129-bed Villa Pomerado in Poway; an ambulatory care center in San Marcos; and home health services. The District also: operates the Escondido Surgery Center, an outpatient surgery center in Escondido; and provides imaging services at the Gateway and Parkway Outpatient Radiology Centers, and Pomerado Imaging (a joint venture), which are managed by a hospital-based radiology group.

The PMC campus is located in downtown Escondido, and is a full-service tertiary and acute care facility. PMC is the only designated trauma center in the northern portion of the County and has a trauma service area of approximately 1,400 square miles (the size of Rhode Island). Pomerado is located in Poway and is a full-service community hospital.

### **Facilities Master Plan**

To improve the District’s ability to meet current demands for additional health care services, to respond to expected growth in demand within the cities and communities of the District and to comply with State mandated seismic building regulations, the District has developed a Facilities Master Plan (defined herein). The Facilities Master Plan provides for the repair, replacement and expansion of acute care hospital facilities and the development of satellite ambulatory care facilities in several communities in the District’s boundaries to improve access to local health care services. The projects comprising the Facilities Master Plan are expected to be completed in several phases with the initial phase to be substantially completed prior to the end of fiscal year 2014. The Facilities Master Plan seeks to provide to the District’s residents access to quality medical and emergency care in facilities that will integrate the future advances in medical technology and information technology and provide family-centered, healing environments for patients, visitors, staff and medical staff. See “FACILITIES MASTER PLAN. SERVICE AREA AND COMPETITION – Facilities Master Plan” herein.



## ORGANIZATIONAL STRUCTURE

### Organization

The District is a political subdivision that operates several facilities in multiple locations within the District's boundaries, as shown in chart below:

<u>Facility</u>	<u>Type of Service</u>	<u>Location</u>
Palomar Medical Center ("PMC")	Acute Care Hospital	Escondido
Pomerado Hospital ("Pomerado")	Acute Care Hospital	Poway
Palomar Continuing Care Center	Skilled Nursing Facility	Escondido
Villa Pomerado	Skilled Nursing Facility	Poway
Palomar Pomerado Home Care	Home Health	Escondido
San Marcos Ambulatory Care Center	Medical Office Building	San Marcos
Escondido Surgery Center	Outpatient Surgery Center	Escondido
Parkway Radiology	Outpatient Radiology	Escondido
Gateway Radiology	Outpatient Radiology	Poway
Pomerado Imaging*	Outpatient Radiology	Poway

\* Joint Venture, which is described under "-Related Entities" below.

### Services

The following describes inpatient, outpatient and other services provided at the District's facilities.

*Palomar Medical Center.* PMC began providing services in 1950 in downtown Escondido. PMC is a full-service 324-bed tertiary and acute care facility. The County of San Diego has designated six hospitals to provide trauma services within designated areas of the County. PMC has been designated as the only trauma center for the northern portion of the County. The PMC's trauma center has a service area of approximately 1,400 square miles from the San Diego/Riverside County line to the north, to the coast on the west, to the Anza Borrego desert on the east and south to Mira Mesa.

*Pomerado Hospital.* Pomerado began providing services in 1977 in Poway and is a full-service 107-bed community hospital.

Through its acute care facilities, the District provides the following programs and specialist services:

- 24-hour emergency and trauma services
- Peripheral angiograph and cardiac catheterization
- Open-heart surgery
- Neurosurgery

- Radiation therapy
- Family birthing center
- Level II neonatal intensive care
- Comprehensive wound care and hyperbaric oxygen treatment
- Outpatient surgery
- General medical/surgical services

*Other Services Provided*

Palomar Continuing Care Center is a 96-bed skilled nursing facility. Villa Pomerado is a 129-bed skilled nursing facility, including a 20-bed subacute center. San Marcos Ambulatory Care Center is an approximately 43,000 square foot medical office building. Its primary tenants include OB/GYN and family practice physicians, and the California State University San Marcos School of Nursing. Palomar Pomerado Home care provides home health services. Parkway Radiology and Gateway Radiology provide outpatient radiology services.

**Related Entities**

Described below are certain entities which are related to the District.

*Palomar Pomerado Health Foundation.* Palomar Pomerado Health Foundation (the "Foundation") is a California nonprofit public benefit corporation organized and operated to solicit and provide financial support for the District. The Foundation is a separately governed organization, is not controlled by the District, and its financial results are not included in the financial statements of the District. The Foundation funds various programs on behalf of the District, which totaled \$498,209 and \$556,209 in the fiscal years ended June 30, 2007 and 2006, respectively.

In 2006, update, as needed the District entered into a restructured management service agreement with the Foundation under which the District lends up to \$3 million of working capital to the Foundation under a line of credit agreement and provides administrative support services to the Foundation, the costs of which the Foundation is obligated to repay. Under this agreement, the District selects, hires, and supervises the employees that operate the Foundation, and selects and employs the executive director of the Foundation, subject to the approval of the board of directors of the Foundation. The purpose of this restructuring was to create the organizational structure of the Foundation to formulate and execute the capital fund drive to raise a portion of the cost of implementing the Facilities Master Plan. The District provided administrative services to the Foundation totaling \$1.6 million and \$1.1 million in the fiscal years ended June 30, 2007 and 2006, respectively.

*Palomar Pomerado North County Health Development, Inc.* Palomar Pomerado North County Health Development, Inc. ("PPNCHD") is a California nonprofit public benefit corporation organized and operated to seek grants to support research and other programs at the

District's facilities. As the sole member of PPNCHD, the District appoints all of PPNCHD's board of directors. Currently, the District provides all administrative personnel and working capital for PPNCHD under a line of credit arrangement. During fiscal years 2005 through 2007, PPNCHD obtained a total of \$6,933,071 million in grants for the District. The financial results of PPNCHD are included in the consolidated financial statements of the District.

*Escondido Surgery Center.* Formerly, Escondido Ambulatory Surgical Center Investors, L.P. ("ESC") was a for profit California limited liability partnership, in which the District was its general partner and the limited partners were surgeons on the District's medical staff. ESC operated an outpatient surgery facility located in Escondido. The District has acquired 100% ownership in ESC and is in the process of formally transferring title of ESC's assets to the District and formally dissolving ESC. The District is also in the process of re-licensing the facility as hospital based. The District will operate the facility as a hospital based entity and will provide outpatient infusion services and surgical services in ophthalmology, orthopedic, ear/nose/throat, gastrointestinal, gynecology, plastic surgery, general surgery, and podiatry. The formal transition and re-licensing is expected to be completed by December 31, 2007. The financial results of ESC are included in the consolidated financial statements of the District. See Notes to Financial Statements in APPENDIX B—"Audited Financial Statements Of Palomar Pomerado Health."

*Pomerado Imaging.* Pomerado Imaging ("PI") is a for profit California limited partnership in which the District is the limited partner and Valley Radiology Consultants is the general partner. PI provides diagnostic imaging in the form of multidetector computed tomography and magnetic resonance imaging. Under the limited partnership agreement, the District has no obligation to contribute any additional funding to PI.

## **FACILITIES MASTER PLAN, SERVICE AREA AND COMPETITION**

### **Facilities Master Plan**

In 2004, in order to meet expanding community needs and mandated State standards for earthquake safety, the Board of Directors of the District (the "District Board") approved a facilities master plan (the "Facilities Master Plan"). Major components of the Facilities Master Plan include: construction of a new second PMC campus in Escondido, which will replace 75% of the bed capacity at the existing PMC campus which bed capacity is currently located in seismically non-conforming structures; expansion of existing hospital facilities at Pomerado; renovation of the existing PMC campus; and construction of outpatient facilities at several locations. Such construction, expansion and renovation activities have been planned and designed to enable the District to: increase trauma and emergency treatment capacity; increase critical care capacity; increase operating room, related diagnostic and treatment and outpatient service capacity; and comply with current State standards for earthquake safety. The Facilities Master Plan is anticipated to be completed in phases, with the initial phase currently expected to be substantially completed by June 30, 2014.

The initial phase currently includes: (i) construction of the new PMC campus in Escondido, which will allow current health care services to remain fully available and accessible at the existing PMC campus in Escondido during the construction process, which is planned to commence in 2008 and be completed in 2011; (ii) expansion at Pomerado, which is planned to

commence in 2008 and be completed in 2011; and (iii) subsequent to commencement of operations at the new PMC campus, essential repair, replacement and remodel construction at the existing PMC campus in Escondido

Each of the campuses are sized for bed needs in 2020, as identified by the District during development of the Facilities Master Plan and construction will include shell space for anticipated future bed and service needs. Upon completion of the initial phase, the District currently anticipates that its bed capacity will increase to 573. The District contemplates further increases in bed capacity to 729 during subsequent phases, which are to be implemented as funding is available and additional services are needed.

The table below summarizes current estimated project costs for each of the major components of the Facilities Master Plan, in escalated dollars, throughout the construction period of the initial phase, which is currently expected to be substantially completed by June 30, 2014.

<u>Initial Phase of Facilities Master Plan - Components</u>	<u>Estimated Costs (in thousands)</u>
Palomar Medical Center (Escondido) – New Campus	\$773,700
Palomar Medical Center (Escondido) – Existing Campus Renovations	\$20,800
Pomerado Hospital (Poway) – Expansions	\$176,000
Outpatient Facilities (Various Community Locations)	\$12,500
Total	<u>\$983,000</u>

Funding sources for the Facilities Master Plan currently include: (i) general obligation bonds authorized by Measure BB (herein referred to collectively as “GO Bonds”); (ii) obligations secured by operating revenues of the District (herein referred to as “Revenue Obligations”), including revenue bonds and certificates of participation; (iii) cash reserves; and (iv) a philanthropic capital campaign.

As of the date of this Official Statement, the District has issued \$80 million of GO Bonds (herein referred to as the “2005 GO Bonds”), of which \$68,360,000 remain outstanding, to finance portions of the Facilities Master Plan. In addition, certain certificates of participation (herein referred to as the “2006 Certificates”) were executed and delivered for the benefit of the District in 2006, a portion of which are to be applied to finance portions of the Facilities Master Plan. See “MANAGEMENT’S DISCUSSION OF FINANCIAL PERFORMANCE—Outstanding Long-Term Debt”.

With respect to the philanthropic capital campaign, the Foundation completed a campaign feasibility study in May 2007, which validated a \$55 million campaign based on a review of identified and projected major lead gifts. The targeted net proceeds to be applied to finance the Facilities Master Plan from the capital campaign are \$45 million in net contributions. Ketchum, a fundraising firm with 88 years of experience in helping non-profit institutions raise more than \$13 billion in the aggregate, has been engaged by the Foundation to serve as its campaign advisor. The philanthropic capital campaign is currently in the planning and organization phase and will be conducted by the Foundation over the next four years.

Upon adoption of the Facilities Master Plan in 2004, the District estimated that the costs of implementation of the Facilities Master Plan would be approximately \$753 million.

Subsequently and primarily as a result of increases in construction costs (including the cost of materials and labor) and not as a result of changes in the scope of the projects, the District revised the estimate to approximately \$983 million in 2006. In order to manage continued increases in construction costs and remain within the current budgeted amount, District management has revised the plan of finance, altered certain plans and adjusted finished bed capacity to meet demand, but has retained a requisite amount of shelled capacity needed to accommodate projected increases in patient volumes and finished beds in future years. The current budgeted amount of \$983 million is estimated to be sufficient for completion of the initial phase of the Facilities Master Plan as described herein. As the District moves forward with the implementation of the Facilities Master Plan, District management anticipates continuing to revise its plans, adjust its finished bed capacity and update its plan of finance based on availability of funding and need for additional services.

To manage costs of the Facilities Master Plan, District management is using a number of accepted industry techniques and strategies including construction management, phasing, schedule acceleration, value engineering, project segmentation and early procurement. Construction projects are subject to a variety of risks, including delays and increase in costs. See "RISKS RELATED TO DISTRICT OPERATIONS – Construction Risks" herein.

The four tables below summarize the current and planned bed complement by function included in the initial phase of the Facilities Master Plan, for the District as a whole and a table for each of the three hospital campuses. For each campus, a portion of patient care units will be shelled upon initial completion of the initial phase of the new facilities until such time as patient volume dictates completion of the shelled space and funding is available.

**District Total-Key Bed Type/Services/Function**

<u>Key Bed Type/Services/Function</u>	<u>Existing</u>	<u>June 30, 2014 Bed Complement</u>	
		<u>Finished</u>	<u>Shelled</u>
Acuity Assignable <sup>(1)</sup>	0	136	104
Intensive/Coronary Care Beds <sup>(1)</sup>	47	12	0
Medical/Surgical Beds	235	246	36
Labor & Delivery/Antepartum	37	37	0
Postpartum/GYN	23	47	0
Pediatric	23	23	0
Neonatal Intensive Care Beds	10	16	0
Acute Psychiatric	38	38	0
Acute Rehabilitation	18	18	0
<b>Total Beds</b>	<b>431</b>	<b>573</b>	<b>140</b>
Surgery Suites <sup>(2)</sup>	18	35	0
Cath Lab/Interventional Radiology	4	7	0
ED/Trauma/Observation Stations	66	82	0

Source: The District.

<sup>(1)</sup> Acute assignable beds are built to intensive/coronary care bed standards and can be used as either intensive care unit or general medical/surgical beds.

<sup>(2)</sup> Includes four outpatient surgery suites at Escondido Surgery Center.

**Palomar Medical Center - New Campus**

Key Bed Type/Services/Function	June 30, 2014 Bed Complement	
	Finished	Shelled
Acuity Assignable <sup>(1)</sup>	120	48
Intensive/Coronary Care Beds <sup>(1)</sup>	0	0
Medical/Surgical Beds	168	24
Labor & Delivery/Antepartum	0	0
Postpartum	0	0
Pediatric	0	0
Neonatal Intensive Care	0	0
Acute Psychiatric	0	0
Acute Rehabilitation	0	0
<b>Total Beds</b>	<b>288</b>	<b>72</b>
Surgery Suites <sup>(2)</sup>	17	0
Cath Lab/Interventional Radiology	5	0
ED/Trauma/Observation Stations	56	0

Source: The District.

<sup>(1)</sup> Acute Assignable beds are built to intensive/coronary care bed standards and can be used as either ICU or general medical/surgical beds.

<sup>(2)</sup> Includes four surgery suites at the Escondido Surgery Center.

**Pomerado Campus**

Key Bed Type/Services/Function	Existing	June 30, 2014 Bed Complement	
		Finished	Shelled
Acuity Assignable <sup>(1)</sup>	0	16	56
Intensive Care Beds <sup>(1)</sup>	12	12	0
Medical/Surgical Beds	68 <sup>(2)</sup>	78 <sup>(2)</sup>	12
Labor & Delivery/Antepartum	11	11	0
Postpartum/GYN	0	24	0
Neonatal Intensive Care Beds	4	4	0
Acute Psychiatric	12	12	0
<b>Total Beds</b>	<b>107</b>	<b>157</b>	<b>68</b>
Surgery Suites <sup>(3)</sup>	4	8	0
Cath Lab/Interventional Radiology	1	2	0
ED/Trauma/Observation Stations	22	26	0

Source: The District.

<sup>(1)</sup> Acuity Assignable beds are built to intensive/coronary bed standards and can be used as either intensive care or general medical/surgical beds.

<sup>(2)</sup> Eighteen of the Medical/Surgical beds are Intermediate Care Beds.

<sup>(3)</sup> Includes outpatient surgery centers at Pomerado campus.

**Palomar Medical Center – Existing Campus**

<b>Bed Type/Services/Function</b>	<b>Existing Campus</b>	<b>June 30, 2014 Bed Complement</b>	
		<b>Finished</b>	<b>Shelled</b>
Acuity Assignable	0	0	0
Intensive/Coronary Care Beds	35	0	0
Medical/Surgical Beds	167	0	0
Labor & Delivery/Antepartum	26	26	0
Postpartum	23	23	0
Pediatric	23	23	0
Neonatal Intensive Care	6	12	0
Acute Psychiatric	26	26	0
Acute Rehabilitation	18	18	0
<b>Total Beds</b>	<b>324</b>	<b>128</b>	<b>0</b>
Surgery Suites	10	10	0
Cath Lab/Interventional Radiology	2	0	0
ED/Trauma/Observation Stations	44	0	0

Source: The District.

The projects included in the Facilities Master Plan will require approvals from several governmental entities and must comply with several regulatory codes including: the Office of Statewide Health Planning and Development (“OSHPD”) for all inpatient hospital buildings; local city permits for grading, site zoning and adherence to city specific plans; compliance with the California Environmental Quality Act; and State seismic requirements. The District has received an extension until 2013 to comply with the State’s seismic requirements. See “OTHER INFORMATION - Seismic Compliance” herein. The District has obtained all approvals and permits currently necessary for implementation of the initial phase of the District’s Facilities Master Plan and does not anticipate any difficulty in obtaining additional approvals and permits when required.

**Service Area**

The District’s boundaries as a political subdivision cover an approximately 800-square mile area located inland in the northern portion of the County, as shown on map below. Management of the District considers this geographical area to be the District’s service area. As shown on the map on the following page, the District’s boundaries encompasses all or portions of the following cities and communities: Escondido, Poway, Ramona, Rancho Bernardo, Rancho Penasquitos, San Marcos, Valley Center, Pauma Valley, Santa Ysabel and Julian.

**[Printer to Insert Map – Provided to Working Group as a Separate Document]**



The 2006 population within the District's service area was estimated by Claritas to be approximately 480,220.

**Service Area Population**

<u>2000</u>	<u>2006</u>	<u>2011<sup>(1)</sup></u>	<u>% growth 2000-2011<sup>(2)</sup></u>	<u>2020<sup>(2)</sup></u>	<u>% growth 2011-2020<sup>(2)</sup></u>
435,330	480,220	523,046	20.1%	610,000	16.6%

Source: Claritas.

<sup>(1)</sup> Estimated.

<sup>(2)</sup> Projected.

The District's service area had approximately 163,000 households in 2006 with an average household income of \$84,937, and 29.1% of the households had an income of \$100,000 or greater, according to Claritas.

Other characteristics of the District's service area shown in the tables below.

**District Service Area  
Population Distribution by Age Group – 2006**

<u>Age Group</u>	<u>Population</u>	<u>% of Total</u>
0-14	110,980	23.1%
15-17	22,800	4.7%
18-24	43,147	9.0%
25-34	56,903	11.8%
35-54	140,851	29.3%
55-64	46,555	9.7%
65+	<u>58,984</u>	<u>12.3%</u>
<b>Total</b>	<b>480,220</b>	<b>100%</b>

Source: Claritas.

Note: Totals may not add correctly due to rounding.

**District Service Area  
Households by Income Group – 2006**

<u>Income</u>	<u>Households</u>	<u>% of Total</u>
<\$15K	10,981	6.7%
\$15-25K	12,515	7.7%
\$25-50K	35,904	22.0%
\$50-75K	32,070	19.7%
\$75-100K	24,054	14.8%
Over \$100K	<u>47,380</u>	<u>29.1%</u>
<b>Total</b>	<b>162,904</b>	<b>100%</b>

Source: Claritas.

Note: Totals may not add correctly due to rounding.

The District's service area has a diverse mix of employers and industries.

**District Service Area**  
**Top 25 Employers by Industry - 2005**

Manufacturing	38%
Education	26%
Health Services	11%
Finance	9%
Mining & Construction	8%
Government	4%
Services (Other)	2%
Transportation	2%
Total	100%

Source: Cities of Poway, Escondido, San Marcos,  
North County Chamber of Commerce.

**Utilization**

The table below presents selected combined utilization statistics for the District for its fiscal years ended June 30, 2004, 2005, 2006 and 2007.

	Fiscal Year Ended June 30,			
	2004	2005	2006	2007
<b>Acute Beds</b>				
Licensed/Available Beds	424	431	431	431
Patient Days	108,452	108,987	112,445	112,372
Discharges	27,247	27,801	28,216	28,969
Average Length of Stay (in days)	3.98	3.92	3.99	3.88
Occupancy Rate	70%	69%	71%	71%
Emergency Room Visits	62,025	62,228	64,449	68,693
Home Health Visits	33,667	30,643	28,997	31,297
Surgeries - Inpatient	7,732	8,356	7,908	7,569
Surgeries - Outpatient	2,994	3,266	3,690	4,146
Deliveries	5,417	5,612	5,363	5,386
<b>Skilled Nursing Beds</b>				
Licensed/Available Beds	225	225	225	225
Patient Days	75,851	74,875	75,846	76,840
Occupancy Rate	92%	91%	92%	94%

Source: The District.

**Market Environment**

There are no other hospitals located within the District's service area. However, outpatient facilities of hospitals which compete with the District for patients and offices of physicians who are on the medical staff of competing hospitals are located within the District's service area. In addition, there are other hospitals on the periphery of the District's services area, as shown on the map on the next page.

**[Printer to Insert Map – Provided to Working Group as a Separate Document]**

The table below shows acute and intensive care patient discharges in the District's service area for calendar years 2004, 2005 and 2006, the latest full year available. Included in the table are the number of discharged patients who reside in the District's service area and the hospitals from which such patients are discharged.

**District Service Area – Acute Care Hospital Discharges  
For Calendar Years 2004, 2005 and 2006**

<u>Hospital</u>	Miles from Closest District Hospital	2004		2005		2006	
		Discharges	Market Share	Discharge s	Market Share	Discharge s	Market Share
Palomar Medical Center	N/A	19,320	42.7%	19,356	41.3%	19,896	41.4%
Pomerado Hospital	N/A	6,355	14.0%	6,694	14.3%	6,507	13.5%
Scripps Memorial Hospital – La Jolla	18	2,918	6.5%	3,090	6.6%	3,372	7.0%
Kaiser Hospital – San Diego	18	2,558	5.7%	2,480	5.3%	2,534	5.3%
Tri-City Medical Center	16	2,046	4.5%	2,098	4.5%	2,194	4.6%
Scripps Green Hospital	18	1,864	4.1%	2,129	4.5%	2,278	4.7%
Children's Hospital – San Diego	22	1,748	3.9%	1,929	4.1%	1,946	4.0%
Sharp Mary Birch Hospital For Women	22	1,712	3.8%	1,842	3.9%	1,898	3.9%
Sharp Memorial Hospital	22	1,594	3.5%	1,559	3.3%	1,412	2.9%
UCSD (Hillcrest & Thornton)	21 & 28	1,575	3.5%	1,454	3.1%	1,639	3.4%
Scripps Memorial Hospital – Encinitas	21	781	1.7%	875	1.9%	915	1.9%
Scripps Mercy Hospital	20	560	1.2%	551	1.2%	539	1.1%
All Other Hospitals*		2,224	4.9%	2,843	6.0%	2,944	6.1%
<b>TOTAL DISCHARGES</b>		<b>45,255</b>	<b>100.0%</b>	<b>46,900</b>	<b>100.0%</b>	<b>48,074</b>	<b>100.0%</b>

Source: Office of Statewide Health Planning and Development Discharge Data Set.

\*Each hospital in the "All Other" category has less than 1% market share.

Note: Columns may not total correctly due to rounding.

Managed care is dominant in the County and a significant portion of patient admissions at the District and other hospitals in the County are based upon relationships and contracts between various managed care networks and the hospitals. Approximately 40.1% of patient revenues of the District during its fiscal year 2007 were derived from managed care networks, including premium revenue under capitated managed care contracts. District management believes these managed care networks in the County have been relatively stable over time.

**Relationship With Kaiser**

The District has entered into a Hospital Service Agreement ("Kaiser Agreement") with Kaiser Foundation Hospitals ("Kaiser"). Kaiser is a nonprofit California public benefit corporation that provides hospital services to, or arranges the provision of hospital services for, members of the Kaiser Foundation Health Plan, Inc. ("Health Plan"). Under the Kaiser Agreement, the District is obligated to provide inpatient and outpatient hospital services, primarily at the new PMC hospital, to Kaiser for members of the Health Plan in exchange for

fees based upon a schedule the parties have negotiated including a fee for services rendered per diem and a fixed payment for bed availability guarantees.

The term of the Kaiser Agreement is through September 30, 2020. However, after October 1, 2015, the term is a rolling five-year term that is extended from four to five years each September 30, unless one of the parties has given at least five years' prior written notice of non-renewal. Kaiser can terminate the Kaiser Agreement earlier in certain circumstances. After the District completes and opens the new Palomar Medical Center Campus, the District will be required to provide Kaiser a guaranteed hospital bed capacity. If the District fails to provide the guaranteed hospital beds to Kaiser as needed, the District must provide alternative hospitalization at the Pomerado Hospital or at its own expense, or Kaiser may terminate the Kaiser Agreement and/or seek to revisit its terms. After the opening of the new PMC hospital, Kaiser will be required to make certain fixed payments to the District.

Through September 30, 2017 (unless either party has given notice of termination for cause or it is during the last five years before effectiveness of a non-renewal notice), the District has a right of first opportunity to negotiate with Kaiser to develop or participate with Kaiser in developing (at Kaiser's election) any general acute care hospital Kaiser proposes to develop in the District's service area.

## **HISTORIC FINANCIAL INFORMATION**

### **Summary of Historical Financial Data**

The summary of financial data for the District for the fiscal years ended June 30, 2004, 2005, 2006 and 2007 as shown in the two tables on the following pages, has been derived from the audited consolidated financial statements of the District and its affiliates. This summary should be read in conjunction with the audited consolidated financial statements of the District, together with the related notes and other financial information, appearing in APPENDIX B—“AUDITED FINANCIAL STATEMENTS OF PALOMAR POMERADO HEALTH.”

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**Condensed Consolidated Schedule of Revenue, Expenses and Changes in Net Assets**  
**For the Years Ended June 30, 2004, 2005, 2006, and 2007**  
**(shown in thousands)**

	Fiscal Year Ended June 30,			
	2004	2005	2006	2007
Revenue				
Net patient service revenue	\$271,430	\$292,453	\$312,329	\$336,292
Net premium revenue	32,950	40,187	41,953	40,405
Other revenue	12,338	10,853	9,835	9,298
Total operating revenue	<u>316,718</u>	<u>343,493</u>	<u>364,117</u>	<u>385,995</u>
Expenses				
Operating expenses	291,487	318,671	345,383	365,903
Depreciation and amortization	14,547	16,395	18,737	19,453
Total operating expenses	<u>306,034</u>	<u>335,066</u>	<u>364,120</u>	<u>385,356</u>
Income (loss) from operations	<u>10,684</u>	<u>8,427</u>	<u>(3)</u>	<u>639</u>
Non-Operating Income (Expenses)				
Investment income	1,312	3,575	4,088	7,275
Unrealized gain on interest rate swap				4,373
Interest expense <sup>(1)</sup>	(5,581)	(5,272)	(4,406)	(3,337)
Property tax revenue <sup>(2)</sup>	9,206	10,218	11,495	12,562
Property tax revenue-GO Bonds <sup>(3)</sup>			9,423	11,016
Other	432	104	384	468
Total non-operating income-net	<u>5,369</u>	<u>8,625</u>	<u>20,984</u>	<u>32,357</u>
Excess of Revenue Over Expenses	16,053	17,052	20,981	32,996
Other changes in net assets	<u>54</u>	<u>8</u>	<u>21</u>	<u>193</u>
Increase in Net Assets	<u>\$16,107</u>	<u>\$17,060</u>	<u>\$21,002</u>	<u>\$33,189</u>

<sup>(1)</sup> Interest cost related to the 2006 Certificates and the 2005 GO Bonds is being capitalized to construction in progress and, therefore, is not reported as interest expense in the Condensed Consolidated Schedule of Revenue, Expenses and Changes in Net Assets.

<sup>(2)</sup> These "property tax revenues" are unrestricted and may be used by the District to fund ongoing operations and capital requisitions, as discussed under "-Unrestricted Property Tax Revenues" below.

<sup>(3)</sup> "Property tax revenue-GO Bonds" are restricted revenues and are pledged solely to and may be used only for the repayment of the Bonds, the 2005 GO Bonds and any additional series of GO Bonds.

**Condensed Consolidated Schedule of Balance Sheet Data**  
**As of June 30, 2004, 2005, 2006 and 2007**  
**(shown in thousands)**

	Fiscal Year Ended June 30,			
	2004	2005	2006 <sup>(1)</sup>	2007
<b>ASSETS</b>				
Current assets	\$202,891	\$197,693	\$202,131	\$225,888
Current assets –GO Bonds			12,160	11,060
Assets whose use is limited	34,769	29,904	29,933	137,036
Assets whose use is limited – GO Bonds			29,134	4,889
Capital assets	120,470	147,017	208,739	272,211
Other assets	8,086	9,762	6,248	23,227
<b>TOTAL ASSETS</b>	<u>\$366,216</u>	<u>\$384,376</u>	<u>\$488,345</u>	<u>\$674,311</u>
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities	\$44,844	\$47,831	\$53,844	\$63,885
Current portion of long-term debt	6,015	6,125	6,560	7,765
Current portion of GO Bonds			6,185	5,455
Workers' Compensation	3,900	7,334	5,696	5,024
Long-term debt – GO Bonds - Net of current portion			77,556	71,888
Long-term debt – Net of current portion	85,252	79,820	73,791	222,836
<b>Total Liabilities</b>	<u>140,011</u>	<u>141,110</u>	<u>223,632</u>	<u>376,853</u>
<b>Minority Interest</b>			444	-0-
<b>NET ASSETS</b>				
Invested in capital assets – net of related debt	31,102	63,384	86,995	104,900
Restricted for repayment of debt	11,127	11,317	12,361	29,698
Restricted for capital acquisitions & other purposes	278	282	13,403	14,043
Unrestricted	183,698	168,283	151,510	148,817
<b>Total net assets</b>	<u>226,205</u>	<u>243,266</u>	<u>264,269</u>	<u>297,458</u>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<u>\$366,216</u>	<u>\$384,376</u>	<u>\$488,345</u>	<u>\$674,311</u>

<sup>(1)</sup> Restated. For further explanation, see footnote number 13 in APPENDIX B – “AUDITED FINANCIAL STATEMENTS OF PALOMAR POMERADO HEALTH”.

## Sources of Patient Revenue

The following is a summary of gross patient revenue of the District by payor source for each of its fiscal years ended June 30, 2004, 2005, 2006 and 2007.

	<u>Fiscal Year Ended June 30,</u>			
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b><u>MEDICARE</u></b>				
Medicare Traditional	28.4%	27.2%	27.5%	27.6%
Medicare Managed Care	6.8%	6.3%	6.7%	7.7%
Medicare Capitation – Risk	11.1%	10.8%	10.7%	9.0%
<b><u>MEDI-CAL (Medicaid)</u></b>				
Medi-Cal Traditional	11.8%	13.3%	13.1%	13.8%
Medi-Cal Managed Care	2.5%	2.6%	2.6%	2.7%
County Medical Services (“CMS”)	3.0%	1.7%	1.8%	2.1%
<b><u>COMMERCIAL</u></b>				
Managed Care	26.4%	20.3%	17.4%	17.6%
Managed Cared Capitation – Risk	3.2%	3.4%	3.1%	8.1%
Indemnity	0.6%	7.6%	10.6%	10.7%
<b><u>OTHER</u></b>				
	6.2%	6.8%	6.5%	5.7%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.00</u>

Source: The District.

Note: Columns may not total exactly due to rounding.

Payments on behalf of certain patients are made to the District by the federal government under the Medicare program, by the federal government and the State under the Medicaid program, known as Medi-Cal in California, by managed care entities and other contracted rate payors (including health maintenance organization and preferred provider organizations), by commercial insurance carriers, and by self-paying patients. The District has entered into noncapitated contracts with more than 20 managed care entities. Differing methods for the reimbursement of hospital services are utilized by third-party payors. Most negotiated contracts are on a capitation, case rate, per diem or discount from charges basis. The District currently contracts with Pacificare and Secured Horizons, along with four physician medical groups on a shared risk capitated basis, which contracts resulted in gross capitation premium revenue of \$69.1 million and net patient capitation revenue (after expenses for treatment of members) of approximately \$40.4 million in fiscal year ended June 30, 2007. See “RISKS RELATED TO DISTRICT OPERATIONS—Patient Service Revenues” herein for a discussion of Medicare, Medi-Cal and other managed care programs that contract with the District.

## Unrestricted Property Tax Revenues

The District derives certain unrestricted property tax revenues (the “Unrestricted Property Tax Revenues”) from a share of property taxes levied by County of San Diego on the assessed value of real property in the District’s boundaries as a political subdivision. These property taxes levied by the County are subject to the provisions of Article XIII A of the California Constitution, are apportioned according to State statutes and may be used by the District to fund ongoing



operations as well as capital acquisitions. Assessed value of property within the District's boundaries has grown at an average of 10.5% per year during the last five years. The aggregate of Unrestricted Property Tax Revenues collected during fiscal years 2006 and 2007 was \$12.6 million and \$11.5 million, respectively, and District management projects that during fiscal year 2008, \$13.5 million will be collected. See the "Condensed Consolidated Schedule of Revenue, Expenses and Net Assets" shown above.

These Unrestricted Property Tax Revenues are in addition to, and are separate from, the ad valorem tax revenues resulting from the separate tax levy that is pledged solely to the payment of principal and interest on the Bonds, the 2005 GO Bonds and any additional series of GO Bonds issued by the District.

## **MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE**

### **Critical Accounting Policies and Estimates**

#### *Proprietary Fund Accounting*

The District is a local health care district (a governmental entity) and therefore, follows accounting and financial reporting standards applicable to governmental health care entities. Such standards are governed by the Governmental Accounting Standards Board ("GASB") and the American Institute of Certified Public Accountants ("AICPA") Audit and Accounting Guide for Health Care Organizations. The District utilizes the proprietary fund (enterprise fund) method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenue and expenses are subject to accrual. Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board, including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

#### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include: the carrying amounts of property, plant and equipment, contractual and bad debt allowances for receivables, cost report settlements, and liabilities for claims incurred but not reported under capitation agreements and self-insured programs.

#### *Revenues and Accounts Receivable*

Healthcare delivery revenue consists primarily of: (1) revenue from patient services provided under contracts with various government-sponsored health care programs (Medicare and Medi-Cal), insurance companies, and other third parties; (2) capitation premium revenue

received under contracts with managed care payors; and (3) self-pay patients including co-insurance payments.

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates and are recognized on an accrual basis. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

The District has agreements with various third-party payors to provide medical services to subscribing participants. Under these agreements, the District receives monthly capitation payments based on the number of each payor's participants, regardless of services actually performed by the District. Capitation premium revenue is recognized during the period enrollees are entitled to receive services.

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts determined to qualify as charity care are excluded from net patient revenue in the financial statements.

The District's property tax revenues are recorded in the year in which such taxes are due and received from the taxpayers and are included in non-operating income on the statement of revenue, expenses, and changes in net assets.

#### *GO Bonds and Revenue Obligations*

GO Bonds, including the Bonds, the 2005 GO Bonds and any additional series of GO Bonds, and any Revenue Obligations of the District, are reported as an obligation of the District on its balance sheet. Proceeds from the issuance of general obligation bonds are recorded as assets whose use is limited until such proceeds are expended on construction. As construction occurs, the bond proceeds are used to pay for such costs, resulting in a reduction of assets whose use is limited and an increase in fixed assets (construction in progress).

Interest costs related to tax-exempt debt, including the Bonds and the 2005 GO Bonds and the 2006 Certificates, are recorded on the accrual basis and are capitalized to the related construction in progress from the date of borrowing until the constructed assets are ready for their intended use. Thereafter, in the absence of other qualifying construction expenditures on which interest cost may be capitalized, capitalization of interest costs ceases and interest costs are expensed and are included as non-operating expenses in the statement of revenue, expenses, and changes in net assets. In addition, investment income on unexpended tax-exempt bond proceeds is recorded on the accrual basis as an offset to interest costs capitalized during the interest capitalization period. Thereafter, investment income on unspent bond proceeds is recorded as non-operating income.

### *Interest Rate Swaps*

The District has entered into certain variable-to-fixed interest rate swaps which will be reflected at fair value in its balance sheet. The fair value of the interest rate swaps will fluctuate, generally based on changes in market rates of interest. Any unrealized gains or losses resulting from changes in fair value are reported as non-operating gains or losses in the statement of revenue, expenses, and changes in net assets. Interest cost on variable interest rate debt is recorded based on the fixed interest rate paid by the District under its interest rate swaps. See “—Outstanding Swap Transactions” below.

### *Impairment of Capital Assets*

Capital assets, such as property, plant, and equipment, are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is dependent upon the event or circumstance in which the impairment occurred. Impairment losses are recorded in the statement of revenue, expenses, and changes in net assets.

### **Management’s Discussion and Analysis of Current Performance**

For the quarter ended September 30, 2007, the District recorded Income from Operations of \$2.2 million (all figures in this paragraph have been rounded) and Excess of Revenues Over Expenses (excluding Property tax revenue—GO Bonds) of \$7.2 million in comparison to \$3.4 million and \$7.9 million, respectively, for the quarter ended September 30, 2006. The Excess of Revenues Over Expenses negative variance of \$700,000 was attributable to a change made in the first quarter ended September 30, 2007 in the recognition of reserves relating to capitated managed care contracts at discharge date versus recognition during the first quarter ended September 30, 2006 at the billing date (\$1.5 million) and is expected by management to normalize throughout the current fiscal year. The first quarter performance was \$23,000 positive to budget for Income from Operations and \$1.47 million positive to budget for Excess of Revenues Over Expenses (excluding Property tax revenue—GO Bonds). The District has budgeted Excess of Revenues Over Expenses of \$25.1 million for the entire fiscal year ending June 30, 2008 (excluding Property tax revenue—GO Bonds), which would reflect a 14% increase over comparable Excess of Revenues Over Expenses for the fiscal year ended June 30, 2007.

### **Management’s Discussion and Analysis of Historical Performance**

This *Management’s Discussion and Analysis of Historical Performance* should be read in conjunction with the Management’s Discussion and Analysis accompanying the audited consolidated financial statements of the District appearing in APPENDIX B—“AUDITED FINANCIAL STATEMENTS OF PALOMAR POMERADO HEALTH.” All of the figures discussed in this subsection have been rounded.

For the fiscal year ended June 30, 2007, the District reported net patient service revenue totaling \$336.3 million in comparison to \$312.3 million for fiscal year 2006 and \$292.5 million for fiscal year 2005. The \$24.0 million (7.7%) growth from fiscal year 2006 to fiscal year 2007 is the result of payor contract and government payor rate increases, case management initiatives and volume growth (2.1% acute admissions, 1.3% skilled inpatient days and 6.6% emergency visits). Similarly, the growth from fiscal year 2005 to fiscal year 2006 was attributable to rate increases and volume growth (3.2% acute inpatient days and 3.6% emergency visits). Over the past three fiscal periods, the District has continued to improve managed care payor agreements. Effective November 2006, the District renewed its contract relationship with Blue Cross for a 32 month period. Additionally, consistency in volumes, market share and payor mix has contributed to these increases. Uncompensated care approximates 5% of revenues. As noted in the table under the heading "HISTORICAL FINANCIAL INFORMATION—Sources of Patient Revenue" set forth above, payor mix has remained relatively consistent over the three fiscal year periods.

For the fiscal year ended June 30, 2007, the District reported revenue earned on capitated contracts of \$40.4 million in comparison to \$42.0 million for fiscal year 2006 and \$40.2 million for fiscal year 2005. Capitated contracts are concentrated with the Pacificare commercial plan (20,600 lives) and the Secured Horizons senior plan (11,900 lives), which involve four medical groups in the District's service area, with the fourth group added in fiscal year 2005.

Inpatient activity remains strong, as evidenced by the consistently strong inpatient acute occupancy rates of 69%, 71% and 71% for fiscal years 2005, 2006 and 2007. Since 2004, skilled nursing care inpatient occupancy has been constant at approximately 91-93%. Outpatient revenue cumulative growth has been 32% for fiscal years 2005 through 2007. Successful outreach strategies and investment in key outpatient technologies and programs have contributed to this growth.

The District receives a share of Unrestricted Property Tax Revenues levied by the County of San Diego, as discussed under "HISTORIC FINANCIAL INFORMATION – Unrestricted Property Tax Revenues." Growth of such revenues reflects continued population growth and increasing assessed valuation. Unrestricted Property Tax Revenues are separate and apart from the ad valorem property taxes collected from the separate tax levy that is pledged solely to the repayment of the Bonds and 2005 GO Bonds and any additional series of GO Bonds. Unrestricted Property Tax Revenues have been \$10.2 million, \$11.5 million and \$12.6 million for fiscal years 2005, 2006 and 2007, respectively.

Salaries, wages and benefits for the fiscal years ended June 30, 2007, totaled \$228.4 million, a 7.7% increase over 2006, at \$212.0 million. Fiscal year 2005 was \$199.2 million. Salaries, wages and benefits have approximated 57-60% of total operating revenues over the past three fiscal years. During fiscal years 2004 through 2007, the District experienced wage pressure related to the ongoing nursing and clinical staff shortages, with the majority of the increases attributed to wage inflation. The District staffs to the State-mandated nurse-staffing ratios. Costs related to registry (temporary agency for nurses) were \$14.7 million, \$12.6 million, and \$8.5 million for fiscal years 2005, 2006, and 2007 respectively. The significant reduction in registry for fiscal year 2007 is attributable to enhanced recruitment and retention strategies. Despite the strong labor shortages in California, the District's overall employee vacancy rate

over the past 12 months is approximately 5.6%, compared with the California Healthcare Association average of 7.0%, and registered nurse vacancy is approximately 7.3%, compared with the California Healthcare Association average of 8.5% over the same time period. Unionized employees represent approximately two thirds of the District's total workforce. Registered nurses have been represented by California Nurses Associated (CNA) since June 2003 while the other portion of the unionized work force have been represented by California Healthcare Employees Union. Both labor contracts were successfully negotiated at the end of June 2006, each for additional three year terms.

Management expects that competitive and supply-driven labor shortages will continue to stress labor budgets and staffing plans. The successful negotiation of new labor agreements and maintaining comprehensive market competitive employee benefits have helped alleviate some workforce shortage concerns. Additionally in 2006, the District was recognized by San Diego Magazine as the third best place to work in San Diego County, among large employers in all industries, and by the San Diego Society for Human Resource Management as the best place to work in San Diego County, among large employers in all industries.

The District has a 6% defined contribution pension plan. The plan is fully funded and investments are individually managed by the employee based upon the plan options. Health and welfare benefits, consisting of POS and HMO options, are acquired from third party insurers.

Supplies expense for the fiscal year ended June 30, 2007, totaled \$60.7 million. This represents a 4.6% decrease from fiscal year 2006 (\$63.6 million). Effective supply chain management strategies, including physician preference items, forms, office products, and pharmaceuticals, resulted in the reduction on a volume and dollar savings basis. Fiscal year 2006 supplies expense was \$63.6 million, representing a 9.8% increase over fiscal year 2005 (\$57.9 million). Advancements in certain technology and treatment modalities, particularly in cardiac care, along with pharmaceutical advancements have contributed to increased supply expenditures challenging the management of year on year cost increases. The District remains committed to supporting advancements in technologies and treatment protocols in collaboration with its medical staffs.

Purchased Services for the fiscal year ended June 30, 2007, totaled \$29.2 million, as compared to \$28.1 million for fiscal year 2006 and \$25.9 million for fiscal year 2005. Increases have been the result of license and maintenance fees for the replacement of all financial and clinical information technology systems during fiscal year 2004 to fiscal year 2007.

Professional fees represent the District's commitment to addressing community access to comprehensive health care, including specialty care such as trauma. The District has invested in medical directorships and in certain physician coverage programs including Emergency Department specialty call coverage, 24-hour Trauma coverage, hospitalists, and OB night call coverage. For the fiscal year ended June 30, 2007, the District reported professional fees of \$24.2 million, as compared to \$20.9 million for fiscal year 2006 and \$18.6 for fiscal year 2005. The fiscal year increase of 15.8% over fiscal year 2006 was attributable to increased call coverage, hospitalist coverage, and information technology services. The District believes it has mitigated future costs of certain Emergency Department and Trauma call coverage through negotiating a contract with a primary vendor who secures 24/7 coverage for the various coverage

needs. This contract provides for an initial term of March 1, 2006 through June 20, 2011 and then automatically renews for one-year terms unless and until either party provides notice of intent not to renew. Future cost increases are inflation-adjusted, which provide certainty of costs.

For the fiscal year ended June 30, 2007, depreciation expense totaled \$19.5 million, as compared to \$18.7 million for fiscal year 2006 and \$16.4 million for fiscal year 2005. Continued investment in capital assets and technology (notably information technology, imaging modalities, and warehouse facilities) has contributed to the ongoing increase in depreciation expense.

The provision for uncompensated care (bad debt, charity, and undocumented), which is netted in patient service revenue, for fiscal year 2007 totaled \$64.4 million, as compared to \$47.5 million for fiscal year 2006 and \$45.1 million for fiscal year 2005. Historically, total uncompensated care, including bad debt, charity care and undocumented care, approximates 4% to 5% of gross revenues on an annual basis.

Interest expense attributable to the Series 1999 Bonds (described herein under “—Outstanding Long-Term Debt” below) and the 2006 Certificates totaled \$3.3 million for fiscal year 2007, \$4.4 million for fiscal year 2006 and \$5.3 million for fiscal year 2005. Interest expense related to the new money portion of the 2006 Certificates is capitalized as part of project costs. For fiscal year 2007, unrealized gain on interest rate swap of \$4.4 million was recognized compared to \$0 for fiscal years 2006 and 2005. See “—Outstanding Swap Transactions” below.

Investment income for the fiscal year ended June 30, 2007 totaled \$7.3 million, in comparison to \$4.1 million for the year prior. Fiscal year 2005 totaled \$3.6 million. The fluctuation in periods is primarily due to changes in market interest rate conditions. The District’s investment policies and practices have remained consistent and are subject to State statutory restrictions regarding no equity investments and maturities less than five years. Investment income reported in the Consolidated Schedule of Revenue, Expenses and Changes in Net Assets represents the net result of realized and unrealized gains and losses on investment activity.

Income from operations, inclusive of Unrestricted Property Tax Revenues and exclusive of depreciation (“EBIDA”), is as follows for fiscal years ended June 30, 2005, 2006 and 2007:

	Fiscal year Ended June 30, (dollars in thousands)		
	2005	2006	2007
Income (loss) from operations	\$8,427	\$(3)	639
Add: depreciation expense	16,395	18,737	19,453
Add: Unrestricted Property Tax Revenues	10,218	11,495	12,562
EBIDA	<u>\$35,040</u>	<u>\$30,229</u>	<u>\$32,654</u>

The District presents the above non-GAAP financial measure because it believes that it is a useful indicator of its operating performance. The District believes that EBIDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties to measure a company's operating performance without regard to items such as interest expense and depreciation and amortization, which can vary substantially from company to company.

The District's improvement in EBIDA between fiscal year 2007 and fiscal year 2006 is the result of improved payor contracts and labor productivity management while maintaining a strong commitment and investment in its human resources, technology (supply and information technology). Productivity was 100% of benchmarked labor standards for fiscal year 2007.

Overall, the District's operations have remained financially strong through improved payor rate negotiations, implementation of certain cost containment strategies, focus on recruitment and retention to minimize premium pay, including registry, re-negotiation of its three year labor agreements with labor unions representing approximately 2/3 of the total work force, commitment to technology advancements and maintaining market share in its service area while addressing inpatient capacity constraints.

Although continued pressure is expected from payors and employers on reimbursement rates, the District has successfully negotiated ongoing payor rate increases reflective of its status as an essential provider in the North San Diego County market place.

### **Outstanding Long-Term Debt**

The District has previously issued and has outstanding: (i) the Palomar Pomerado Health System Insured Refunding Revenue Bonds, Series 1999 (the "Series 1999 Bonds"); (ii) the Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2005A (the "2005 GO Bonds"); and (iii) the Certificates of Participation Evidencing Proportionate Interests of the Holders Thereof in Installment Payments to be Paid by Palomar Pomerado Health executed and delivered in 2006 (the "2006 Certificates").

The Series 1999 Bonds and the 2006 Certificates are payable from gross operating revenues of the District and are not secured by any ad valorem taxes. The voters of the District approved \$496 million of general obligation bonds (collectively, the "GO Bonds") at a November 2, 2004 election. The Bonds, the 2005 GO Bonds and any subsequent series of GO Bonds are payable from, and secured by a pledge of, ad valorem tax required to be levied by the County of San Diego, without limitation as to rate or amount, upon all property subject to taxation by the District (except certain personal property, which is taxable at limited rates) for the payment of principal of and interest on such GO Bonds.

The following table sets forth the original and outstanding aggregate principal amount of the District's long-term debt prior to the issuance of the Bonds:

	<b>Original Aggregate Principal Amount</b>	<b>Outstanding Aggregate Principal Amount</b>
<b>Revenue Obligations</b>		
Series 1999 Bonds	\$ 66,700,000	\$47,320,000
2006 Certificates	180,000,000	177,775,000
<b>Total Revenue Obligations</b>	<b>\$246,700,000</b>	<b>\$225,095,000</b>
<b>GO Bonds</b>		
2005 GO Bonds	\$ 80,000,000	\$ 68,360,000
<b>Total Long-Term Debt</b>	<b>\$326,700,000</b>	<b>\$293,445,000</b>

### **Outstanding Swap Transactions**

In connection with the execution and delivery of the 2006 Certificates, the District entered into an interest rate swap agreement with respect to each of the three series of 2006 Certificates (each, a "Swap" and collectively, the "Swaps"), each with Citibank, N.A., New York, which became effective on December 28, 2006. The terms of the Swaps are substantially identical to one another and are payable from the revenues of the District. The notional amount of each Swap equals the aggregate principal amount of the related series of 2006 Certificates and will be reduced by an amount equal to the principal amount of the related series of 2006 Certificates that are redeemed. Under each Swap, the District pays a fixed rate of 3.218% per annum and receives a variable rate equal to 56% of the 1-month London Interbank Offered Rate plus 23 basis points. Net payments are made on a same-day basis. See "—Investment and Swap Policies" below and "RISKS RELATED TO DISTRICT OPERATIONS—Other Operational Risk Factors—*Risks Related to Outstanding Variable Rate Obligations and Interest Rate Swap Transactions*" herein.

### **Liquidity and Capital Resources**

The District's unrestricted liquidity position as of June 30, 2007 was \$109.1 million, including \$1.4 million in operating cash and \$107.8 million in unrestricted investments stated at fair market value. The available liquidity of \$109.2 million represents a 2.5% decrease over the \$112.0 million in available liquidity as of June 30, 2006, and equaled 47.3% of total outstanding debt as of June 30, 2007 (excluding the 2005 GO Bonds which are paid from ad valorem property taxes), as compared to available liquidity representing 103.9% of total outstanding debt as of June 30, 2006.

The District's primary need for capital resources is the necessary facility construction, repairs and expansions contemplated in its Facilities Master Plan. See "FACILITIES MASTER PLAN, SERVICE AREA AND COMPETITION—Facilities Master Plan" herein for a discussion of the anticipated funding sources for the Facilities Master Plan.



## Capitalization

The following table sets forth the actual and pro forma capitalization of the District as of June 30, 2007. As more fully described in the front portion of this Official Statement under the caption "SECURITY AND SOURCE OF PAYMENT OF THE BONDS," all GO Bonds, including the Bonds and the 2005 GO Bonds, are payable from, and secured by, a pledge of ad valorem taxes. The District expects that the Bonds, the 2005 GO Bonds and any additional GO Bonds issued by the District pursuant to Measure BB will be repaid from such pledged ad valorem taxes. However, pursuant to Section 32127 of the Local Health Care District Law, the District is required to apply amounts on deposit in its maintenance and operations fund whenever ad valorem taxes are insufficient to make such payments. Therefore, actual and pro forma capitalization are presented both including and excluding the Bonds and the 2005 GO Bonds.

	With GO Bonds <sup>(1)</sup>		Without GO Bonds <sup>(1)</sup>	
	Actual	Proforma	Actual	Proforma
Bonds <sup>(1)</sup>	-	\$250,000	-	-
2006 Certificates	\$179,176	179,176	179,176	179,176
2005 GO Bonds <sup>(1)</sup>	77,343	77,343	-	-
Series 1999 Bonds	51,425	51,425	51,425	51,425
Total Long-Term Debt	\$307,944	\$557,944	\$230,601	\$230,601
Less: Current Portion of Long-Term Debt	13,220	13,220	7,765	7,765
Long-Term Debt, Net of Current Portion	\$294,724	\$544,724	\$222,836	\$222,836
Total Net Assets	297,457	297,457	297,457	297,457
Total Capitalization	\$592,181	\$842,181	\$520,293	\$520,293
Percentage of Long-Term Debt, Net of Current Portion, to Total Capitalization	49.77%	64.68%	42.83%	42.83%

Source: The District.

<sup>(1)</sup> The District is authorized to issue up to \$496,000,000 principal amount of its GO Bonds to pay costs of the Facilities Master Plan.

## Debt Service Coverage of Revenue Obligations

The table below sets forth the maximum annual debt service\* requirement and the maximum annual debt service coverage ratio on the 2006 Certificates and the Series 1999 Bonds for fiscal years ended June 30, 2006 and 2007. The table below excludes the Bonds and the 2005 GO Bonds because such GO Bonds are payable from, and secured by a pledge of, ad valorem taxes to be levied and collected by the County of San Diego on taxable property within the District's boundaries and such GO Bonds are not secured by any pledge of gross operating revenue that are pledged to pay the 2006 Certificates and the Series 1999 Bonds. Although the District is legally required to repay the GO Bonds if such pledged ad valorem taxes are insufficient, management of the District expects that the GO Bonds will be paid from such pledged ad valorem taxes.

	<b>Fiscal Year Ended June 30,</b> <b>(dollars in thousands)</b>	
	<b>2006</b>	<b>2007</b>
Excess of revenue over expenses	\$20,981	32,997
Less: Property tax revenue – GO Bonds	(9,423)	(11,016)
Plus: Depreciation and amortization	18,737	19,453
Plus: Interest expense	4,406	3,337
Income Available for Debt Service	<u>\$34,701</u>	<u>44,771</u>
Maximum annual debt service requirement <sup>(*)</sup>	\$14,237	\$14,237
Maximum annual debt service coverage ratio <sup>(1)</sup>	2.44x	3.14x

Source: The District.

<sup>(\*)</sup> Maximum annual debt service is assumed to be the maximum debt service payable in any fiscal year based upon actual principal and interest payments scheduled for the Series 1999 Bonds and the fixed rate on the Swaps related to the 2006 Certificates.

<sup>(1)</sup> Assumes the 2006 Certificates pay an interest rate of 3.21%, which is the fixed swap rate to be paid by the District under the Swaps. See “—Outstanding Swap Transactions” above.

### **Investment and Swap Policies**

The District may invest in investments permitted under the California Government Code, which include: U.S. Treasuries, U.S. Agency Debt, State of California obligations, LAIF, Bankers Acceptances, Commercial Paper, Certificates of Deposit, Repurchase Agreements, Reverse Repurchase Agreements and Money Market Mutual Funds, all with a five year or less maturity. The District’s investment program is overseen by professional outside investment advisors, who have been retained to manage specific classes of permitted investments.

The District Board has adopted a Debt and Swap Policy (“Policy”) to establish guidelines for the execution and management of the District’s use of variable rate debt and interest rate swaps, caps, options, basis swaps, rate locks, total return swaps and other similar products (collectively, “Swap Products”). The Policy sets forth the parameters under which the District may enter into transactions involving Swap Products. The District may integrate Swap Products into its overall debt and investment management programs only in a manner in accordance with the parameters set forth in the Policy. The Policy sets forth the criteria for financial and risk management practices related to debt and Swap Products. The District Board plans to review the Policy periodically.

## **GOVERNANCE AND MANAGEMENT**

### **District Board**

The District is governed by a seven-member board elected by the eligible voters residing within the boundaries of the District. District Board members are elected to four-year terms with no term limitations. If a vacancy occurs mid-term, the District Board appoints, by majority vote, a replacement to fill the position until the next election, and the person elected serves the then-remaining term of office. Tenure of current District Board members ranges from less than one to more than ten years. As of October 2007, one District Board seat was vacated as a result of the

former District Board member moving out of state. It is expected that the remaining District Board members will appoint a new member at the December 2007 District Board meeting, such appointed member's term to expire in November 2008.

District Board Members	Position	Year First Elected	Term Expiration
Marcelo Rivera, M.D.	Chair	2000	2008
Nancy Bassett, R.N., MBA	Vice-Chair	2000	2008
Ted Kleiter	Treasurer	1996	2010
Linda Greer, R.N.	Secretary	2004	2008
Alan Larson, M.D.	Director and Past Chair	1998	2010
Bruce Krider, M.A. <sup>(1)</sup>	Director	2003	2010

<sup>(1)</sup> Board appointed in 2003 and elected in 2004 for balance of term. Elected to full term in November 2006.

The standing committees of the Board include, among others, the following:

Audit and Compliance	Governance
Community Relations	Human Resources
Facility and Grounds	Quality
Finance	Strategic Planning

Administratively, the District is structured as a matrix organization. All executive management team ("EMT") members and many directors have responsibilities for operations throughout all the District facilities. This structure encourages the transfer of best practices and supports a single standard of care. Board Committees are generally aligned with the responsibilities of a specific EMT member, providing a close working relationship that facilitates policy and budget decisions, as well as regulatory compliance.

#### Executive Management Team

**MICHAEL H. COVERT, President and Chief Executive Officer.** Michael H. Covert, F.A.C.H.E., came to the District as President and Chief Executive Officer in January 2003, bringing more than 35 years experience in health care administration. His previous positions include President and CEO of Sarasota Memorial Health Care System from 1992 to 2000; acting Director of the Public Health Department, Wichita, Kansas; Executive Director of the Ohio State University of Hospitals, Columbus, Ohio; Chief Operating Officer at St. Francis Regional Medical Center, Wichita, Kansas; and Senior Vice President of Physicians Corporation of America, Wichita, Kansas. From 2000 to 2002, Mr. Covert served as President and Chief Executive Officer of the Washington Hospital Medical Center in Washington, D.C., one of the 10 busiest hospitals in the United States and the largest in the DC/Maryland area. Mr. Covert received both a bachelor's degree in business administration and a master's degree in health administration from Washington University School of Medicine in St. Louis, Missouri and is a Fellow in the American College of Health Care Executives.

**GERALD E. BRACHT, Chief Administrative Officer, PMC.** Gerald E. Bracht has been the Chief Administrative Officer for PMC since 2002. He has over 20 years of experience in the health care industry. Mr. Bracht received a Bachelor of Science in Business Administration and a Masters in Business Administration from University of San Diego.

Mr. Bracht has held positions in materials management, support services, and administration. His positions have included Vice President/Administrator of Scripps Memorial Hospital and Ocean View Convalescent Hospital; Vice President, System Development at Scripps Health; and Vice President, Business Development and Operations Southwest Region for Cove HealthCare. Mr. Bracht has also provided independent consulting to hospitals and medical groups.

**SHEILA BROWN, Chief Clinical Outreach Officer.** Sheila D. Brown is the Chief Clinical Outreach Officer for the District and has been with the District since 1992 having fulfilled increasingly responsible management positions. She oversees the strategic planning, operations, business plan development and financial management for the following: Home Health, Behavioral Health, Ambulatory Care Surgical Center, Rehabilitation, Wound Care Center, Diabetes Health, Employee Health, Skilled Nursing Facilities, and Comprehensive Occupational Medicine. She has over 20 years experience in the health care industry. Ms. Brown received her Bachelors of Science in Nursing from St. Louis University. Ms. Brown then served on the management team for BJC Health System in St. Louis until her move to San Diego. Ms. Brown obtained her Master's degree in Business Administration from University of Phoenix in 1996 and is an Associate of the American College of Health Care Executives. She is also a fellow alumnus of the California Health Leadership College.

**DUANE M. BURINGRUD, M.D., Chief Quality Medical Officer.** Dr. Buringrud is a board certified OB/GYN physician who has been in private practice in Escondido, California for 25 years. Dr. Buringrud became the Chief Quality Medical Officer in 2005, which responsibility for facilitating processes with the medical staff to achieve the full implementation of national best practice clinical standards throughout the District health system continuum. He completed his Medical Degree from Texas Tech University, and internship and residency in OB/GYN at Naval Regional Medical Center, Oakland, California. Dr. Buringrud is a Diplomat of the National Board of Medical Examiners as well as a Diplomat of the American Board of Obstetrics and Gynecology. Dr. Buringrud has held numerous physician leadership positions, including, Chief of Staff, Co-Chair - Quality Council, Chairman - Medical Staff Credentials Committee, and Chairman - Department of OB/GYN.

**GUSTAVO FRIEDERICHSEN, Chief Marketing & Communications Officer.** Gustavo Friederichsen joined the executive management team January 2004. He came to the District from Sharp Healthcare, where he served as the Vice President of Communications, Public Relations and International Business. He also served as Director of Corporate Communications and Multicultural Services for Sharp from 1998 to January 2003, and Director of Strategic Communications for Tenet Healthcare Corporation in Santa Barbara, California. Offering a comprehensive background in communications, Mr. Friederichsen served as Senior Policy Advisor to Supervisor Ron Roberts from 1996 to 1997, Public and Government Relations Manager for Scripps Health in San Diego from 1991 to 1996 and Deputy Director for Communications with the U.S. Department of Health & Human Services in Washington, D.C. from 1990 to 1991. Mr. Friederichsen has a bachelor's degree in Journalism from San Diego State University, attended the Executive Management program at the University of Notre Dame Mendoza School of Business and Executive Education at the Wharton School of Business.

**WALTER L GEORGE, Chief Human Resource Officer.** Wallie George joined the executive management team at the District in September 2005. He is responsible for clinical

education, organizational development, compensation and benefits, workers' compensation, recruitment, employee relations, and HR information systems. Mr. George has over 30 years experience in Human Resource leadership. Prior to joining the District, he served as Interim Vice President and Riverside Methodist Hospital in Columbus, Ohio. He was Senior Vice President of Human Resources at Mercy Health Partners for five years, and prior to that was Vice President of Human Resources at Sarasota Memorial Hospital in Florida for five years. Mr. George was also Vice President of Human Resources Presbyterian St. Luke's Medical Center in Denver, Colorado and worked at the Federal Aviation Administration as Chief of the Labor Relations Branch. Mr. George received his Bachelors in Business Administration at Eastern Illinois University and his Masters in Management at Regis University in Denver, Colorado.

**STEVE GOLD, Interim Chief Administrative Officer.** Steve Gold was appointed the District's Interim Chief Administrative Officer in 2007. In addition, he is the Administrator for Skilled Nursing Services for Palomar Pomerado Health. He has over 30 years of experience in the healthcare industry, having worked for non-profit health systems, long-term care facilities, long-term care physician group practices, managed care products and community-based health care systems. Mr. Gold received his BS in Business Administration from the State University of New York at Buffalo, and his MHA from the State University of New York at Stony Brook. He is a Certified Fellow of the American College of Health Care Administrators, a member of ACHE, a Licensed Nursing Home Administrator. He serves on the Boards of the Poway Chamber of Commerce and the California Hospital Association's Hospital Services for Continuing Care. Previously, he served as Chairman of the American Hospital Association Rehab & Long-Term Care Governing Council, as well as a Governor's Appointee to the Virginia Health Services Cost Review Council

**ROBERT HEMKER, Chief Financial Officer.** Robert Hemker was appointed CFO of the District in May 2001 and served as the District's Interim President and CEO from May 2002 through January 2003. A 25-year veteran of the health care industry, Mr. Hemker has extensive experience managing the financial and operational aspects of health care organizations, working closely with community, physician, and board representatives. His career includes Chief Financial Officer, Chief Operating Officer and Chief Executive Officer responsibilities in for-profit, not-for-profit, and governmental acute care hospitals in Southern California and Hawaii, as well as consulting experiences to various health care sectors. Mr. Hemker holds a Master's in Healthcare Administration from the University of LaVerne and a BS in Accounting from San Diego State University. Currently, he serves as Chair for the HFMA National CFO Forum Peer Council, Chair of the VHA West Coast CFO/COO Forum, Treasurer of the worker compensation captive, Alpha Fund, a member of the ACHD Finance Committee and a member of the Beta Alliance Insurance Group Board of Directors. He is a frequent speaker on various topics to the Healthcare Industry.

**MARCIA JACKSON, Chief Planning Officer.** Marcia Jackson joined the District in April 2000. Ms. Jackson is responsible for the developing and overseeing the implementation of the annual and long-term strategic planning, physician relations and recruitment and development of business plans. Ms. Jackson has over 18 years experience in healthcare planning, marketing and business development, including the construction of a 100,000 square foot maternity center. She has an MBA from the University of California, Riverside.

Ms. Jackson serves as the Chair of the Board of Directors of Partners for Community Access and serves on the Meals on Wheels Board of Directors. Marcia is a Fellow of the Health Forum's Creating Healthier Communities Fellowship Program.

**OPAL REINBOLD, Chief Quality Officer.** Opal Reinbold joined the District in May 2005, with responsibility for the performance improvement/patient safety and resource utilization programs for the health system, working closely with the designated physician leaders for the health system. Ms. Reinbold's prior work experience includes Vice President for Performance Improvement at Sharp Healthcare. She was the Principal of West Coast Division of the Accreditation and Assessment practice of Premier Inc., System-wide Director of Quality Resource Management for Scripps Health in San Diego, Vice President with Holy Cross Health System, and Director of Accreditation Services with the National Healthcare Advisory Services practice of BDO Seidman, LLP. Ms. Reinbold has a BA degree from Boise State University.

**JANINE SARTI, General Counsel.** Janine Sarti is a member of the executive management team and joined the District in June 2007. She is responsible for the delivery of legal services throughout the entire organization. Ms. Sarti has over 25 years experience in General Counsel leadership for healthcare organizations. Prior to joining the District, she was Regional Vice President and General Counsel for St. Luke's Health System in Boise, Idaho, and prior to that was Regional Vice President, General Counsel, Legal, Risk, and Mission for Catholic Health Initiatives. Her experience includes representing not for profit, for profit, and governmental acute care hospitals, as well as other types of healthcare organizations. Ms. Sarti received her Bachelor's in Business Administration and Political Science from Linfield College, and her Juris Doctor from Gonzaga University School of Law.

**LORIE SHOEMAKER, Chief Nurse Executive.** Lorie Shoemaker was appointed Chief Nurse Executive in March 2004. She oversees the nursing divisions for the District. She has 20 years experience with the District, having fulfilled progressive management positions since 1992. Ms. Shoemaker received her Registered Nursing degree from the College of the Desert in Palm Desert, CA in 1974. She obtained her Bachelor of Science in Nursing degree from National University in 1997 and Master of Science in Nursing degree from the University of Phoenix in 2000. Ms. Shoemaker is an alumnus of the 2004 Johnson & Johnson/Wharton Fellows Program in Management for Nurse Executives and in 2005 obtained certification in Advanced Nursing Administration (CNAA-BC) from the American Nurses Credentialing Center.

**STEVEN TANAKA, Chief Information Officer.** Steve Tanaka has been serving as the Chief Information Officer since 2005. Mr. Tanaka is responsible for the IS Division of the District. He has overall responsibility for the IS and Telecommunications operations and strategic planning. Mr. Tanaka has over 20 years experience in Information Technology leadership roles. Prior to being appointed to his current position, Mr. Tanaka served as the Project Manager and Director of Application Services at the District from 2003 to 2004. He also served as Director of Information Technology at Scripps Health. Mr. Tanaka has a BS degree in Microbiology from San Diego State University and is a graduate of the UCSD Healthcare Executive Leadership Certificate Program.

**BENJAMIN KANTER, Chief Medical Information Officer.** Benjamin Kanter MD FCCP has served the District as CMIO with responsibilities for the development of clinical information systems since September 2006. Dr. Kanter is Board Certified in Internal Medicine

and Pulmonary Disease, and received special certification in Critical Care in 1990. He has been in private practice in Escondido, California for 19 years. Dr. Kanter graduated from the University of Michigan with Distinction and Honors, after which he received his Medical degree and Internal Medicine training at Northwestern University in Chicago. He completed his post-doctoral studies in both Pulmonary Disease and Critical Care Medicine at the U.C.S.D. Medical center. Dr. Kanter continued to teach at U.C.S.D. as an associate clinical professor of medicine after going into private practice. He has served in numerous leadership roles within the District including chairing the departments of Medicine at both PMC and Pomerado Hospital, directed Respiratory and Critical Care services at Pomerado Hospital, and founded and maintains his directorship over the Palomar Medical Center Sleep Disorders Laboratory. He received certification training in electronic health records and hospital information systems in 2006. Dr. Kanter currently serves as the Chief of Staff at Pomerado Hospital and chairs their medical executive committee.

### **Foundation Management**

**DANA DAWSON, President & Chief Development Officer, Palomar Pomerado Health Foundation.** Dana Dawson was appointed to this position in September 2006. Mr. Dawson has more than 23 years of fundraising experience, helping raise \$148.5 million in his career. Mr. Dawson is a Certified Fund Raising Executive (CFRE). Mr. Dawson experience includes, Development PLUS Fundraising Counsel Inc., West Park Health Care Centre Foundation, North York General Hospital Foundation, and Ketchum Co. of Canada. He has led a number of successful campaigns, and has served as a director for several foundations in areas of health care, education, non-profit and performing arts. Mr. Dawson's previous fundraising campaigns include; Alzheimer's Society of Peterborough and Lindsay, Ontario, Hotel Dieu Hospital Foundation, Toronto Association for Community Living, The Queen Elizabeth Hospital Foundation, Sault Area Hospital Foundation, Ross Memorial Hospital Foundation, The Wellesley Hospital Foundation, Ryerson Polytechnic University, University of Toronto Schools, Holland College and the University of Calgary.

### **OTHER INFORMATION**

#### **Medical Staff**

As of October 2007, the District had a total of 650 physicians on the separate medical staffs of the PMC (608) and of Pomerado (430). Approximately 85% are board-certified in their respective specialties within approximately 42 specialties. Both hospitals' Medical Staff Bylaws require board certification as a condition for medical staff privileges. The exceptions are: physicians who have been grandfathered in if they were on the medical staff prior to this requirement; and physicians newly out of residency programs are given a specified number of years to achieve board certification. The medical staffs include: primary care physicians – PMC (195) and Pomerado (86); surgeons – PMC (148) and Pomerado (104); and medical specialists – PMC (101) and Pomerado (84). Based on an analysis of the age distribution of the physicians, with the average age being 48 and with only 11% of the physicians age 63 or older, District management does not expect to experience decrease in admissions due to retirement in the near future.

In accordance with legal requirements, the District has a formalized physician recruitment program that has been in place for approximately five years, under which income

guarantees may be provided to physicians who move to the District's service area to establish a medical practice to meet community need. When possible, these recruitments are undertaken in conjunction with a physician or medical group already practicing in the service area, who either want to expand their capacity to care for additional patients or who are recruiting to fill a vacancy due to retirement or a physician relocating. The District has been involved in recruitment of 12 physicians to its medical staffs, all of whom are still practicing in the District's service area.

### **Accreditations, Certifications and Memberships**

The District is subject to regulatory oversight by the Centers for Medicare and Medicaid Services, The Joint Commission, the California Department of Health Services, among others. In 2004, the District received three year accreditation from JCAHO. Management of the District anticipates that it will have its next accreditation survey during the first quarter of calendar year 2008. As a result of its performance on The Joint Commission surveys, the District was selected in 2005 as one of 25 health care organizations nationwide to participate in a The Joint Commission pilot study to further improve the accreditation process. The District has voluntarily initiated accreditation/certification for specific programs such as the Acute Rehabilitation Unit from the Commission on Accreditation of Rehabilitation Facilities (CARF) and Clinical Laboratory from College of American Pathologists.

Generally, hospitals in the County are experiencing nursing shortages. To address the nursing shortage, the District is collaborating with local colleges to expand the supply of nurses. Early in calendar year 2006, the District expended \$2.5 million for improvements in the District's San Marcos Ambulatory Care Center, which improvements are provided without charge to California State University at San Marcos, Palomar College and Mira Costa College for nursing education programs. The District's goal is to increase the pool of nursing graduates available to the District. The District is implementing several other initiatives to meet nursing needs, including: formal in-house training programs for nurses to train for hard-to-fill nursing positions such as critical care; collaborating with key nursing publications for print and web-based recruitment; system-wide employee referral program for nursing and other allied health care professions; tuition reimbursement programs; and a nursing student loan forgiveness program. In the shorter term, the District anticipates that the demand for nurses will continue to outweigh supply and the District will continue to use registry (temporary agencies for nurses). During the fiscal years ended June 30, 2006 and 2007, the District spent approximately \$12.6 million and \$8.5 million, respectively, on registry in nursing and other patient care services areas. See "MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE - Management's Discussion and Analysis of Historical Performance" set forth above.

### **Employees and Labor Relations**

As of June 30, 2007, the District employed approximately 2,700 productive full-time equivalent employees. Approximately 2,260 employees are full-time and 1,230 are part-time and per diem. Approximately 68% have been represented by the California Nursing Association and California Healthcare Employees Union since June 2003. The District and these Unions completed successful negotiations and entered into new three year employment agreements effective June 30, 2006. The District and the unions have a collaborative working relationship and there have been no work stoppages or strikes.



## **Pension and Deferred Compensation Plans**

Since July, 1980, the District has provided a defined contribution retirement plan for employees, under which benefits are limited to amounts accumulated from total contributions by the District and capital appreciation of the invested amounts as directed by the individual employee. Contributions under the plan by the District equal 6% of covered employees' basic compensation after one year of employment and are funded as incurred. Total District contributions expensed for its fiscal years ended June 30, 2007 and 2006 were \$9.5 million and \$7.5 million, respectively.

Effective July 2006, the District began providing an employer match to the employee deferred compensation plan. Under the plan, the District matches up to 2% of the employee's contribution, based on a variety of factors including length of employment. Prior to July 2006, contributions to the deferred compensation plan were made only by employees who chose to participate. During fiscal year 2007, the District made matching payments of \$1.2 million.

## **Regulatory and Ethics Compliance Programs**

The District has a corporate compliance officer and maintains a corporate compliance program intended to be consistent with laws and government guidance relating to compliance programs for health care entities. The program includes education of employees and managers about certain significant legal and regulatory requirements applicable to the District and includes steps to monitor and promote compliance with these requirements. All employees are provided a copy of the District's Code of Conduct Policy.

With the goal to develop a "best practices" ethics compliance program, the District's Board has implemented standards for ethics, business practices and codes based on the State's ethics standards, has formed Board Audit and Compliance Committee, and has identified standards of behavior that are consistent with the values of the organization. The District's Board and all staff members are required to undergo mandatory ethics and compliance training. New staff undergo background checks and must sign Compliance Attestation forms upon initial hiring. Physicians are required to sign conflict of interest statements and are also subject to background checks upon initial and re-credentialing. Additionally, all leadership must attest that they are aware of no unreported wrong-doing. Although not required, the District has implemented formal Compliance and Internal Audit Programs. The programs have reporting responsibility to the CEO and direct access to the Board of Directors through the Board Audit and Compliance Committee. Promoted by senior leadership, every employee is entitled to direct anonymous access to the District's Compliance Officer and an accompanying anonymous compliance hotline exists for employees, patients, and physicians to report perceived breaches in legal and ethical behavior.

Although not required, the District has implemented formal Compliance and Internal Audit Programs. The programs have reporting responsibility to the CEO and direct access to the Board of Directors through the Board Audit and Compliance Committee.

## **Insurance and Risk Management**

The District is insured through Program BETA for hospital professional and general liability risks for the first \$5 million of loss per occurrence and excess coverage of the next \$15

million of loss per occurrence on a claims made basis. Program BETA has a Best rating of "A-" (excellent). Deductible is \$50,000 per claim with no annual aggregate. The District is insured by Alpha Fund for workers compensation risk. Alpha Fund is a workers compensation captive program of the Association of California Healthcare Districts. Losses in excess of this amount are insured through reinsurance policies of Alpha Fund. Effective July 1, 2007, the District went to a guaranteed loss level of coverage with Alpha Fund.

The District is insured through commercial insurance companies for all risk property losses, excluding earthquake, up to \$1 billion. The primary layer \$10 million with various amounts of excess coverage up to the stated limit. Maximum deductible, depending on loss type, per occurrence is \$50,000.

### **Seismic Compliance**

A significant earthquake could have a material adverse effect on the District and could result in material damage and temporary or permanent cessation of operations at its facilities. Earthquakes affecting California hospitals have prompted the State to impose new hospital seismic safety standards, commonly known as S.B. 1953. Hospital acute care buildings are required by S.B. 1955 to meet more stringent seismic guidelines generally by 2008.

In 2005, the District requested and received an extension of time until January 1, 2013 to comply with S.B. 1953 requirements. Completion of the initial phase of the District's Facilities Master Plan will enable the District to comply with S.B. 1953 requirements.

## **RISKS RELATED TO DISTRICT OPERATIONS**

This section discusses risks related to District operations and focuses primarily on the general risks associated with the operations and activities of hospitals and health care systems; whereas other portions of this APPENDIX A describes the District specifically and APPENDIX B contains financial statements of the District. These should be read together. This discussion is not intended to be comprehensive or definitive, but rather is intended to summarize certain risks related to District operations.

### **General**

The Bonds are payable from ad valorem taxes, as discussed under "SECURITY AND SOURCE OF PAYMENT OF THE BONDS" in the front part of this Official Statement. The Board of Supervisors of the County has the power and authority and is obligated to annually levy ad valorem taxes upon all property subject to taxation in the District, without limitation as to rate or amount, for the payment of principal of and interest on the Bonds (except certain personal property which is taxable at limited rates). The District anticipates that ad valorem taxes collected by the County for the District will be sufficient to pay all of the District's GO Bonds when due. However, in the event that the County fails to levy and collect sufficient ad valorem taxes, Section 3217 of the Local Health Care District Law requires the District to use moneys in its maintenance and operation fund to pay principal of and interest on its GO Bonds whenever ad valorem taxes are insufficient to pay such principal and interest.

Any of the operational risk factors described in this APPENDIX A may affect the District's operations, and there can be no assurance that the financial condition or operations of the District will not be adversely affected by any of these or other factors.

The District is a local health care district and political subdivision of the State and as such its powers and the methods of exercising its powers are governed by the laws of the State, which can be, and have been, amended by the State legislature from time to time. The District and its affiliates are subject to a wide variety of federal and State regulatory actions and legislative and policy changes by those governmental agencies and private entities that administer the Medicare and Medi-Cal (Medicaid) programs and by private entities that administer other payment arrangements. The District and its affiliates are subject to actions by, among others, the Centers for Medicare and Medicaid Services (or CMS), the U.S. Department of Health and Human Services (or DHHS), the National Labor Relations Board, The Joint Commission, and other federal, state and local governmental agencies.

The future financial condition of the District and its affiliates could be adversely affected by, among other things: changes in the method and amount of payments to the District and its affiliates by governmental payors, nongovernmental payors, the financial viability of these payors, increased competition from other health care entities, the costs associated with responding to governmental inquiries and investigations, demand for health and medical care, changes in the methods by which employers purchase health care for employees, capability of management, future changes in the economy, demographic changes, availability of physicians and nurses, malpractice claims and other litigation, and changes in the State laws governing local health care districts, hospital operations (including nursing ratios) and licensure, among other factors. These factors and others may adversely affect the financial condition or results of operations of the District.

Set forth below is a limited discussion of certain of the risks affecting the District. The discussion below does not discuss all such risks. In particular, payment provisions and regulations and restrictions on hospitals change frequently and that additional material payment limitations and regulations or restrictions may be created, implemented or expanded.

### **Significant Operational Risk Areas Highlighted**

Certain of the primary risks associated with the operations of the District are briefly summarized in general terms below and are explained in greater detail in subsequent sections. The occurrence of one or more of these and other risks could have a material adverse effect on the financial conditions and results of operations of the District.

***Reliance on Government Payors.*** Hospitals and health care systems rely to a high degree on revenues from Medicare and Medicaid. Medicare and Medicaid are the commonly used names for reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Future changes in the underlying law and regulations, as well as in payment policy and timing, creates uncertainty and could have a material adverse impact on hospitals' payments from Medicare and Medicaid. With health care and hospital spending reported to be increasing faster than the rate of general inflation, Congress and/or CMS may take action in the future to decrease or restrain Medicare and Medicaid outlays for hospitals.

**Managed Care Exposure.** Certain hospital markets, including the communities served by the District, are strongly impacted by managed care. In these areas, managed care companies have significant bargaining power over hospital rates, utilization and competition. Rate pressure imposed by managed care payors may have a material adverse impact on hospitals, particularly if employer groups and other major purchasers put increasing pressure on payors to restrain rate increases.

**Capital Needs vs. Capital Capacity.** Hospital and other health care operations are capital intensive. Regulation, technology and physician/patient expectations require constant and often significant capital investment. In California, seismic requirements mandated by the State of California may require that many hospital facilities be substantially modified, replaced or closed. Nearly all hospitals in California are affected. Estimated construction costs are substantial and actual costs of construction may exceed estimates. Total capital needs may exceed capital capacity.

**Construction Risks.** Construction projects are subject to a variety of risks, including but not limited to delays in issuance of required building permits or other necessary approvals or permits, including environmental approvals, strikes, shortages of materials and adverse weather conditions. Such events could delay occupancy. Cost overruns may occur due to change orders, delays in the construction schedule, scarcity of skilled trade labor, scarcity of building materials and other factors. Cost overruns could cause the costs to exceed available funds. See "FACILITIES MASTER PLAN, SERVICE AREA AND COMPETITION – Facilities Master Plan" herein.

**The District's Status as Local Health Care District.** As a local health care district and political subdivision of the State, the powers of the District and the method of exercising its powers are governed by the laws of the State, which have been, and may in the future be, amended by the State legislature and interpreted by State courts. Such amendments and interpretations could be adverse to the District. There can often be a tension between the law and rules designed to regulate governmental entities, such as the District, and the day-to-day operations of a complex health care organization. In addition, as a local health care district, the District is subject to laws that non-governmental competitors are not, including restrictions on the use of public funds, the Brown Act (which generally requires the District Board of Directors to take action only at public meetings), local health care district law (which has been interpreted as, among other things, prohibiting local health care districts from granting indemnities in certain circumstances), and various laws prohibiting conflicts of interest. These laws impose additional operational burdens on hospitals run by local health care districts that do not apply to other hospitals, and may result in prosecution or other sanctions, if violated.

**General Economic Conditions; Bad Debt and Indigent Care.** Economic downturns and lower funding of the Medicare and Medi-Cal programs may increase the number of patients treated by hospitals who are uninsured or otherwise unable to pay for some or all of their care. These conditions may give rise to increased bad debt and higher indigent care utilization. These factors may have a material adverse impact on hospitals.

**Government "Fraud" Enforcement.** "Fraud" in government funded health care programs is a significant concern of DHHS, CMS and many states and is one of the federal government's prime law enforcement priorities. The federal government and, to a lesser degree,

state governments impose a wide variety of complex and technical requirements intended to prevent over-utilization based on economic inducements, misallocation of expenses, overcharging and other forms of "fraud" in the Medicare and Medicaid programs, as well as other state and federally-funded health care programs. This body of regulation impacts a broad spectrum of hospital commercial activity, including billing, accounting, recordkeeping, medical staff oversight, physician contracting and recruiting, cost allocation, clinical trials, discounts and other functions and transactions.

Violations and alleged violations may be deliberate, but also frequently occur in circumstances where management is unaware of the conduct in question, as a result of mistake, or where the individual participants do not know that their conduct is in violation of law. Violations may occur and be prosecuted in circumstances that do not have the traditional elements of fraud, and enforcement actions may extend to conduct that occurred in the past. The government periodically conducts widespread investigations covering categories of services or certain accounting or billing practices.

The government and/or private "whistleblowers" often pursue aggressive investigative and enforcement actions. The government may impose a wide array of civil, criminal and monetary penalties, including withholding essential hospital payments from the Medicare or Medicaid programs, or exclusion from those programs. Aggressive investigation tactics, negative publicity and threatened penalties can be, and often are, used to force settlements, payment of fines and prospective restrictions that may have a materially adverse impact on hospital operations, financial condition and reputation. Multi-million dollar fines and settlements are common. These risks are generally uninsured. Government enforcement and private whistleblower suits may increase in the hospital sector.

**Personnel Shortage.** Currently, a shortage of physicians and nursing and other technical personnel exists which may have its primary impact on hospitals. Various studies have predicted that this shortage will become more acute over time and grow to significant proportions. In California, State regulation of nurse staff ratios will likely intensify the shortage of nursing personnel. Hospital operations, patient and physician satisfaction, financial condition and future growth could be negatively affected by physician and nursing and other technical personnel shortages, resulting in material adverse impact to hospitals.

**Labor Costs and Disruption.** Hospitals are labor intensive. Labor costs, including salary, benefits and other liabilities associated with the workforce, have significant impact on hospital operations and financial condition. Hospital employees are increasingly organized in collective bargaining units and may be involved in work actions of various kinds, including work stoppages and strikes. Overall costs of the hospital workforce are high, and turnover is high. Pressure to recruit, train and retain qualified employees is expected to accelerate. These factors may materially increase hospital costs of operation. Workforce disruption may negatively impact hospital revenues and reputation.

**Technical and Clinical Developments.** New clinical techniques and technology, as well as new pharmaceutical and genetic developments and products, may alter the course of medical diagnosis and treatment in ways that are currently unanticipated, and that may dramatically change medical and hospital care. These could result in higher hospital costs, reductions in patient populations and/or new sources of competition for hospitals.

**Costs and Restrictions from Governmental Regulation.** Nearly every aspect of hospital operations is regulated, in some cases by multiple agencies of government. The level and complexity of regulation are increasing, bringing with it operational limitations, enforcement and liability risks, and significant and sometimes unanticipated cost impacts.

**Proliferation of Competition.** Hospitals increasingly face competition from specialty providers of care and free-standing outpatient facilities, such as diagnostic imaging centers and ambulatory surgery centers. This may cause hospitals to lose essential inpatient or outpatient market share. Competition may be focused on services or payor classifications where hospitals realize their highest margins, thus negatively affecting programs that are economically important to hospitals. These new sources of competition may have material adverse impact on hospitals, particularly where a group of a hospital's principal physician admitters may curtail their use of a hospital service in favor of competitor facilities. The growing consumer movement for pricing transparency may also adversely impact hospitals' charging structure.

**Pension and Benefit Funds.** As large employers, hospitals may incur significant expenses to fund pension and benefit plans for employees and former employees, and to fund required workers' compensation benefits. Funding obligations in some cases may be erratic or unanticipated and may require significant commitments of available cash needed for other purposes.

**Medical Liability Litigation and Insurance.** Medical liability litigation is subject to public policy determinations and legal procedural rules that may be altered from time to time, with the result that the frequency and cost of such litigation, and resultant liabilities, may increase in the future. Hospitals may be affected by negative financial and liability impacts on physicians. Costs of insurance, including self-insurance, may increase dramatically.

**Facility Damage.** Hospitals are highly dependent on the condition and functionality of their physical facilities. Damage from earthquake, other natural causes, fire, deliberate acts of destruction, or various facilities system failures may have a material adverse impact on hospital operations and financial status.

**Health Care Reform.** Federal and state officials have proposed various health care reform plans that, if enacted, would make significant changes in the way health care services are delivered and reimbursed. It is anticipated that more health care reform proposals will be forthcoming. Some proposals are sweeping and would require conforming and complex changes to both federal and state laws addressing many aspects of hospital operations, health care delivery and reimbursement. These changes could result in lower hospital reimbursement, utilization changes, increased government enforcement and other impacts.

## **Patient Service Revenues**

**The Medicare Program.** Medicare is the federal health insurance system under which hospitals and other health care providers are paid for services provided to eligible elderly and disabled persons. Medicare is administered by the Center for Medicare and Medicaid Services ("CMS"), which delegates to the states the process for certifying hospitals to which CMS will make payment. In order to achieve and maintain Medicare certification, hospitals must meet CMS's "Conditions of Participation" on an ongoing basis. Compliance is determined by the

state, but hospitals with accredited by The Joint Commission are deemed compliant. The requirements for Medicare certification are subject to change, and, therefore, it may be necessary for hospitals to effect changes from time to time in their facilities, equipment, personnel, billing, policies and services to address such changing requirements.

The District's hospitals are Medicare-certified and for the fiscal years ended June 30, 2007 and June 30, 2006, Medicare, inclusive of regular Medicare, Medicare Managed Care and Senior Capitation, represented approximately 44.3% and 44.9%, respectively, of the District's gross patient service revenue for such year. See "HISTORIC FINANCIAL INFORMATION - Sources of Patient Revenue" herein.

In December of 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("MPDIM") was enacted. MPDIM significant changes include, without limitation, the expansion of outpatient prescription drug coverage through the creation of a voluntary prescription drug benefit, the replacement of the current Medicare Plus Choice managed care program with a new program, Medicare Advantage, that offers additional health plan options, modifications to coverage and payment for various providers under traditional fee-for-service Medicare, changes to combat waste, fraud and abuse, and reforms to regulatory procedures.

**Hospital Inpatient Payments.** Hospitals are generally paid a pre-determined payment amount for inpatient services provided to Medicare beneficiaries based on diagnosis-related groups ("DRGs"). The principal diagnosis and principal procedure determine DRG assignment. The DRG rate covers all care provided to a beneficiary during an inpatient stay. The actual cost of providing care, including capital costs, may be more or less than the DRG reimbursement rate. DRG rates are subject to adjustments by CMS and are subject to federal budget considerations. There is no guarantee that DRG rates, as they change from time to time, will cover actual costs of providing services to Medicare patients.

The individual or collective impact of these changes cannot be determined at this time. Additional actions by the federal government in future years affecting Medicare coverage and payment may occur.

**Hospital Outpatient and Other Services.** Hospitals are also paid a pre-determined payment amount for most outpatient services based upon ambulatory payment classification ("APC") groups. An APC group includes various services and procedures determined to be similar. The APC payment, which bases payment on APC groups rather than on individual services, may not be sufficient to cover the actual costs of the outpatient services. Medicare payment for skilled nursing services, psychiatric services, inpatient rehabilitation services, and home health services are based on regulatory formulas or pre-determined rates.

**Part D Drug Benefit.** Beginning January 1, 2006, the Medicare Modernization Act of December 2003 ("MMA") implemented a major expansion of the Medicare program through the introduction of a prescription drug benefit under new Medicare Part D. Medicare beneficiaries, who elect Part D coverage and are dual eligible, will be enrolled automatically in Part D and will have their outpatient prescription drug costs covered by this new Medicare benefit, subject to certain limitations. Accordingly, Medicaid will no longer be a significant payor for the prescription pharmacy services provided to these residents. Medicaid will continue as a significant payor for over-the-counter medications.

***Ambulatory Surgery Centers (“ASC”).*** An ASC is a distinct entity that operates exclusively for the purpose of furnishing outpatient surgical services to patients. There are two elements in the total charge for a covered surgical procedure – a charge for the “facility” services (such as use of an operating room) and a charge for the physician’s professional services for performing the procedure. Each ASC covered service is assigned to one of the payment groups. ASC facilities are paid according to the rates established in list of covered ASC services. Each covered service is assigned to a “group.” Each group has a specified payment rate that applies to all services assigned to that group. These rates, as they may change from time to time, may not be adequate to cover the actual cost of providing these services to Medicare patients.

***Inpatient Rehabilitation Facilities (“IRFs”).*** IRFs are free standing rehabilitation hospitals and rehabilitation units in acute care hospitals. They provide an intensive rehabilitation program and patients who are admitted must be able to tolerate three hours of intense rehabilitation services per day. These facilities are exempt from the Medicare Hospital PPS and are paid under the IRF Prospective Payment System (“IRF PPS”). In order to be paid under the IRF PPS, the facility must submit the IRF-PAI (patient assessment instrument). There is no guarantee that these rates, as they may change from time to time, will be adequate to cover the actual cost of providing these services to Medicare patients.

***Skilled Nursing Facilities (“SNFs”).*** Medicare reimburses SNFs for long-term care services at a predetermined rate, based on the anticipated costs of treating patients. Under this system, reimbursement rates are determined by classifying each patient into a resource utilization group (“RUG”), a category that is based upon each patient’s acuity level.

Medi-Cal, the state-administered medical assistance program for the indigent reimburses SNFs for long-term care services for individuals who are Medicaid eligible and qualify for institutional care. Medi-Cal reimbursement rates are generally lower than reimbursement provided by Medicare. There is no guarantee that these rates, as they may change from time to time, will be adequate to cover the actual cost of providing these services to Medicare patients. Given that Medi-Cal outlays are a significant component of state budgets, we expect continuing cost containment pressures on Medicaid outlays for SNF services.

***Medicare Advantage.*** The MMA renamed the Medicare Plus choice program “Medicare Advantage” (“MA”) and created new regional PPOs, “special needs plans” for dual eligibles, the institutionalized, or those with severe and disabling conditions, and new private drug plans that went into effect in January 2006. MA plans are generally required to provide all Medicare-covered benefits. Plans with costs below their Medicare payments must distribute savings to beneficiaries as lower plan premiums and co-payments, additional benefits, or a reduction in Part B premiums; or plans can contribute to a reserve fund.

***Medi-Cal Program.*** Medicaid is the joint state-federal assistance program for certain qualifying individuals and their dependants operated by individual states with the financial participation of the federal Government. Medi-Cal is the California Medicaid program. The federal government provides substantial funding to the Medi-Cal program, so long as it meets federal standards. Attempts to balance or reduce the federal budget and/or California’s budget will likely negatively impact Medi-Cal spending.



For the fiscal years ended June 30, 2007 and June 30, 2006, the District received approximately 16.5% and 15.7%, respectively, of gross patient service revenues from Medi-Cal programs for such year. See "HISTORIC FINANCIAL INFORMATION-Sources of Patient Revenue" herein.

Under a five-year federal Medicaid waiver most recently approved by CMS in 2005, the State selectively contracts with hospitals to provide acute inpatient services to Medi-Cal patients. The financial impact of selective contracting on a particular hospital depends upon a variety of factors, such as the base contract rates, whether a hospital qualifies as a disproportionate share hospital, the availability of supplemental payments for disproportionate share hospitals and an individual hospital's ability to control costs.

Generally, such selective inpatient contracting is made on a negotiated per diem payment basis, and such payment rates historically have not increased in direct relation to inflation or provider costs. Medi-Cal payments for inpatient hospital services are also subject to an aggregate statewide upper payment limit, under which aggregate payments to non-public hospitals may not exceed the aggregate amount which would have been paid if Medicare payment principles were utilized. Additionally, the total Medi-Cal payments to an individual hospital for inpatient hospital services for any fiscal period may not exceed that hospital's customary charges for the services. Medi-Cal payments for outpatient hospital services are based on fee schedules set by the State.

Generally, the State or the contracting hospitals may terminate Medi-Cal contracts upon 120 days' prior written notice. The State also may terminate these contracts without notice under certain circumstances and is obligated to make contractual payments only to the extent the State legislature appropriates adequate funding therefor.

***Disproportionate Share Payments.*** The federal Medicare and the California Medi-Cal programs provide additional payment for hospitals that serve a disproportionate share of certain low income patients. The District does qualify as a disproportionate share hospital under the Medicare program, but does not qualify as a disproportionate share hospital under the Medicaid program and does not expect to qualify in future years.

***State Budget.*** The State of California faces severe financial challenges that have resulted in a shortfall between revenue and spending demands. The financial challenges facing the State of California may negatively affect hospitals in a number of ways, including, but not limited to, a greater number of indigent patients who are unable to pay for their care and a greater number of individuals who qualify for Medi-Cal and/or reductions in Medi-Cal payment rates.

***California Universal Health Care Proposal.*** Recently, several proposals have emerged that would, if enacted, expand health care coverage for individuals in California. Early in 2007, Governor Schwarzenegger proposed a plan that would expand health care coverage through various methods, including a mandate that all California residents maintain health coverage and that employers with 10 or more employees offer coverage or contribute 4% of payroll toward the cost of employees' coverage. This plan would be financed through increased federal funding, a 2% fee on physician revenue, a 4% fee on hospital revenue and a sliding scale individual/family contributions of between 3% and 6% of income. Late in 2006, Assembly Speaker Nunez introduced Assembly Bill 8 ("AB 8") that would expand health care coverage through various

methods, including expansion of eligibility for the State's Medi-Cal and Healthy Family Programs, creation of a statewide health care purchasing program and modification to the rules governing private individual and group health insurance. AB 8 would be financed through employer and employee contributions and new federal matching dollars associated with public program expansion. As of September 2007, the Assembly and Senate passed AB 8. Governor Schwarzenegger announced his intent to veto AB 8 and called a special legislative session to continue negotiations related to the expansion of health care coverage. One or more proposals for financing a compromise measure may be submitted to voters as a ballot measure in 2008.

It is not clear whether, or in what form, legislation will be enacted, nor what impact the legislation would have on the healthcare industry or the District. If legislation similar to that summarized in the above paragraph is enacted, California hospitals may potentially receive higher reimbursement from Medi-Cal and for indigent care but any net revenue increases may be offset by potentially significant "taxes" on revenues, employers' fees and increased cost of complying with additional regulatory requirements. It is not possible to gauge at this time whether the overall impact would be positive or negative to the District, but the effects could be material.

***Health Plans and Managed Care.*** Most private health insurance coverage is provided by various types of "managed care" plans, including health maintenance organizations, or HMOs, and preferred provider organizations, or PPOs. To control costs, managed care plans typically contract with hospitals and other providers for discounted prices, review medical services for medical necessity, require members to pay co-payments and deductibles, and channel patients to contracted providers of health care services. Medicare and Medi-Cal also purchase hospital care using managed care options. Payments to hospitals from managed care plans typically are lower than those received from traditional indemnity or commercial insurers.

For the fiscal years ended June 30, 2007 and June 30, 2006, commercial managed care constituted approximately 20.7% and 20.5%, respectively, of gross patient service revenues of the District. See "HISTORIC FINANCIAL INFORMATION - Sources of Patient Revenue" herein.

In California, managed care plans have replaced indemnity insurance as the prime source of non-governmental payment for hospital services, and hospitals must be capable of attracting and maintaining managed care business. Many HMOs and PPOs currently pay providers on a negotiated fee-for-service basis or, for institutional care, on a fixed rate per day of care, which, in each case, usually is discounted from the typical charges for the care provided. As a result, the discounts offered to HMOs and PPOs may result in payment to a provider that is less than its actual cost. Additionally, the volume of patients directed to a provider may vary significantly from projections, and/or changes in the utilization may be dramatic and unexpected, thus jeopardizing the provider's ability to manage this component of revenue and cost.

Some HMOs employ a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is "assigned" or otherwise directed to receive care at a particular hospital. A hospital may assume financial risk for the cost and scope of institutional care given. If payment is insufficient to meet a hospital's actual costs of care, or if utilization by such enrollees materially exceeds projections, the financial condition of a hospital could erode rapidly and significantly.

For the fiscal years ended June 30, 2007 and June 30, 2006, capitated payments constituted approximately 12.1% and 13.8%, respectively, of gross patient service revenues of the District. See "HISTORIC FINANCIAL INFORMATION - Sources of Patient Revenue" herein.

Often, HMO contracts are enforceable for a stated term, regardless of hospital losses and may require hospitals to care for enrollees for a certain time period, regardless of whether the HMO is able to pay a hospital. Hospitals from time to time have disputes with managed care payors concerning payment and contract interpretation issues.

Failure to maintain contracts could have the effect of reducing the District's market share and net patient services revenues. Conversely, participation may result in lower net income if participating hospitals are unable to adequately contain their costs.

*Actions by Purchasers of Hospital Services and Consumers.* Major purchasers of hospital services also could take action to restrain hospital charges or charge increases. In California, the California Public Employees' Retirement System, the nation's third largest purchaser of employee health benefits, has pledged to take action to restrain the rate of growth of hospital charges and has excluded certain California hospitals from serving its covered members. As a result of increased public scrutiny, it is also possible that the pricing strategies of hospitals may be perceived negatively by consumers, and hospitals may be forced to reduce fees for their services. Decreased utilization could result, and hospitals' revenues may be negatively impacted.

#### **Negative Rankings Based on Clinical Outcomes and Other Performance Measures**

Health plans, Medicare, Medi-Cal, employers, trade groups and other purchasers of health services, private standard-setting organizations and accrediting agencies increasingly are using statistical and other measures in efforts to characterize, publicize, compare, rank and change the quality, safety and cost of health care services provided by hospitals and physicians. Published rankings such as "score cards", tiered hospital networks with higher co-payments and deductibles for non-emergent use of lower-ranked providers, "pay for performance" and other financial and non-financial incentive programs are being introduced to affect the reputation and revenue of hospitals and the members of their medical staffs and to influence the behavior of consumers and providers such as the District. Prevalent currently are measures of quality based on clinical outcomes of patient care, reduction in costs, patient satisfaction, and investment in health information technology. Measures of performance set by others that characterize a hospital negatively may adversely affect its reputation and financial condition.

#### **Regulatory Environment**

*"Fraud" and "False Claims."* Health care "fraud and abuse" laws have been enacted at the federal and state levels to broadly regulate the provision of services to government program beneficiaries and the methods and requirements for submitting claims for services rendered to the beneficiaries. Under these laws, hospitals and other health care providers can be penalized for a wide variety of conduct, including submitting claims for services that are not provided, billing in a manner that does not comply with government requirements or including inaccurate

billing information, billing for services deemed to be medically unnecessary, or billings accompanied by an illegal inducement to utilize or refrain from utilizing a service or product.

Federal and state governments have a broad range of criminal, civil and administrative sanctions available to penalize and remediate health care fraud, including the exclusion of a hospital or other health care provider from participation in the Medicare/Medi-Cal programs, civil monetary penalties, and suspension of Medicare/Medi-Cal payments. Fraud and abuse cases may be prosecuted by one or more government entities and/or private individuals, and more than one of the available sanctions may be, and often are, imposed for each violation.

Laws governing fraud and abuse may apply to hospitals and other health care providers, and to nearly all individuals and entities with which a hospital or other health care provider does business. Fraud investigations, settlements, prosecutions and related publicity can have a catastrophic effect on hospitals and other health care providers. See “—Enforcement Activity” below. Major elements of these often highly technical laws and regulations are generally summarized below.

***Criminal Fraud and Abuse Liability.*** Both individuals and organizations are subject to prosecution under the criminal fraud and abuse statutes. Criminal conviction for an offense may result in substantial fines and/or the provider’s exclusion and debarment from all government programs.

***Criminal False Claims Act.*** The criminal False Claims Act or Criminal FCA prohibits anyone from knowingly submitting a false, fictitious or fraudulent claim to the federal government. There are numerous specific rules that a health care provider must follow with respect to the submission of claims. Violation of the Criminal FCA can result in imprisonment of five years and a fine of up to \$250,000 for an individual or \$500,000 for an organization.

***Anti-Kickback Law.*** The federal “Anti-Kickback Law” is a criminal statute that prohibits anyone from soliciting, receiving, offering or paying any remuneration, directly or indirectly, overtly or covertly, in cash or in kind, in return for a referral (or to induce a referral) for any item or service that may be paid by any federal or state health care program. The Anti-Kickback Law applies to many common health care transactions between persons and entities with which a hospital or health care system does business, including hospital-physician joint ventures, hospital-physician integration vehicles (such as a medical foundation), medical director agreements, physician recruitment agreements, physician office leases, purchases from vendors, and other transactions.

Violation or alleged violation of the Anti-Kickback Law can result in settlements that require multi-million dollar payments and compliance agreements. The Anti-Kickback Law can be prosecuted either criminally or civilly. Each violation is a felony, subject to a fine of up to \$25,000 for each act (which may be each item or each bill sent to a federal program), imprisonment and/or exclusion from the Medicare and Medi-Cal programs. This fine may be increased to \$250,000 for individuals and \$500,000 for organizations. In addition, civil monetary penalties of \$10,000 per item or service in noncompliance (which may be each item or each bill sent to a federal program) or an “assessment” of three times the amount claimed may be imposed.

**Civil Fraud and Abuse Liability.** Unlike criminal statutes, which require the government to prove that the health care provider intended to violate the law, civil statutes may be violated simply by the provider's participation in a prohibited financial arrangement or the provider having knowledge that its claims procedures are not in full compliance with the law.

**Civil False Claims Act.** The civil False Claims Act, or Civil FCA makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government, and may include claims that are simply erroneous. Civil FCA investigations and cases have become common in the health care field and may cover a range of activity from intentionally inflated billings, to highly technical billing infractions, to allegations of inadequate care. Violation or alleged violation of the Civil FCA can result in settlements that require multi-million dollar payments and compliance agreements. The Civil FCA also permits individuals to initiate civil actions on behalf of the government in lawsuits called "qui tam" actions. Qui tam plaintiffs, or "whistleblowers," can share in the damages recovered by the government or recover independently if the government does not participate. The Civil FCA has become one of the government's primary weapons against health care fraud. Civil FCA violations or alleged violations could lead to settlements, fines, exclusion or reputation damage that could have a material adverse impact on a hospital or other health care provider.

**Stark Referral Law. [Under Review by Latham & Watkins]** The federal "Stark" statute prohibits the referral by a physician of Medicare and Medi-Cal patients for certain designated health services (including inpatient and outpatient hospital services, clinical laboratory services, and various diagnostic imaging services) to entities with which the referring physician has a financial relationship. It also prohibits a hospital or other health care provider furnishing the designated services from billing Medicare, or any other payor or individual, for services performed pursuant to a prohibited referral. The government does not need to prove that the entity knew that the referral was prohibited to establish a Stark violation. Many ordinary business practices and economically desirable arrangements between physicians and hospitals or other health care providers arguably constitute "financial relationships" within the meaning of the Stark statute. The prohibition on referrals and billing would be triggered by the financial relationship unless the relationship fully complied with one of several exceptions. Most providers of the designated health services with physician relationships have some exposure to liability under the Stark statute.

Medicare may deny payment for all services related to a prohibited referral and a hospital or other health care provider that has billed for prohibited services may be obligated to refund the amounts collected from the Medicare program. For example, if an office lease between a hospital and a large group of heart surgeons is found to violate Stark, a hospital could be obligated to repay CMS for the payments received from Medicare for all of the heart surgeries performed by all of the physicians in the group for the duration of the lease; a potentially significant amount. The government may also seek substantial civil monetary penalties, and in some cases, a hospital or other health care provider may be liable for fines up to three times the amount of any monetary penalty, and/or be excluded from the Medicare and Medi-Cal programs. Potential repayments to CMS, settlements, fines or exclusion for a Stark violation or alleged violation could have a material adverse impact on a hospital or other health care provider.

**Civil Monetary Penalties Law.** The federal Civil Monetary Penalties Law ("CMPL") provides for administrative sanctions against health care providers for a broad range of billing

and other abuses. A health care provider is liable under the CMPL if it knowingly presents, or causes to be presented, improper claims for reimbursement to a federal or state agency, such as those that administer the Medicare and Medicaid programs. A hospital that participates in arrangements known as "gainsharing," through which the hospital pays physicians to limit or reduce services to Medicare fee-for-service beneficiaries also may be subject to substantial civil monetary penalties.

A health care provider may be found liable under the CMPL even if it did not have actual knowledge of the impropriety of the claim. It is sufficient that the provider "should have known" that the claim was false. Ignorance of the Medicare regulations is no defense. The Secretary of DHHS, acting through the OIG, also has both mandatory and permissive authority to exclude individuals and entities from participation in federal health care programs pursuant to this statute.

**HIPAA.** The Health Insurance Portability and Accountability Act of 1996, or HIPAA, adds additional criminal sanctions for health care fraud and applies to all health care benefit programs, whether public or private. HIPAA also provides for punishment of a health care provider for knowingly and willfully embezzling, stealing, converting or intentionally misapplying any money, funds or other assets of a health care benefit program. A health care provider convicted of health care fraud could be excluded from Medicare. In addition, HIPAA includes administrative simplification provisions that require standardization of electronic transactions, specific security protections for medical information and processes, privacy protections for patient medical records, and establishment of national employer and provider identifiers. DHHS and CMS have promulgated rules related to electronic transactions, national employer identifiers, national provider identifiers, security, and medical records privacy. Rules regarding national health plan identifiers, claims attachments standards and first report of injury standards have been published in proposed form or are under development.

**Exclusions from Medicare or Medi-Cal Participation.** The government may exclude a hospital or other health care provider from Medicare/Medi-Cal program participation that is convicted of a criminal offense relating to the delivery of any item or service reimbursed under Medicare or a state health care program, any criminal offense relating to patient neglect or abuse in connection with the delivery of health care, felony fraud against any federal, state or locally financed health care program or a felony offense relating to the illegal manufacture, distribution, prescription or dispensing of a controlled substance. The government also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud or other financial misconduct relating either to the delivery of health care in general or to participation in a federal, state or local government program. Exclusion from the Medicare/Medi-Cal program means that a hospital or other health care provider would be terminated from participation and no program payments can be made. Any hospital exclusion could be a materially adverse event, even within a large hospital system.

**Compliance with Conditions of Participation.** CMS, in its role of monitoring participating providers' compliance with conditions of participation in the Medicare program, may determine that a provider is not in compliance with its conditions of participation. In that event, a notice of termination of participation may be issued or other sanctions potentially could be imposed.

**Enforcement Activity.** Enforcement activity against hospitals and health care providers has increased and enforcement authorities have adopted aggressive approaches. Hospitals and other health care providers are frequently subject to audits, investigations or other enforcement actions regarding the health care fraud laws mentioned above. In addition, enforcement agencies increasingly pursue sanctions for violations of health care fraud and abuse laws through civil administrative actions. Administrative regulations may require less proof of a violation than do criminal laws and, thus, health care providers may have a higher risk of imposition of monetary penalties as a result of administrative enforcement actions.

Enforcement authorities are often in a position to compel settlements by providers charged with or being investigated for false claims violations by withholding or threatening to withhold Medicare, Medi-Cal and/or similar payments and/or by instituting criminal action. In addition, the cost of defending such an action, the time and management attention consumed, and the facts of a case may dictate settlement. Therefore, regardless of the merits of a particular case, a hospital or other health care provider could experience materially adverse settlement costs, as well as materially adverse costs associated with implementation of any settlement agreement. Prolonged and publicized investigations could be damaging to the reputation and business of a hospital or other health care provider, regardless of outcome. The U.S. Attorney's office for the Southern District of California in particular has shown an aggressive approach to enforcement activity against hospitals and health care providers. In *U.S. v. Weinbaum*, the federal prosecutors alleged that Tenet Healthsystem, Alvarado Hospital Medical Center ("Alvarado") and former Alvarado CEO Barry Weinbaum paid more than \$100 million in illegal kickbacks to physicians through relocation agreements in exchange for patient referrals. While two trials ended in mistrials, in May 2006, the OIG announced plans to exclude Alvarado from participation in Medicare, Medicaid and other federal health care programs. Tenet Healthcare eventually resolved the matter by agreeing to sell or close Alvarado and pay \$21 million in civil damages.

Certain acts or transactions may result in violation or alleged violation of a number of the federal health care fraud laws described above and, therefore, penalties or settlement amounts can be compounded. Generally these risks are not covered by insurance. Enforcement actions may involve multiple hospitals or health care providers in a health system, as the government often extends enforcement actions regarding health care fraud to other hospitals or health care providers in the same organization. Therefore, Medicare fraud related risks identified as being materially adverse as to a hospital or other health care provider could have materially adverse consequences to a health system taken as a whole.

**Liability Under State "Fraud" and "False Claims" Laws.** Hospitals and other health care providers in California also are subject to state laws related to false claims, anti-kickback, and physician referrals, which pose the possibility of material adverse impact for the same reasons as the federal statutes. In addition, in contrast to federal laws which typically apply only to services rendered to beneficiaries covered under federal or state health care financing programs, these state laws typically apply to services rendered to any patients, regardless of the source of payment for such services.

**EMTALA.** The Emergency Medical Treatment and Active Labor Act, or EMTALA, is a federal civil statute that requires hospitals to conduct a medical screening for emergency conditions and to stabilize a patient's emergency medical condition before releasing, discharging

or transferring the patient. Over the last few years, the federal government has increased its enforcement of EMTALA. A hospital that violates EMTALA is subject to civil penalties of up to \$50,000 per offense and exclusion from Medicare and Medi-Cal programs. In addition, a hospital may be liable for any claim by an individual who has suffered harm as a result of a violation of EMTALA.

***Licensing, Surveys, Investigations and Audits.*** Health facilities are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements of state licensing agencies and The Joint Commission. Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections or other reviews generally conducted in the normal course of business of health facilities. Loss of, or limitations imposed on, hospital licenses, certifications or accreditations could reduce hospital utilization or revenues, or a hospital's ability to operate all or a portion of its facilities.

Renewal and continuance of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative action or response by the District. These activities generally are conducted in the normal course of business of health facilities. Nevertheless, an adverse result could result in a loss or reduction in the District's scope of licensure, certification or accreditation, or could reduce the payment received or require repayment of amounts previously remitted.

***Environmental Laws and Regulations.*** Hospitals are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations. These include but are not limited to: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at a hospital; and requirements for training employees in the proper handling and management of hazardous materials and wastes.

Hospitals may be subject to requirements related to investigating and remedying hazardous substances located on their property, including such substances that may have migrated off the property. Typical hospital operations include the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants and contaminants. As such, hospital operations are particularly susceptible to the practical, financial and legal risks associated with the environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines; may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance.

### **Business Relationships and Other Business Matters**

***Integrated Physician Groups.*** Hospitals and health care systems often own, control or have affiliations with relatively large physician groups. Generally, the sponsoring hospital or health care system will be the primary capital and funding source for such alliances and may have an ongoing financial commitment to provide growth capital and support operating deficits.



These types of alliances are generally designed to respond to trends in the delivery of medicine to better integrate hospital and physician care, to increase physician availability to the community and/or to enhance the managed care capability of the affiliated hospitals and physicians. These goals may not be achieved, however, and an unsuccessful alliance may be costly and counterproductive to all of the above-stated goals.

Integrated delivery systems carry with them the potential for legal or regulatory risks in varying degrees. The ability of hospitals or health care systems to conduct integrated physician operations may be altered or eliminated in the future by legal or regulatory interpretation or changes, or by health care fraud enforcement. In addition, participating physicians may seek their independence for a variety of reasons, thus putting a hospital or health care system's investment at risk, and potentially reducing its managed care leverage and/or overall utilization.

***Indigent Care, Underinsured and Uninsured Patients.*** The District may be susceptible to economic and political changes that could increase the number of indigents or their responsibility for caring for this population. General economic conditions that affect the number of employed individuals who have health coverage affects the ability of patients to pay for their care. Similarly, changes in governmental policy, which may result in coverage exclusions under local, state and federal health care programs (including Medicare and Medi-Cal) may increase the frequency and severity of indigent treatment by such hospitals and other providers. It also is possible that future legislation could require that hospital districts and other providers maintain minimum levels of indigent care.

***Physician Medical Staff.*** The primary relationship between a hospital and physicians who practice in it is through a hospital's organized medical staff. Medical staff bylaws, rules and policies establish the criteria and procedures by which a physician may obtain medical staff membership and clinical privileges, and criteria and procedures by which a physician may have his or her privileges or membership curtailed, denied or revoked. Physicians who are denied medical staff membership or certain clinical privileges or who have such membership or privileges curtailed or revoked often file legal actions against hospitals and medical staffs. Such actions may include a wide variety of claims, some of which could result in substantial uninsured damages to a hospital. In addition, failure of a hospital's governing body to adequately oversee the conduct of its medical staff may result in hospital liability to third parties.

An emerging area of potential risk for all hospitals surrounds the appropriate management of physician conflicts of interest with hospitals that grant practice privileges. Described as "economic credentialing" by physicians who oppose efforts of hospitals to manage the presence of direct competitors within the leadership or boardroom, the issue requires all hospitals to thoughtfully manage these potential conflicts to maintain a healthy, collegial and professional relationship required with the independent medical staff, while ensuring the organization is not suffering irreversible harm from a competitor gaining specific or specialized information not available to the public regarding the District's plans. In the worst circumstances, such efforts have led to litigation and potentially material impacts on the practice patterns of physicians at a specific facility. It is not possible to predict the course of such decisions or make any assurances that the District will be successful in managing such conflicts without causing some changes in physician practice patterns, which could have a material effect on the District.

**Competition Among Health Care Providers.** Increased competition from a wide variety of sources, including specialty hospitals, other hospitals and health care systems, inpatient and outpatient health care facilities, long-term care and skilled nursing services facilities, clinics, physicians and others, may adversely affect the utilization and revenues of hospitals. Existing and potential competitors may not be subject to various restrictions applicable to hospitals, and competition, in the future, may arise from new sources not currently anticipated or prevalent.

Specialty hospital developments that attract away an important segment of an existing hospital's admitting specialists may be particularly damaging. For example, some large hospitals may have significant dependence on cardiovascular and/or orthopedic surgery programs, as revenue streams from those programs may cover significant fixed overhead costs. If a significant component of such a hospital's cardiovascular or orthopedic surgeons develop their own specialty hospital (alone or in conjunction with a growing number of specialty hospital operators and promoters) taking with them their patient base, a hospital could experience a rapid and dramatic decline in net revenues that is not proportionate to the number of patient admissions or patient days lost. It is also possible that the competing specialty hospital, as a for-profit venture, would not accept indigent patients or other payors and government programs, leaving low-pay patient populations in the full-service hospital. In certain cases, such an event could be materially adverse to a hospital.

Likewise, freestanding ambulatory surgery centers may attract away significant commercial outpatient services traditionally performed at hospitals. Commercial outpatient services, currently among the most profitable for hospitals, may be lost to competitors who can provide these services in an alternative, less costly setting. Full-service hospitals rely upon the revenues generated from commercial outpatient services to fund other less profitable services, and the decline of such business may result in the significant reduction of profitable income. Competing ambulatory surgery centers, more likely a for-profit business, may not accept indigent patients or low paying programs and would leave these populations to receive services in the hospital setting. Consequently, hospitals are vulnerable to competition from ambulatory surgery centers.

Additionally, scientific and technological advances, new procedures, drugs and devices, preventive medicine and outpatient health care delivery may reduce utilization and revenues of a hospital in the future or otherwise lead the way to new avenues of competition. In some cases, hospital investment in facilities and equipment for capital-intensive services may be lost as a result of rapid changes in diagnosis, treatment or clinical practice brought about by new technology or new pharmacology.

**Private Health Care Plans and Managed Care.** The District contracts with several third party payors. For the fiscal year ended June 30, 2007 and June 30, 2006, non-governmental payors, including non-senior capitated managed care, managed care, insurance, and workers' compensation, accounted for approximately 31.5% and 32.4%, respectively, of the total gross patient service revenue of the District.] See "HISTORIC FINANCIAL INFORMATION – Sources of Patient Revenue" herein.

**Growth of E-Commerce.** The growth of e-commerce also may result in a shift in the way that health care is delivered. Persons residing in the District's service areas may be able to receive certain health services from remote providers. For example, physicians will be able to

provide certain services over the internet (e.g., teleradiology and second opinions). Pharmaceuticals and other health services may also now be ordered on-line. Additionally, other service providers in competition with the District may now compete through this new medium by advertising their services and providing easy registration for competing services over the internet. Also, alternative forms of health care payment including managed care organizations and consumer-driven care, as well as expanded preventive medicine and outpatient treatment, could affect the District's ability to maintain their market share at current levels.

**Technology.** Scientific and technological advances, new procedures, drugs and devices, preventive medicine, occupational health and safety, and outpatient health care delivery may reduce utilization and revenues of the District in the future. Technological advances in recent years have accelerated the trend toward the use by hospitals of sophisticated and costly equipment and services, and hospitals may have to incur significant costs to acquire the equipment needed to maintain or enhance their competitive position. Recently, President Bush called for the establishment of a nationwide electronic medical records system over the next 10 years and created a national health information technology office within DHHS to lead the effort. The costs to acquire and implement an electronic medical records system are significant but it is widely believed that such systems will lead to greater efficiencies in the provision of patient care and improved quality of care. The acquisition and operation of certain equipment and services may continue to be a significant factor in hospital utilization, but the ability of the District to offer such equipment or services may be subject to the availability of equipment and specialists, governmental approval and the ability to finance such acquisitions and operations.

**Antitrust.** Antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, affiliation and acquisition activities, certain pricing or salary setting activities, and anticompetitive business conduct or practices. The application of the federal and state antitrust laws to health care is evolving, and therefore not always clear. Currently, the most common areas of potential liability for hospitals and other health care providers are joint action among providers with respect to payor contracting, medical staff credentialing disputes and anticompetitive business conduct or practices by hospitals and other health care providers with sufficiently large market share.

Violation of the antitrust laws could result in criminal and/or civil enforcement proceedings by federal and state agencies, as well as actions by private litigants. In certain actions, private litigants may be entitled to treble damages, and in others, governmental entities may be able to assess substantial monetary fines. Moreover, successful private or governmental litigants may obtain injunctive relief that can affect the defendant's ability to conduct or continue certain business practices or activities.

**Labor Relations and Collective Bargaining.** Hospitals are large employers with a wide diversity of employees. Increasingly, employees of hospitals are becoming unionized, and many hospitals have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Renegotiation of such agreements upon expiration may result in significant cost increases to hospitals. Employee strikes or other adverse labor actions may have an adverse impact on operations, revenue and hospital reputation. Approximately two thirds of employees of the

District currently are covered by collective bargaining agreements. See "OTHER INFORMATION – Employees and Labor Relations."

**Health Care Worker Classification.** Health care providers, like all businesses, are required to withhold income taxes from amounts paid to employees. If the employer fails to withhold the tax, the employer becomes liable for payment of the tax imposed on the employee. On the other hand, businesses are not required to withhold federal taxes from amounts paid to a worker classified as an independent contractor. The Internal Revenue Services (the "IRS") has established criteria for determining whether a worker is an employee or an independent contractor for tax purposes. If the IRS were to reclassify a significant number of hospital independent contractors (e.g., physicians) as employees, back taxes and penalties could be material.

**Staffing.** In recent years, the health care industry has suffered from a scarcity of nursing personnel, respiratory therapists, pharmacists and other trained health care technicians. A significant factor underlying this trend includes a decrease in the number of persons entering such professions. This is expected to intensify in the future, aggravating the general shortage and increasing the likelihood of hospital-specific shortages. Competition for employees, coupled with increased recruiting and retention costs will increase hospital operating costs, possibly significantly, and growth may be constrained. This trend could have a material adverse impact on hospitals.

Effective January 1, 2004, California implemented mandatory nurse staffing ratios for all patient care areas. The impact on California hospitals varies by facility. The required staffing, in aggregate, has proven more costly than prior staffing patterns. The mandatory nurse staffing ratios have been, and continue to be, the subject of legislative actions and judicial challenges seeking to alter the proscribed ratios.

**Professional Liability Claims and General Liability Insurance.** In recent years, the number of professional and general liability suits and the dollar amounts of damage recoveries have increased in health care nationwide, resulting in substantial increases in malpractice insurance premiums, higher deductibles and generally less coverage. Professional liability and other actions alleging wrongful conduct and seeking punitive damages are often filed against hospitals and other health care providers. Insurance does not provide coverage for judgments for punitive damages.

Litigation also arises from the corporate and business activities of hospitals, from a hospital's status as an employer or as a result of medical staff or provider network peer review or the denial of medical staff or provider network privileges. As with professional liability, many of these risks are covered by insurance, but some are not. For example, some antitrust claims or business disputes are not covered by insurance or other sources and may, in whole or in part, be a liability of the hospital or other health care provider if determined or settled adversely.

There is no assurance that the District will be able to maintain coverage amounts currently in place in the future, that the coverage will be sufficient to cover malpractice judgments rendered against the District or that such coverage will be available at a reasonable cost in the future. For a description of insurance coverage maintained by the District, see "OTHER INFORMATION– Insurance and Risk Management" herein.

## Construction Risks

The development and construction of new or renovated hospital facilities are susceptible to various risks and uncertainties, such as:

- inflation of construction costs;
- general construction risks, including cost overruns, change orders and plan or specification modification, shortages of equipment, materials or skilled labor, labor disputes, unforeseen environmental, engineering or geological problems, work stoppages, fire and other natural disasters, construction scheduling problems and weather interferences;
- changes and concessions required by governmental or regulatory authorities;
- delays in obtaining, or inability to obtain, all licenses, permits and authorizations required to complete and/or operate the project; and
- disruption of existing operations and facilities.

Hospitals and health systems in California are experiencing significant escalation in the estimated costs of hospital facility construction and costs. The anticipated costs and construction period for projects comprising the District's Facilities Master Plan are based upon budgets, some conceptual design documents and construction schedule estimates prepared by the District in consultation with the District's architects and contractors. The cost of any project may vary significantly from initial expectations, and there may be a limited amount of capital resources to fund cost overruns. If cost overruns cannot be financed on a timely basis, the completion of one or more projects may be delayed until adequate funding is available. The completion dates of any of the projects could also differ significantly from expectations for construction-related or other reasons. Assurances cannot be given that any project will be completed, if at all, on time or within established budgets, or that any project will result in increased earnings. Significant delays, cost overruns, or failures of the construction or renovation projects to achieve market acceptance could have a material adverse effect on the hospitals' business, financial condition and results of operations. Furthermore, the projects, including the projects funded by the GO Bonds, may not help the District compete with new or increased competition. See "FACILITIES MASTER PLAN, SERVICE AREA AND COMPETITION - Facilities Master Plan" herein.

Certain permits, licenses and approvals necessary for some of the District's current or anticipated projects have not yet been obtained. The scope of the approvals required for expansion, development or renovation projects can be extensive and may include state and local land-use permits and building and zoning permits. Unexpected changes or concessions required by local, state or federal regulatory authorities could involve significant additional costs and delay the scheduled openings of the facilities. The District may not receive the necessary permits, licenses and approvals or obtain the necessary permits, licenses and approvals within the anticipated time frame.

The failure to complete any construction or renovation project as planned, on schedule, within budget or in a manner that generates anticipated profits, could have an adverse effect on

the hospitals' business, financial condition and results of operations. Further, the magnitude and scope of construction and renovation projects, and the management of multiple construction and renovation projects at the same time, may divert management resources from ongoing operations and/or construction and/or opening of any one project. Management's inability to devote sufficient time and attention to ongoing operations and/or any one project may have an adverse affect on the ongoing operations of the hospitals or delay the construction or opening of any or all of the projects. Any delay caused by such circumstances could have a negative effect on business and operations.

In addition, although hospital construction and renovation is generally planned to have minimal impact on ongoing operations, no assurances can be given that the construction and renovation at the District's hospital facilities will not disrupt the ongoing operations of its hospitals or that it will be implemented as planned. Therefore, the construction and renovation of hospital facilities may adversely impact the business, operations and revenues of the District.

### **Other Operational Risk Factors**

***Earthquakes.*** Many hospitals in California are in close proximity to active earthquake faults. A significant earthquake in southern California could destroy or disable the hospitals of the District or otherwise severely disrupt their operations and the regional economy.

California requires each acute care hospital in the state to either comply with new hospital seismic safety standards or cease acute care operations by January 1, 2008. Delays in compliance with the January 1, 2008 deadline will be permitted if a hospital shows that capacity lost in the closure of a facility cannot be provided by another facility in the area or if a hospital agrees that, on or before January 1, 2013, designated services will be provided by moving into an existing conforming building, relocating to a newly built building or continuing in the building as retrofitted to comply with the standards. The 2013 deadline may be extended up to two years to January 1, 2015 if the hospital demonstrates certain requirements, including that it is under construction at the time of the request for the extension, it has made reasonable progress in meeting the deadline, but it cannot meet the deadline due to reasons beyond its control. Management of the District believes that their facilities that are subject to the seismic requirements will be in compliance with such seismic requirements within the prescribed guidelines; however, no assurance can be given at this time that the deadline will be met. See OTHER INFORMATION – Seismic Compliance” herein.

***Investments.*** The District has significant holdings in a broad range of investments. Market fluctuations may affect the value of those investments and those fluctuations may be and historically have been at times material. For a discussion of the District's investments, see “HISTORIC FINANCIAL INFORMATION - Liquidity and Capital Resources” herein.

***Risks Related to Outstanding Variable Rate Obligations and Interest Rate Swap Transactions.*** The 2006 Certificates are variable rate obligations, the interest rates on which could rise. Such interest rates vary on a periodic basis and may be converted to a fixed interest rate. However, conversion is a limited protection against rising interest rates because the District would be required to continue to pay interest at the variable rate until it is able to convert the 2006 Certificates to a fixed rate and would be subject to the fixed interest rates then available in the market for credit similar to the District.

The District has entered into the Swaps relating to the 2006 Certificates, as described herein under "MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE—Outstanding Swap Transactions." The Swaps are subject to periodic "mark-to-market" valuations and at any time may have a negative value to the District. The Swap counterparty may terminate a Swap upon the occurrence of certain "termination events" or "events of default." The District may terminate a Swap at any time upon the satisfaction of certain conditions. If either the counterparty to a Swap or the District terminates such Swap during a negative value situation, the District may be required to make a termination payment to such Swap counterparty, and such payment could be material.

Pursuant to the Swaps, the counterparty is obligated to make payments to the District based on a floating rate index and the applicable notional amount, which payments may be more or less than the variable rates the District is required to pay with respect to a comparable principal amount of the related series of 2006 Certificates, as the case may be. No determination can be made at this time as to the potential exposure to the District relating to the difference in variable rate payments.

***Other Future Risks.*** In the future, the following factors, among others, may adversely affect the operations of hospitals and other health care providers, including the District, to an extent that cannot be determined at this time.

(a) Adoption of legislation that would establish a national or statewide single-payor health program or that would establish national, statewide or otherwise regulated rates applicable to hospitals and other health care providers.

(b) Bankruptcy of an indemnity/commercial insurer, managed care plan or other payor.

(c) Efforts by insurers and governmental agencies to limit the cost of hospital services, to reduce the number of beds and to reduce the utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety and outpatient care, or comparable regulations or attempts by third-party payors to control or restrict the operations of certain health care facilities.

(d) The occurrence of a pandemic or a natural or man-made disaster that could damage the District's facilities, interrupt utility service to the facilities, result in an abnormally high demand for health care services or workforce loss or otherwise impair the District's operations and the generation of revenues from the facilities.

(e) Limitations on the availability of, and increased compensation necessary to secure and retain, nursing, technical and other professional personnel.

(f) Reduced demand for District services that might result from decreases in population.

**Document No. 7 - Appendix C to Preliminary Official Statement**  
**Economic and Demographic Profile of San Diego County**



## APPENDIX C

### Economic and Demographic Profile of San Diego County

*The following information about the County of San Diego (the "County") is presented as general background information because the District is located in the northern part of the County. As discussed under "SECURITY AND SOURCE OF PAYMENT OF THE BONDS," the Bonds are payable from ad valorem taxes, and are not a debt of, nor payable by, the County.*

#### General

The County is the southernmost major metropolitan area in the State of California. The County covers 4,255 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange counties form the northern boundary. The County is approximately the size of the State of Connecticut.

Topography of the County varies from broad coastal plains and fertile inland valleys to mountain ranges in the east which rise to an elevation of 6,500 feet. Eastern slopes of these mountains form the rim of the Anza-Borrego Desert and the Imperial Valley. The Cleveland National Forest occupies much of the interior portion of the County. The climate is equable in the coastal and valley regions where most of the population and resources are located. The average annual rainfall in the coastal areas is approximately 10 inches.

The County possesses a diverse economic base consisting of a significant manufacturing presence in the fields of electronics and shipbuilding, a large tourist industry attracted by the favorable climate of the region, and a considerable defense-related presence which contributes approximately \$10 billion annually to the retail and service businesses of the area.

The County is also growing as a major center for culture and education. Over 30 recognized art organizations, including the San Diego Opera, the Old Globe Theatre productions, the La Jolla Chamber Orchestra, as well as museums and art galleries, are located in the County. Higher education is provided through five two-year colleges and six four-year colleges and universities.

In addition to the City of San Diego, other principal cities in the County include Carlsbad, Chula Vista, Oceanside, El Cajon, Escondido, La Mesa and National City. Most County residents live within 20 miles of the coast. Farther inland are agricultural areas, principally planted in avocados and tomatoes, while the easternmost portion of the County has a dry, desert-like topography.

#### Population

There are 18 incorporated cities in the County, and a number of unincorporated communities. For many years the population of the County has grown at a greater rate than that of either California or the nation. The County population as of January 2006 was estimated to be approximately 3,084,634, making it the third largest County by population in California and the sixteenth largest Metropolitan Statistical Area in the United States. The 2006 population increased approximately 7.9% from 2001. As of January 2006, the unincorporated population of the County was 465,553.

The following table shows changes in the population in the County, the State and the United States for the years 1995 to 2006.

**POPULATION ESTIMATES<sup>(1)</sup>**  
**(In Thousands)**

Year	San Diego County	Percent Change	State of California	Percent Change	United States	Percent Change
1996	2,621	0.31	31,837	0.70	265,229	0.91
1997	2,653	1.23	32,207	1.16	267,784	0.95
1998	2,703	1.86	32,657	1.40	270,248	0.91
1999	2,751	1.78	33,140	1.48	272,691	0.90
2000	2,806	2.00	33,753	1.85	282,178	3.48
2001	2,860	1.92	34,385	1.87	285,094	1.03
2002	2,909	1.71	35,000	1.79	287,974	1.01
2003	2,976	2.30	35,612	1.75	290,810	0.98
2004	3,017	1.38	36,144	1.49	293,700	1.00
2005	3,058	1.36	36,154	0.03	296,507	0.96
2006	3,085	0.88	36,458	0.84	299,398	0.98

Sources: U.S. Bureau of the Census  
(1) As of July 1 of the year shown.

**Employment**

The County's total labor force, the number of persons who work or are available for work, averaged approximately 1,518,000 in 2006. The number of employed workers in the labor force averaged approximately 1,457,500. The following table sets forth information regarding the size of the labor force, employment and unemployment rates for the County, the State and the United States for the years 2000 through 2006.

**LABOR FORCE – EMPLOYMENT AND UNEMPLOYMENT\***  
**ANNUAL AVERAGES 2000-2006**  
**By Place of Residence**  
**(In Thousands)**

	2002	2003	2004	2005	2006
<b>County of San Diego</b>					
Labor Force	1,451	1,470	1,492	1,508	1,518
Employment	1,376	1,393	1,422	1,443	1,458
Unemployment Rate	5.2%	5.2%	4.7%	4.3%	4.0%
<b>State of California</b>					
Labor Force	17,344	17,419	17,539	17,740	17,902
Employment	16,181	16,227	16,445	16,782	17,089
Unemployment Rate	6.7%	6.8%	6.2%	5.4%	4.9%
<b>United States</b>					
Labor Force	144,863	146,510	147,700	149,300	151,400
Employment	136,485	137,736	139,200	141,700	144,400
Unemployment Rate	5.8%	6.0%	5.5%	5.1%	4.6%

Sources: State Data - California Employment Development Department; National Data – U.S. Department of Labor, Bureau of Labor Statistics.

\* Data not seasonally adjusted.

The following table sets forth the annual average employment within the County, by employment sector for the Fiscal Years 2000 through 2006. The service sector constitutes the largest non-farm employment sector in the County, representing approximately 51% of all non-farm employment.

**SAN DIEGO COUNTY  
NON-AGRICULTURAL LABOR FORCE AND INDUSTRY EMPLOYMENT  
ANNUAL AVERAGES  
2000-2006  
(In Thousands)**

Employment Sector	2000	2001	2002	2003	2004	2005	2006
Mining	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Construction	69.7	75.1	76.4	80.2	87.7	90.8	92.6
Manufacturing	122.6	119.0	112.3	105.3	104.3	104.5	103.6
Wholesale and Retail Trade	172.9	177.1	179.3	182.4	186.8	191.0	192.7
Transportation, Warehousing and Utilities	29.8	32.0	29.3	27.3	28.4	28.4	28.3
Services							
Information	39.2	38.8	37.7	36.9	36.6	37.4	37.2
Financial Activities	71.2	72.0	75.0	79.9	81.9	83.2	83.7
Professional and Business Services	195.2	198.2	201.7	201.2	204.5	210.4	213.8
Educational and Health Services	115.3	116.0	119.7	121.8	121.7	122.5	124.7
Leisure and Hospitality	129.0	131.4	133.8	140.7	145.7	149.6	156.2
Other Services	42.2	44.9	45.6	46.8	47.9	48.8	48.9
Government	206.6	213.8	219.7	217.3	214.3	215.1	217.7
<b>Total, All Non- Farm Industries</b>	<b>1,193.8</b>	<b>1,218.4</b>	<b>1,230.7</b>	<b>1,240.1</b>	<b>1,260.3</b>	<b>1,282.1</b>	<b>1,299.9</b>

Source: California Employment Development Department.

### Regional Economy

In recent years the County has enjoyed economic stability, out pacing the State economy despite a general recession in the State. Much of this strength was evidenced by and due to employment gains, population growth, personal income increases, and commercial and industrial development.

The Gross Regional Product ("GRP") for 2005 rose to \$146.2 billion from \$138.2 billion in 2004, and it has been forecasted that when the data for 2006 is compiled, it will show that the GRP for 2006 rose to \$149.9 billion. The GRP is an estimate of the value for all goods and services produced in the region. The following table presents the County's GRP from 1996 through 2006.

**COUNTY OF SAN DIEGO  
GROSS REGIONAL PRODUCT  
1996-2006**

Year	Gross Regional Product (In Billions)	Annual Percent Change
		Current Dollars San Diego
1996	\$ 79.6	5.9%
1997	86.1	8.2
1998	94.4	9.7
1999	103.1	9.2
2000	112.4	9.0
2001	112.4	0.0
2002	120.2	6.9
2003	126.8	5.5
2004	138.2	9.0
2005	146.3	5.9
2006 <sup>(1)</sup>	149.9	2.5

Sources: Bureau of Economic Analysis; Economic Research Bureau of the Greater San Diego Chamber of Commerce.

<sup>(1)</sup> Forecast.

Economic activity and population growth in the local economy are closely related. Helping to sustain the County's economy is the performance of three basic industries of the region, which consist of manufacturing, the military, and tourism. The U.S. Department of Defense contributes about \$10 billion annually to the local economy, through wages paid to the uniformed military and civilian personnel, and for equipment and services purchased from local businesses. San Diego's military presence is anticipated to remain relatively stable and may even increase due to the consolidation of military operations and facilities from elsewhere in California, the West, and throughout the United States. The Department of Defense closed and vacated the Naval Training Center in 1997. However, three procurement agencies have recently relocated to San Diego, including the Naval Space and Warfare Systems Command, the Naval Aviation Engineering Servicing Unit, which hires private contractors to service jets, and the Naval Aviation Technical Service Facility, which stores approximately 10 million jet blueprints.

### Building Activity

Building permit valuation for residential construction in the County in 2006 decreased over 2005 levels by more than 30%. Building permit valuation for non-residential construction in the County in 2006 increased over 2005 levels by more than 17%.

Annual total building permit valuation and the annual unit total of new residential permits from 2003 through 2006 are shown in the following table.

**COUNTY OF SAN DIEGO  
BUILDING PERMIT ACTIVITY  
2003-2006  
(In Thousands)**

	2002	2003	2004	2005	2006
<b>Valuation:</b>					
Residential	\$3,008,209	\$3,683,807	\$3,875,359	\$3,562,702	\$2,470,685
Non-Residential	1,391,497	1,169,397	1,288,130	1,381,794	1,621,608
<b>Total</b>	<b>\$4,399,706</b>	<b>\$4,853,204</b>	<b>\$5,163,489</b>	<b>\$4,944,496</b>	<b>\$4,092,293</b>
<b>New Housing Units:</b>					
Single Family	\$ 9,167	\$ 9,455	\$ 9,555	\$ 7,904	\$ 4,753
Multiple Family	6,760	8,859	7,751	7,354	6,024
<b>Total</b>	<b>\$15,927</b>	<b>\$18,314</b>	<b>\$17,306</b>	<b>\$15,258</b>	<b>\$10,777</b>

Source: Construction Industry Research Board.

### Commercial Activity

Consumer spending for 2005 resulted in approximately \$46,679,471 in taxable sales in the County. The table on the following page sets forth information regarding taxable sales in the County for the years 2000-2005.

**County of San Diego  
TAXABLE SALES  
2000-2005  
(In Thousands)**

Type of Business	2000	2001	2002	2003	2004	2005*
Apparel Stores	\$ 1,182,173	\$1,274,552	\$1,374,858	\$1,466,233	\$1,644,428	\$1,798,104
General Merchandise	4,307,562	4,445,352	4,557,457	4,352,937	5,204,962	5,406,091
Specialty Stores	3,663,924	3,718,292	3,803,803	4,144,293	4,541,225	4,728,028
Food Stores	1,557,244	1,595,933	1,650,104	1,685,203	1,736,610	1,858,152
Home Furnishings/ Appliances	1,237,271	1,314,860	1,353,158	1,458,403	1,549,482	1,566,046
Eating and Drinking	3,211,306	3,366,463	3,505,859	3,757,136	4,047,726	4,267,302
Establishments Building Materials and Group	2,104,100	2,343,008	2,510,931	2,757,706	3,341,105	3,376,009
Automotive	6,955,856	7,426,582	7,862,366	8,563,690	9,318,277	9,736,136
All Other Retail Stores	733,653	778,296	803,063	855,601	961,645	1,045,927
Business and Personal Services	1,954,589	1,957,109	1,977,606	2,040,077	2,146,781	2,239,304
All Other Outlets	<u>9,337,740</u>	<u>9,478,886</u>	<u>9,196,342</u>	9,303,350	<u>9,978,097</u>	<u>10,655,372</u>
<b>TOTAL ALL OUTLETS</b>	<b><u>\$36,245,418</u></b>	<b><u>\$37,699,333</u></b>	<b><u>\$38,595,547</u></b>	<b><u>\$40,863,978</u></b>	<b><u>\$44,470,338</u></b>	<b><u>\$46,679,471</u></b>

Source: California State Board of Equalization, Taxable Sales in California.

\* Data for 2005 is currently the most updated annual information available regarding taxable sales for the County of San Diego.

**Personal Income**

The following table summarizes the median household income for the County, the State, and the United States between 2001 and 2006.

**MEDIAN HOUSEHOLD INCOME  
2001 through 2006**

	<u>San Diego County</u>	<u>California</u>	<u>United States</u>
2001	446,845	\$47,262	\$42,228
2002	50,384	47,437	42,409
2003	49,886	49,300	43,318
2004	51,939	49,222	44,344
2005	56,335	51,755	46,326
2006	59,591	55,319	48,201

## **Transportation**

Surface, sea and air transportation facilities serve County residents and businesses. Interstate 5 parallels the coast from Mexico to the Los Angeles area and points north. Interstate 15 runs inland, leading to Riverside-San Bernardino, Las Vegas, and Salt Lake City. Interstate 8 runs eastward through the southern United States.

San Diego's International Airport (Lindbergh Field) is located approximately one mile west of the downtown area at the edge of San Diego Bay. The facilities are owned and maintained by the San Diego County Regional Airport Authority and are leased to commercial airlines and other tenants. The airport is California's third most active commercial airport, served by 20 major airlines. In addition to San Diego International Airport there are two naval air stations and seven general aviation airports located in the County.

Public transit in the metropolitan area is provided by the Metropolitan Transit Development Board. The San Diego Trolley, developed by the Metropolitan Transit Development Board beginning in 1979, has been expanded. A total of 17.6 miles were added to the original 108 miles; construction was completed in 1990.

The County is the terminus of the Santa Fe Railway's main line from Los Angeles. Amtrak passenger service is available at San Diego, with stops at Solana Beach and Oceanside in the North County.

The County harbor is one of the world's largest natural harbors. The Port of San Diego is administered by the San Diego Unified Port District, which includes the cities of San Diego, National City, Chula Vista, Imperial Beach, and Coronado.

## **Visitor and Convention Activity**

The climate, proximity to Mexico, multiple maritime facilities, and various visitors attractions, such as the San Diego Zoo and Wild Animal Park, Sea World, Cabrillo National Monument, and Palomar Observatory enable the County to attract a high level of visitor and convention business each year. Contributing to the growth of visitor business has been the development of the 4,600-acre Mission Bay Park at San Diego and the construction of meeting and convention facilities at the San Diego Community Concourse.

The County visitor industry is a major sector of the region's economy. Visitor revenues in the County reached approximately \$7.7 billion in 2006, according to an estimate by the San Diego Convention and Visitors Bureau, an increase of approximately \$495 million from the prior year. The County hosted 71 conventions and trade shows in 2006, attended by approximately 573,398 delegates.

## **Education**

Forty-two independent school districts provide educational programs for the elementary and secondary public school children in the County. Each school system is governed by a locally elected board of education and administered by a superintendent or other chief administrative officer appointed by the board. In the County there are three types of school districts: elementary, union high and unified.

Elementary districts educate elementary students, union high districts educate for the most part secondary students, and unified districts educate both elementary and secondary students. There are currently 12 unified, 24 elementary and 6 union high school districts in the County.

Community colleges in California are locally operated and administered two-year institutions of higher education. They offer Associates in Arts and Associates in Science degrees and have extensive vocational curricula. There are five community college districts in the County with students at eleven campuses and numerous adult and community centers.

Among the institutions of higher education offering bachelors and graduate programs in metropolitan San Diego are San Diego State University, the University of California at San Diego, National University, the University of San Diego, Point Loma College, California State University - San Marcos, United States International University, and the University of Phoenix.

**Document No. 8 - Continuing Disclosure Undertaking**



**Continuing Disclosure Undertaking**

This Continuing Disclosure Undertaking (the "Disclosure Undertaking") is executed and delivered by Palomar Pomerado Health (the "District") in connection with the issuance of \$[250,000,000] Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2007A (the "Bonds"). The Bonds are being issued pursuant to a Resolution of the Board of Directors of the District adopted on [November 12], 2007 (the "Bond Resolution"). The District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Undertaking. This Disclosure Undertaking is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Bond Resolution and that certain Paying Agent Agreement, dated as of June 1, 2005, as supplemented by the First Supplemental Paying Agent Agreement, dated as of December 1, 2007 (collectively, the "Paying Agent Agreement"), which apply to any capitalized term used in this Disclosure Undertaking unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Undertaking.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Bond Counsel" shall mean a firm of attorneys of national reputation experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds, which is selected by the District.

"Dissemination Agent" shall mean initially the District, or any successor Dissemination Agent designated in writing by the District (which may be the District) and which has filed with the District a written acceptance of such designation.

"Holders" shall mean registered owners of the Bonds.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Undertaking.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission can be found at [www.sec.gov/info/municipal/nrmsir.htm](http://www.sec.gov/info/municipal/nrmsir.htm).

"Official Statement" shall mean the final Official Statement relating to the Bonds, dated December \_\_\_, 2007.

"Participating Underwriter" shall mean any of the original Underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Undertaking, there is no State Repository.

### SECTION 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than 6 months after the end of the District’s fiscal year (presently ending June 30), commencing with the report for the 2007-08 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Undertaking. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Undertaking; *provided* that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than thirty (30) days (nor more that sixty (60) days) prior to said date the Dissemination Agent shall give notice to the District that the Annual Report shall be required to be filed in accordance with the terms of this Disclosure Undertaking. Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report in a format suitable for reporting to the Repositories to the Dissemination Agent (if other than the District). If the District is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the District shall send a notice to each Repository in substantially the form attached as Exhibit A with a copy to the Dissemination Agent. The Dissemination Agent shall not be required to file a Notice to Repositories of Failure to File an Annual Report.

(c) The Dissemination Agent shall file a report with the District stating it has filed the Annual Report in accordance with its obligations hereunder, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The District’s Annual Report shall contain or include by reference the following:

1. The audited financial statements of the District for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. Material financial information with respect to the District of the type included in the Official Statement in the following categories (to the extent not included in the District’s audited financial statements):

- (a) information on the aggregate assessed value of property and the delinquent property taxes, if available, within the District;
- (b) outstanding District general obligation bonds; and
- (c) receipts of ad valorem taxes pledged to the Bond(s); and
- (d) the top ten local secured taxpayers in the District, if the aggregate of their assessed valuation exceeds 10% of the total assessed valuation of the District.

3. The financial information and operating data set forth in Appendix A to the Official Statement in the text and tables under the headings "MASTER FACILITIES PLAN, SERVICE AREA AND COMPETITION—Utilization" and "—District Service Area—Acute Care Hospital Discharges;" "HISTORICAL FINANCIAL INFORMATION—Summary of Historical Financial Data," "—Sources of Patient Revenue" and "—Unrestricted Property Tax Revenues;" and "MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE—Outstanding Long-Term Debt," "—Outstanding Swap Transactions," "—Liquidity and Capital Resources," "—Capitalization" and "—Debt Service Coverage of Revenue Obligations".

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so included by reference. The material required herein may be filed as part of, or concurrently with, any other continuing disclosure undertaking, provided such material is identified as also pertaining to the Bonds.

#### SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- 1. principal and interest payment delinquencies.
- 2. non-payment related defaults.
- 3. modifications to rights of Holders.
- 4. optional, contingent or unscheduled bond calls.
- 5. defeasances.
- 6. rating changes.
- 7. adverse tax opinions or events affecting the tax-exempt status of the Bonds.
- 8. unscheduled draws on the debt service reserves reflecting financial difficulties.
- 9. unscheduled draws on the credit enhancements reflecting financial difficulties.
- 10. substitution of the credit or liquidity providers or their failure to perform.

11. release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly file a notice of such occurrence with the Repositories or provide notice of such reportable event to the Dissemination Agent in format suitable for filing with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Bond Resolution. The Dissemination Agent shall have no duty to independently prepare or file any report of Listed Events. The Dissemination Agent may conclusively rely on the District's determination of materiality pursuant to Section 5(b).

SECTION 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Undertaking shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(a).

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent (or substitute Dissemination Agent) to assist it in carrying out its obligations under this Disclosure Undertaking, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. A Dissemination Agent which is not the District may resign upon fifteen (15) days written notice to the District. Upon such resignation, the District shall act as its own Dissemination Agent until it appoints a successor. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Undertaking and shall not be responsible to verify the accuracy, completeness or materiality of any continuing disclosure information provided by the District. The District shall compensate the Dissemination Agent for its fees and expenses hereunder as agreed by the parties. Any entity succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the execution or filing of any paper or further act.

SECTION 8. Alternate Means of Disclosure. Notwithstanding the provisions of Sections 3, 4 and 5 requiring that the District file its Annual Report, notice of any Material Event and notice of any failure to comply with this Undertaking with each of the National Repositories and any State Repository, the District may instead comply with the provisions of this Undertaking by filing the required information with an entity then recognized by the Securities and Exchange Commission as eligible to receive filings and submit such filings to such National Repositories and any State Repository for purposes of the Rule (a "Central Post Office"). As of the date of this Disclosure Undertaking, the Central Post Office that has been so recognized by the Securities and Exchange Commission is:

DisclosureUSA.org  
P.O. Box 684667  
Austin, Texas 78768-4667  
Fax: (512) 476-6403  
<http://www.disclosureUSA.org>

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Undertaking, the District may amend this Disclosure Undertaking, and any provision of this Disclosure

Undertaking may be waived, provided that the District first obtain an opinion of Counsel that such amendment or waiver is permitted under the Rule.

In the event of any amendment or waiver of a provision of this Disclosure Undertaking, the District shall describe such amendment in the next Annual Report.

SECTION 10. Additional Information. Nothing in this Disclosure Undertaking shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Undertaking. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Undertaking, the District shall have no obligation under this Undertaking to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Undertaking, the sole remedy hereunder of any Holder or Beneficial Owner of the Bonds shall be any actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Undertaking. A default under this Disclosure Undertaking shall not be deemed an event of default under the Bonds or any agreement entered into by the District in connection with the Bonds.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Undertaking. The Dissemination Agent acts hereunder solely for the benefit of the District; this Disclosure Undertaking shall confer no duties on the Dissemination Agent to the Participating Underwriter, the Holders and the Beneficial Owners. The District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Dissemination Agent shall have no liability for the failure to report any event or any financial information as to which the District has not provided an information report in format suitable for filing with the Repositories. The Dissemination Agent shall not be required to monitor or enforce the District's duty to comply with its continuing disclosure requirements hereunder.

SECTION 13. Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date as of December \_\_, 2007

PALOMAR POMERADO HEALTH

By: \_\_\_\_\_

Its: \_\_\_\_\_

**EXHIBIT A TO**  
**CONTINUING DISCLOSURE UNDERTAKING**  
**FORM OF NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Name of Obligor: Palomar Pomerado Health  
Name of Bonds: \$[250,000,000] General Obligation Bonds, Election of 2004, Series 2007A  
Date of Issuance: December \_\_, 2007

NOTICE IS HEREBY GIVEN that Palomar Pomerado Health (the "District") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Undertaking of the District, dated as of December 1, 2007. [The District anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

\_\_\_\_\_  
on behalf of Palomar Pomerado Health

**Document No. 9 - Bond Purchase Agreement**

\$[250,000,000]  
**PALOMAR POMERADO HEALTH**  
General Obligation Bonds, Election of 2004, Series 2007A

**BOND PURCHASE AGREEMENT**

December [5], 2007

North San Diego County Health Facilities Financing Authority  
15255 Innovation Drive, Suite 204  
San Diego, California 92128

Palomar Pomerado Health  
15255 Innovation Drive, Suite 204  
San Diego, California 92128

Ladies and Gentlemen:

Citigroup Global Markets Inc., (the "Underwriter"), offers to enter into this Bond Purchase Agreement (this "Purchase Agreement") with Palomar Pomerado Health (the "District") and North San Diego County Health Facilities Financing Authority (the "Authority") which, upon acceptance hereof, will be binding upon the District, the Authority and the Underwriter. This offer is made subject to the written acceptance of this Purchase Agreement by the District and the Authority and delivery of such acceptance to the Underwriter at or prior to 11:59 P.M., California time, on the date hereof.

Capitalized terms used in this Purchase Agreement and not otherwise defined herein shall have the meaning ascribed to such terms as set forth in the District Resolution (defined below).

**1. Purchase and Sale of the Bonds.** (a) Upon the terms and conditions and upon the basis of the representations, covenants and agreements hereinafter set forth, the Authority hereby agrees to purchase from the District, and the Authority hereby agrees to sell to the Underwriter for offering to the public, and the District hereby agrees to sell to the Authority, and the Underwriter hereby agrees to purchase from the Authority, all (but not less than all) of the \$[250,000,000] aggregate principal amount of the Palomar Pomerado Health, General Obligation Bonds, Election of 2004, Series 2007A (the "Bonds"). The Bonds shall bear interest at the rates and shall mature in the years shown on Exhibit A hereto, which is incorporated herein by this reference.

(b) The Underwriter shall purchase the Bonds at a price of \$[ ] consisting of: the principal amount of the Bonds (\$[250,000,000].00), less an Underwriter's discount of \$[ ] [plus/less] net original issue [premium/discount] of \$[ ] (the "Purchase Price") [and less \$[ ] which is the premium for a financial guaranty insurance policy (the "Bond Insurance Policy") issued by [Insurer] (the "Bond Insurer"), which amount the Underwriter shall wire transfer to the Bond Insurer to pay the premium for the Bond Insurance



Policy.] [The Bond Insurance Policy insures all Bonds, except those Bonds maturing on \_\_\_\_\_].

(c) At or prior to the execution of this Purchase Agreement, the District shall cause to be delivered to the Underwriter a letter of Deloitte & Touche LLP to the effect that (i) they are independent certified public accountants as defined in Rule 101 of the Code of Professional Ethics of the American Institute of Certified Public Accountants with respect to the District, (ii) they consent to the inclusion of their report dated \_\_\_\_\_, 2007 on the audited financial statements of the District in the Preliminary Official Statement (defined below); and (iii) they consent to all references to their firm included in the Preliminary Official Statement.

**2. The Bonds.** (a) The Bonds shall be dated the date of their delivery. The Bonds shall mature on August 1 in the years shown in Exhibit A hereto, except as provided herein, and shall otherwise be as described in, and shall be issued and secured under the provisions of the resolution of the District adopted on [November 12], 2007 (the "District Resolution"), that certain Paying Agent Agreement, dated as of June 1, 2005 (the "Original Paying Agent Agreement"), between Wells Fargo Bank, National Association, as Paying Agent (the "Paying Agent"), and the District, as supplemented by the First Supplemental Paying Agent Agreement, dated as of December 1, 2007 (the "First Supplement" and the Original Paying Agent Agreement, as so supplemented, the "Paying Agent Agreement"), between the Paying Agent and the District, Measure BB approved by more than two-thirds of votes cast on such ballot measure at an election held in the District on November 2, 2004 (the "Measure BB"), the provisions of Sections 32000 *et seq.* of the Health and Safety Code of the State of California (the "Act") and other applicable provisions of law.

The Bonds are being sold to the Authority for immediate resale to the Underwriter pursuant to the resolution of the Authority adopted on [November \_\_], 2007 (the "Authority Resolution").

(b) Certain provisions for the optional and mandatory sinking fund redemption of the Bonds not otherwise specified in the District Resolution are shown in Exhibit A hereto.

(c) The Bonds shall be executed and delivered under and in accordance with the provisions of the Act, this Purchase Agreement, the District Resolution and the Paying Agent Agreement.

**3. Use of Documents.** The Authority and the District, as applicable, hereby authorize the Underwriter to use, in connection with the offer and sale of the Bonds, this Purchase Agreement, the Preliminary Official Statement and Official Statement (defined below), the District Resolution, the Authority Resolution, the Paying Agent Agreement and all information contained herein and therein and all of the documents, certificates or statements furnished by the District or the Authority to the Underwriter in connection with the transactions contemplated by this Purchase Agreement (except as such other documents otherwise provide).

**4. Public Offering of the Bonds.** The Underwriter agrees to make a bona fide public offering of all the Bonds at the initial public offering prices or yields to be set forth on the inside front cover page of the Official Statement and Exhibit A hereto. The Underwriter also

reserves the right (a) to over allot or effect transactions that stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market, and (b) to discontinue such stabilizing, if commenced, at any time. A "bona fide public offering" shall include an offering to a representative number of institutional investors or registered investment companies regardless of the number of such investors to which the Bonds are sold.

**5. Preliminary and Final Official Statement; Continuing Disclosure.** (a) The Underwriter hereby represents that it has received and reviewed the Preliminary Official Statement with respect to the Bonds, dated November [20], 2007 (the "Preliminary Official Statement"). The District represents that it deemed the Preliminary Official Statement to be final as of its date, except for either revision or addition of the offering price(s), yield(s) to maturity, selling compensation, aggregate principal amount and maturity value, denominational amount and maturity value per maturity, delivery date, rating(s) and other terms of the Bonds which depend upon the foregoing as provided in and under Rule 15c2-12 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12").

(b) The Underwriter agrees that prior to the time the final Official Statement (as defined in Section 10(c)) relating to the Bonds is available, the Underwriter will send to any potential purchaser of the Bonds, upon the request of such potential purchaser, a copy of the Preliminary Official Statement. Such Preliminary Official Statement shall be sent by first class mail (or other equally prompt means) not later than the first business day following the date upon which each such request is received.

(c) The Underwriter hereby represents that it will provide, consistent with the requirements of Municipal Securities Rulemaking Board ("MSRB") Rule G-32, for the delivery of a copy of the Official Statement to each customer who purchases any Bonds during the underwriting period (as such term is defined in MSRB Rule G-11), and deliver a copy of the Official Statement to a national repository on or before the Closing Date, and that it will otherwise comply with all applicable statutes and regulations in connection with the offering and sale of the Bonds, including, without limitation, MSRB Rule G-32 and 17 CFR Section 240.15c2-12, promulgated by the Securities and Exchange Commission.

(d) References herein to the Preliminary Official Statement and the final Official Statement include the cover page and all appendices, exhibits, maps, reports and statements included therein or attached thereto.

(e) To assist the Underwriter in complying with Rule 15c2-12(b)(5), the District will undertake, under the District Resolution and a continuing disclosure undertaking (the "Continuing Disclosure Undertaking"), to provide annual reports and notices of certain events. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement.

**6. Closing.** At 8:00 A.M., California time, on December [18], 2007, or at such other time or on such other date as are mutually agreed upon by the District, the Authority and Underwriter, (the "Closing Date"), the District will deliver or cause to be delivered to the Authority and the Authority shall redeliver to the Underwriter, through the facilities of The

Depository Trust Company ("DTC"), the Bonds in fully registered book-entry form, duly executed and registered in the name of Cede & Co., as nominee of DTC, and at the offices of Orrick, Herrington & Sutcliffe LLP, San Francisco, California, the other documents hereinafter mentioned; and the Underwriter will accept such delivery and pay the purchase price [\_\_\_\_\_, less the premium for the Bond Insurance Policy], thereof in immediately available funds by wire transfer to the account of the Paying Agent.

**7. Representations, Warranties and Agreements of the District.** The District hereby represents, warrants and agrees with the Authority and the Underwriter that, as of the date hereof and as of the Closing Date:

- (a) Due Organization. The District is a local health care district, duly organized and validly existing under Act, with the power to issue the Bonds under the Act and other applicable law.
- (b) Due Authorization; Valid and Binding Obligations. (i) On or before the Closing Date, the District will have taken all action required to be taken by it to authorize the issuance, sale and delivery of the Bonds; (ii) the District had the requisite legal right, power and authority to enter into the Original Paying Agent Agreement and has requisite legal right, power and authority to issue the Bonds, to enter into this Purchase Agreement, the First Supplement, the Continuing Disclosure Undertaking and the Tax Certificate of the District, dated the Closing Date (the "Tax Certificate") (hereinafter collectively referred to as the "Financing Documents"), to adopt the District Resolution, to execute the Official Statement and to observe, perform and consummate its obligations under the Bonds, the District Resolution and the Financing Documents and to observe, perform and consummate the transactions described in the Official Statement; (iii) the Bonds, the District Resolution, and the Financing Documents constitute valid and legally binding obligations of the District enforceable in accordance with their terms; (iv) the District has taken all action required to be taken by it to duly authorize the approval, use, execution and delivery of the Official Statement; and (v) the District has the requisite legal right, power and authority to sell the Bonds to the Authority as provided in this Purchase Agreement.
- (c) Consents. Except for the action of parties hereto, no consent, approval, authorization, order, filing, registration, qualification, election or referendum of or by any court or governmental agency or public body whatsoever is required in connection with the adoption of the District Resolution, the execution and delivery of the Financing Documents and the Official Statement, the issuance, delivery or sale of the Bonds or the consummation of the other transactions contemplated herein, hereby or by the Paying Agent Agreement, which have not been taken or obtained, except for such actions as may be necessary to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and jurisdictions of the United States as the Underwriter may reasonably request and except for such governmental authorizations, approvals, permits and consents relating to the construction of the improvements to be financed with the Bonds as may be required subsequent to the date hereof,

all of which the District reasonably expects to obtain in ordinary course and at the times required.

- (d) Internal Revenue Code. The District has covenanted to comply with the Internal Revenue Code of 1986, as amended, with respect to the Bonds.
- (e) No Conflicts. The sale and issuance of the Bonds, and the execution, delivery and performance of the Financing Documents, the District Resolution and the Bonds, and the compliance with the provisions hereof and thereof: (i) do not and will not conflict with or constitute a violation of or default under, the Constitution of the State of California (the "State"), the Act, or any other existing law, charter, ordinance, regulation, decree, order or resolution; (ii) do not and will not conflict with or result in a violation or breach of, or constitute a default under, any agreement, indenture, mortgage, lease or other instrument to which the District is a party or by which it is bound or to which it is subject and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or an event of default under any such instrument; and (iii) nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon the *ad valorem* taxes to be levied and collected for payment of the Bonds or any such law, administrative regulation, judgment, decree, loan agreement, pledge agreement, indenture, bond, note, resolution, agreement or other instrument, except as expressly provided by the District Resolution.
- (f) Approval, Licenses and Authorizations. The District has obtained, or in timely manner, will obtain, all approvals, licenses, permits, franchises or other governmental authorizations necessary in connection with any use to which proceeds from the sale of the Bonds will be applied, including, without limitation, any approvals or authorizations required under the California Environmental Quality Act, California Public Resources Code Sections 210002 to 211787 and the regulations thereunder (collectively, "CEQA").
- (g) Litigation. No action, suit, proceeding, hearing or investigation, at law or in equity, is pending, or threatened, against or, to the knowledge of the District, affecting the District:
  - (i) in any way affecting the existence of the District or in any way challenging the respective powers of the Board of Directors of the District or the several officers of the District required to adopt the District Resolution, to execute the Bonds, the Financing Documents or any other documents or certificates in connection with the delivery of the Bonds or of the titles of the officials of the District to their respective offices; or
  - (ii) seeking to restrain or enjoin the sale, issuance or delivery of any of the Bonds, the application of the proceeds of the sale of the Bonds, or the levy and collection of *ad valorem* taxes of the District to pay the principal of

and interest on the Bonds or the levy of any *ad valorem* taxes contemplated by the District Resolution, or in any way contesting or affecting the validity or enforceability of the Bonds, the Financing Documents or the District Resolution, or contesting in any way its authority to issue, enter into, adopt or perform its obligations under any of the foregoing, or contesting in any way the completeness or accuracy of the Official Statement, or any amendment or supplement thereto; provided however, for the purposes of this representation, performance of obligations does not include any obligation to construct any of the specific projects within the Master Facility Plan described in the Official Statement; or

- (iii) in which a final adverse decision, ruling or finding could (a) have a material adverse effect on the operations or finances of the District or the consummation of the transactions contemplated by the Financing Documents, the Official Statement, or the District Resolution, (b) declare the District Resolution, or the Financing Documents to be invalid or unenforceable in whole or in material part, or (c) adversely affect the exclusion of the interest paid on the Bonds from gross income for federal income tax purposes and the exemption of such interest from California personal income taxation.
- (h) No Other Debt. Between the date hereof and the Closing Date, without the prior written consent of the Underwriter, neither the District directly, nor any other governmental agency or other body on behalf of the District, will have issued in the name and on behalf of the District any bonds, notes or other obligations for borrowed money except for such borrowings as may be described in or contemplated by the Official Statement.
- (i) Continuing Disclosure. Except as disclosed in the Official Statement, the District has never failed to comply in all material respects with any prior undertakings under Rule 15c2-12(b)(5).
- (j) Certificates. Any certificates signed by any officer of the District and delivered to the Underwriter shall be deemed a representation by the District to the Underwriter, but not by the person signing the same, as to the statements made therein.
- (k) Official Statement Accurate and Complete. The Preliminary Official Statement, as of date thereof, did not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, excepting therefrom the information in the Preliminary Official Statement describing the Authority, The Depository Trust Company and its Book-Entry-Only System, and [the Bond Insurance Policy, Bond Insurer and the] Debt Report (as defined in the Preliminary Official Statement) (collectively, the "Excepted Portions"). At the date hereof and on the Closing Date, the final Official Statement (excluding the

Excepted Portions) did not and will not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided however, the District makes no representation or warranty as to the information contained in or omitted from the Preliminary Official Statement or the final Official Statement in reliance upon and in conformity with information furnished in writing to the District by or on behalf of the Underwriter through a representative of the Underwriter specifically for inclusion therein.

- (l) At the Closing Date, the Bonds and the Financing Documents will have been duly authorized, executed and delivered by the District and will constitute valid, binding and enforceable obligations of the District in accordance with their respective terms except as the same may be limited by bankruptcy, insolvency and other laws affecting creditors' rights generally and except as the enforceability of indemnification provisions of this Purchase Agreement may be limited by applicable law.
- (m) Audited Financials. The audited financial statements of the District which appear in Appendix B to the Official Statement: (i) fairly present the financial position and results of operations of the District at the respective dates and for the respective periods indicated therein in accordance with the generally accepted accounting principles applicable to health care districts ("GAAP"), (ii) to the best of the District's knowledge, have been prepared in accordance with GAAP consistently applied throughout the periods concerned (except as otherwise disclosed in the notes to such audited financial statements); and such audited financial statements were audited by Deloitte & Touche LLP, independent auditors, and their opinion thereto appears in Appendix B to the Official Statement. [Since June 30, 2007, the District has not incurred any material liabilities, direct or contingent, nor has there been any material adverse change in the financial position, results of operations, or conditions, financial or otherwise, of the District that is not described in the Official Statement, whether or not arising from transactions in the ordinary course of business.]
- (n) No Defaults. [The District is not now and has never been in default in the payment of principal of, or premium or interest on, or otherwise in default with respect to, any bonds, notes, financing leases or other obligations which it has issued, assumed or guaranteed as to payment of principal, premium or interest. The District has no knowledge of any event which has occurred or is continuing that, with the lapse of time or the giving of notice or both, would constitute an event of default under any such bonds, notes, financing leases or other obligations.] No event has occurred or is continuing that, upon the execution and delivery of the Bonds, would constitute an event of default pursuant to the Financing Documents, or which, with the lapse of time or the giving of notice or both, would constitute an event of default.

**8. Representations, Warranties and Agreements of the Authority.** The Authority hereby represents, warrants and agrees with the District and the Underwriter that, as of the date hereof and as of the Closing Date:

- (a) The Authority is a joint exercise of powers authority, duly organized and validly existing under the Sections 6500 et seq. of the Government Code of the State (the "JPA Act") and under a Joint Exercise of Powers Agreement, dated May 27, 2005 (the "JPA Agreement"), between the District and Tri-City Healthcare District.
- (b) The Authority is duly authorized and has requisite legal right, power and authority to purchase the Bonds from the District, and to sell and to redeliver the Bonds to the Underwriter as provided in this Purchase Agreement.
- (c) The Authority has requisite legal right, power and authority to adopt the Authority Resolution, to enter into this Purchase Agreement, and to observe, perform and consummate the covenants and agreements made in this Purchase Agreement to be observed, performed and consummated by the Authority.
- (d) The Authority has duly adopted the Authority Resolution in accordance with its JPA Agreement, its bylaws and applicable law.
- (e) The statements and information contained in the Official Statement under the caption "THE AUTHORITY" are true and accurate in all material respects and fairly presents the information purported to be shown or summarized therein.

**9. Representations, Warranties and Agreements of the Underwriter.** The Underwriter represents to and agrees with the District and the Authority that, as of the date hereof and as of the Closing Date:

- (a) The Underwriter is duly authorized to execute this Purchase Agreement and to take any action under this Purchase Agreement required to be taken by it.
- (b) The Underwriter is in compliance with MSRB Rule G-37 with respect to the District and the Authority, and is not prohibited thereby from acting as underwriter with respect to the Bonds.
- (c) The Underwriter has, and has had, no financial advisory relationship with the District or the Authority with respect to the Bonds, and no investment firm controlling, controlled by or under common control with the Underwriter has or has had any such financial advisory relationship.

**10. Covenants of the District.** The District covenants and agrees with the Authority and the Underwriter that:

- (a) Securities Laws. The District will furnish such information, execute such instruments, and take such other action in cooperation with the Underwriter if and as the Underwriter may reasonably request in order to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states

and jurisdictions, provided, however, that the District shall not be required to consent to service of process in any jurisdiction in which it is not so subject as of the date hereof.

- (b) Application of Proceeds. The District will apply the proceeds from the sale of the Bonds for the purposes for which the Bonds were authorized and as provided in the Paying Agent Agreement.
- (c) Official Statement. The District hereby agrees to deliver or cause to be delivered to the Underwriter, not later than the 7th business day following the date this Purchase Agreement is signed, and in sufficient time to accompany any confirmation that requests payment from a customer, copies of a final Official Statement substantially in the form of the Preliminary Official Statement, with only such changes therein as are accepted by the Underwriter and the District (such Official Statement with such changes, if any, and including the cover page and all appendices, exhibits, maps, reports and statements included therein or attached thereto being herein called the "Official Statement") in such quantities (including a representative number of originally executed copies) as may be requested by the Underwriter in order to permit the Underwriter to comply with paragraph (b)(4) of Rule 15c2-12 and with the rules of the Municipal Securities Rulemaking Board. Such Official Statement shall contain all information previously permitted to be omitted by Rule 15c2-12.
- (d) If, between the date of this Purchase Agreement and up to and including the 25th day following the "end of the underwriting period" (as such term is defined in Rule 15c2-12(f)(2)) any event occurs, of which the District has knowledge, or information becomes known to the District, which might or would cause the Official Statement, as then supplemented or amended, to contain an untrue statement of the material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, then (i) the District shall promptly notify the Underwriter of such event, and (ii) if in the opinion of the Underwriter, such event requires the preparation and publication of a supplement or amendment to the Official Statement, then the District shall amend or supplement the Official Statement in a form and in a manner approved by the Underwriter, provided all expense thereby incurred will be paid by the District.

For the purposes of subdivisions (d) and (f), the District may assume that the "end of the underwriting period" for the purposes of Rule 15c2-12 will occur on the date of the Closing unless otherwise notified, in writing, by the Underwriter on or prior to the date of Closing.

- (e) If the information contained in the Official Statement is amended or supplemented pursuant to subparagraph (d), at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subparagraph) at all times subsequent thereto up to and including the date of the Closing, the portions of the Official Statement so supplemented or



amended, excluding the Excepted Portions, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading.

- (f) From the date of the final Official Statement through twenty-five (25) days from the date of the end of the underwriting period (as such term is defined in Rule 15c2-12)), (i) the District shall not participate in the issuance of any amendment of or supplement to the Official Statement to which, after being furnished with a copy, the Underwriter shall reasonably object in writing and (ii) if any event shall occur or information becomes known as a result of which it is necessary, in the opinion of the Underwriter, to amend or supplement the Official Statement in order to make the Official Statement true and correct in all material respects and not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, then the District shall forthwith prepare and furnish to the Underwriter (at the expense of the District for ninety (90) days from the date of Closing, and thereafter at the expense of the Underwriter) a reasonable number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to the Underwriter) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances existing at the time the Official Statement is delivered to a purchaser, not misleading.
- (g) Levy of Tax. The District hereby agrees to take any and all actions as may be required by San Diego County (the "County") or otherwise necessary in order to arrange for: the levy and collection of *ad valorem* taxes to pay the Bonds when due; and the payment of the Bonds when due.

**11. Conditions to Closing.** The obligation of the Underwriter to accept delivery of and pay for the Bonds on the Closing Date shall be subject, at the option of the Underwriter, to the accuracy in all material respects of the representations, warranties and agreements on the part of the District and Authority contained herein as of the date hereof and as of the Closing Date, to the accuracy in all material respects of the statements of the officers and other officials of the District and Authority made in any certificates or other documents furnished pursuant to the provisions hereof, and to the performance by the District and Authority of its respective obligations to be performed hereunder on or prior to the Closing Date, and to the following additional conditions:

- (a) Obligations Performed. As of the Closing Date, (i) the Official Statement, the District Resolution, Authority Resolution, and the Financing Documents must be in full force and effect and may not have been amended, modified or supplemented from the forms thereof previously provided to the Underwriter except as agreed to in writing by the Underwriter, which agreement will not be unreasonably withheld, conditioned or delayed; (ii) all actions under the Act, the JPA Act and other laws which, in the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), are necessary or appropriate in connection with the Bonds

and the transactions contemplated by the Financing Documents and the Official Statement prior to the issuance of the Bonds must have been duly taken and must be in full force and effect; (iii) the District must have performed all of its obligations required under or specified in the District Resolution, this Purchase Agreement or the Official Statement to be performed at or prior to the Closing Date, and (iv) the Authority must have performed all of its obligations required under or specified in the Authority Resolution, this Purchase Agreement or the Official Statement to be performed at or prior to the Closing Date.

- (b) Official Statement. At the Closing Date, the Official Statement shall not have been amended, modified or supplemented, except as may have been agreed to in writing by the Underwriter, which agreement will not be unreasonably withheld, conditioned or delayed.
- (c) Adverse Rulings. No decision, ruling or finding has been entered by any court or governmental authority since the date of this Purchase Agreement (and not reversed on appeal or otherwise set aside), or to the best knowledge of the District or Authority, pending or threatened which would constitute a ground for termination of this Purchase Agreement by the Underwriter or, which contests in any way the completeness or accuracy of the Official Statement.
- (d) Delivery of Documents. On or before the Closing Date, sufficient copies of the following documents, in each case dated as of the Closing Date and reasonably satisfactory in form and substance to the Underwriter, shall be provided to the Underwriter:
  - (i) *Legal Opinion of Bond Counsel*. An approving opinion of Bond Counsel, as to the validity and tax-exempt status of the Bonds, dated the Closing Date, addressed to the District, in substantially the form appended to the Official Statement;
  - (ii) *Supplemental Opinion of Bond Counsel*. A supplemental opinion of Bond Counsel addressed to the Underwriter, dated the Closing Date substantially in the form attached hereto as Exhibit C;
  - (iii) *Underwriter's Counsel Opinion*. The opinion of Squire, Sanders & Dempsey L.L.P., as counsel to the Underwriter ("Underwriter's Counsel"), in form and substance satisfactory to the Underwriter, addressed to the Underwriter, dated the Closing Date, to the effect that:
    - (A) during the course of serving as Underwriter's Counsel in connection with the issuance of the Bonds and without having undertaken to determine independently or assuming any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement, no information came to the attention of the attorneys in such firm rendering legal services in connection with the issuance of the Bonds that would

lead them to believe that the Official Statement (excluding therefrom any financial statements, statistical data or forecasts, numbers, charts, estimates, projections, real property values, assumptions, expressions of opinion, information regarding [the Bond Insurer,] The Depository Trust Company and its book-entry system, and the appendices to the Official Statement, as to which no opinion need be expressed), as of the date thereof or the Closing Date, contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

- (B) the Bonds are exempt from registration under the Securities Act of 1933, as amended, and the District Resolution and the Paying Agent Agreement is exempt from registration under the Trust Indenture Act of 1939, as amended; and
  - (C) the Continuing Disclosure Undertaking satisfies Section (b)(5)(i) of Rule 15c2-12, which requires an undertaking for the benefit of the holders, including beneficial owners, of the Bonds to provide certain annual financial information and event notices to various information repositories at the time and in the manner required by the Rule.
- (iv) *District Counsel Opinions.* The opinions and negative assurance of Latham & Watkins LLP, as special counsel to the District, dated the Closing Date, substantially in the forms attached hereto as Exhibit D-1 and Exhibit D-2.
- (v) *Authority Counsel Opinion.* The opinion of Orrick Herrington & Sutcliffe LLP, as counsel to the Authority, dated the Closing Date, substantially in the form attached hereto as Exhibit E.
- (vi) *Certificate of the District.* A certificate signed by an appropriate official of the District to the effect that:
- (A) each of the Financing Documents, the Official Statement and the Bonds have been duly executed and delivered by an official of the District authorized to execute the Bonds and each such document;
  - (B) the representations, agreements and warranties of the District in the Financing Documents are true and correct in all material respects as of the date of Closing;
  - (C) the District has complied with all applicable terms of the Act, the JPA Act and other laws of the State, and of the Financing Documents, which are necessary to be complied with prior to or

before the Closing Date and such Financing Documents are in full force and effect;

- (D) the District has reviewed the Official Statement and on such basis certifies that the Official Statement, excluding the Excepted Portions, does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading;
  - (E) the Bonds being delivered on the Closing Date to the Underwriter under this Purchase Agreement substantially conform to the descriptions thereof contained in the District Resolution and Official Statement;
  - (F) no event has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement thereto, but should be disclosed in order to make the statements in the Official Statement, in light of the circumstances in which they were made, not misleading;
  - (G) [since June 30, 2007, no material and adverse change has occurred in the financial position or results of operation of the District that is not described in or contemplated by the Official Statement;]
  - (H) [since June 30, 2007, the District has not incurred any material liabilities other than in the ordinary course of business which are not described in or contemplated by this Official Statement]; and
  - (I) the District Resolution authorizes the execution and delivery by the District of the District Financing Documents, and approving the Official Statement and distribution thereof.
- (vii) *Certificate of the Authority.* A certificate signed by an appropriate official of the Authority to the effect that:
- (A) this Purchase Agreement has been duly executed and delivered by an official of the Authority authorized to execute such document;
  - (B) the representations, agreements and warranties of the Authority herein are true and correct in all material respects as of the Closing Date;
  - (C) the Authority has complied with all the terms of the JPA Act and other laws of the State and the Authority Resolution and this Purchase Agreement, which are necessary to be complied with prior to the Closing Date and the Purchase Agreement is in full force and effect; and

- (D) no event affecting the Authority has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Official Statement in order to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect.
- (viii) *Certificate of the Paying Agent.* A certificate signed by an appropriate officer of the Paying Agent to the effect that:
- (A) the Paying Agent is duly organized and validly existing as a national banking association in good standing under the laws of the United States, having the full power, including trust powers, and authority to enter into and perform its duties under the Paying Agent Agreement;
  - (B) the Paying Agent has duly authorized, executed and delivered the Paying Agent Agreement;
  - (C) the Bonds were examined by the Paying Agent and found to be in the form required by the Paying Agent Agreement and were authenticated in the name of an on behalf of an authorized signatory of the Paying Agent; and
  - (D) to the best knowledge of the Paying Agent, after due inquiry, there is no action, suit, proceeding or investigation, at law or in equity, before or by any court or governmental agency, public board or body pending against the Paying Agent or threatened against the Paying Agent, which in the reasonable judgment of the Paying Agent would affect the existence of the Paying Agent, or in any way contesting or affecting the validity or enforceability of the Paying Agent Agreement or contesting the powers of the Paying Agent or its authority to enter into and perform its obligations under the Paying Agent Agreement.
- (ix) *Tax Certificate and IRS Form 8038.* A Tax Certificate of the District and IRS Form 8038, in a form satisfactory to Bond Counsel;
- (x) *District Resolution.* A certificate, together with a fully executed copy of the District Resolution, of the Secretary of the District Board of Directors to the effect that:
- (A) such copy is a true and correct copy of the District Resolution;
  - (B) the District Resolution was duly adopted and has not been modified, amended, rescinded or revoked and is in full force and effect on the Closing Date; and

- (xi) *Election Proceedings. Certificates of:*
  - (A) The Secretary of the District Board of Directors certifying:
    - (i) Resolution No. 08.04.04(01)-8 adopted by the Board on August 4, 2004, calling and providing for a special election to be held on November 2, 2004 with respect to Measure BB, and
    - (ii) Acceptance of results therefrom;
  - (B) The Registrar of Voters, County of San Diego, certifying:
    - (i) Notice of Date Fixed for Submitting Arguments;
    - (ii) Excerpt of San Diego County Administrative Code Authorizing Consolidation of Election;
    - (iii) Sample Ballot and Other Election Materials Mailed to Voters; and
    - (iv) Certified Statement of Results of Election.
- (xii) *Authority Resolution.* A certificate, together with a fully executed copy of the Authority Resolution, of the Secretary of the governing body of the Authority to the effect that:
  - (A) such copy is a true and correct copy of the Authority Resolution; and
  - (B) the Authority Resolution was duly adopted and has not been modified, amended, rescinded or revoked and is in full force and effect on the Closing Date;
- (xiii) *Official Statement.* Two copies of Official Statement executed by an appropriate official of the District;
- (xiv) A certificate, together with a fully executed copy of the Original Paying Agent Agreement, of the Secretary of the District Board of Directors to the effect that:
  - (A) such copy is a true and correct copy of the Original Paying Agent Agreement;
  - (B) the Original Paying Agent Agreement was duly executed and delivered and, other than by the First Supplement, has not been modified, amended, rescinded or revoked and is in full force and effect on the Closing Date; and
- (xv) A fully executed copy of the First Supplement;

- (xvi) *Continuing Disclosure Undertaking.* A fully executed Continuing Disclosure Undertaking of the District in a form satisfactory to the Underwriter which complies with S.E.C. Rule 15c2-12(b)(5), in substantially the form appended to the Official Statement.
- (xvii) *DTC.* The Blanket Issuer Letter of Representations of the District, addressed to DTC.
- (xviii) *Ratings.* Evidence that the [Insured Bonds have been rated “AAA” by Fitch Rating and “Aaa” by Moody’s, based on the Bond Insurance Policy, and that the Uninsured] Bonds have been rated [issued an underlying rating of] “\_\_\_\_” by Fitch and “\_\_\_\_” by Moody’s.
- (xix) *Underwriter’s Certifications.* At or before Closing, and contemporaneously with the acceptance of delivery of the Bonds and the payment of the Purchase Price thereof [, less the premium for the Bond Insurance Policy which the Underwriter agrees to pay directly to the Bond Insurer,] the Underwriter will provide (or cause to be provided) to the District and the Authority:
  - (A) the receipt of the Underwriter, in form satisfactory to the District and the Authority and signed by an authorized officer of the Underwriter, confirming delivery of the Bonds to the Underwriter, receipt of all documents required by the Underwriter, and the satisfaction of all conditions and terms of this Purchase Agreement by the District and the Authority, respectively, and confirming to the District and the Authority that as of the Closing Date all of the representations of the Underwriter contained in this Purchase Agreement are true, complete and correct in all material respects.
  - (B) the certification of the Underwriter, in form satisfactory to Bond Counsel, regarding the prices at which the Bonds have been reoffered to the public, as described in Section 4 hereof.
  - (C) [the certification of the Underwriter, in form satisfactory to Bond Counsel, that the present value of the interest saved as a result of the Bond Insurance Policy with respect to the insured Bonds exceeds the premium paid for said Bond Insurance Policy, and said premium is not unreasonable.]
- (xx) [Copy of fully executed Bond Insurance Policy issued by the Bond Insurer.]
- (xxi) A letter of Deloitte & Touche dated the date of Closing, to the effect that (i) they are independent certified public accountants as defined in Rule 101 of the Code of Professional Ethics of the American Institute of Certified Public Accountants with respect to the District, (ii) they consent to the inclusion of their report dated [\_\_\_\_], 2007, on the audited

financial statements of the District in the final Official Statement; and (iii) they consent to all references to their firm included in the final Official Statement.

- (xxii) [A certificate of an authorized representative of the Bond Insurer, in form and substance satisfactory to Bond Counsel and Underwriter, with respect to the information contained in the Official Statement describing the Bond Insurer and its Bond Insurance Policy;]
- (xxiii) [An opinion of counsel to the Bond Insurer with respect to its Bond Insurance Policy and to the information contained in the Official Statement describing the Bond Insurer and its Bond Insurance Policy, addressed to the District and the Underwriter and in form and substance satisfactory to Bond Counsel and Underwriter;]
- (xxiv) *Other Documents.* Such additional legal opinions, certificates, proceedings, instruments and other documents as the Underwriter or Bond Counsel may reasonably request to evidence (A) compliance by the District and the Authority with all requirements of the Act, the JPA Act and all other legal requirements, (B) the truth and accuracy, as of the time of Closing, of the representations of the District and the Authority herein contained and of the statements and information contained in the Official Statement, and (C) the due performance or satisfaction by the District and the Authority at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the District and the Authority.

All of the opinions, letters, certificates, instruments and other documents mentioned in this Purchase Agreement shall be deemed to be in compliance with the provisions of this Purchase Contract if, but only if, they are in form and substance reasonably satisfactory to the Underwriter and Underwriter's Counsel.

- (e) Cancellation. If the District or the Authority is unable to satisfy the conditions to the Underwriter's obligations contained in this Purchase Agreement or if the Underwriter's obligations are terminated for any reason permitted by this Purchase Agreement, then this Purchase Agreement may be canceled by the Underwriter at, or at any time prior to, the Closing Date. Notice of cancellation shall be given to the District and the Authority in writing, including by facsimile, or by telephone and confirmed in writing. Notwithstanding any provision herein to the contrary, the performance of any and all obligations of the District and the Authority under this Purchase Agreement and the performance of any and all conditions contained in this Purchase Agreement for the benefit of the Underwriter may be waived by the Underwriter in writing at its sole discretion.

**12. Underwriter's Right to Terminate.** (a) Notwithstanding anything to the contrary herein contained, if for any reason whatsoever the Bonds have not been delivered by the District to the Authority and re-delivered by the Authority to the Underwriter prior to 10:00 a.m.



Pacific Standard Time, on the Closing Date, then the Underwriter shall have the right to terminate its obligation to purchase Bonds hereunder, without liability therefor, by notice to the District and the Authority.

(b) In addition, the Underwriter has the right to terminate this Purchase Agreement, without liability therefor, by notice to the District and the Authority at any time at or prior to the Closing, upon the occurrence of any Termination Event as described in Exhibit B.

**13. Conditions to Obligations of the District.** The performance by the District of its obligations is conditioned upon (i) the performance by the Authority [, the Bond Insurer,] and the Underwriter of their obligations hereunder; and (ii) receipt by the District of opinions and certificates being delivered on the Closing Date by persons or entities other than the District, District counsel and the Underwriter.

**14. Conditions to Obligations of the Authority.** The performance by the Authority of its obligations is conditioned upon (i) the performance by the District and the Underwriter of their respective obligations hereunder; and (ii) receipt by the Authority of opinions and certificates being delivered on the Closing Date by persons and entities other than the Authority and the Underwriter.

**15. Indemnification Provisions.** (a) To the extent permitted by law, the District agrees to indemnify and hold harmless the Authority, the directors, officers, employees and agents of the Authority and the Underwriter, the directors, officers, employees and agents of the Underwriter and each person who controls the Underwriter within the meaning of either the Securities Act of 1933, as amended (the "Securities Act") or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), against any and all losses, claims, damages or liabilities, joint or several, to which they or any of them may become subject under the Securities Act, the Exchange Act or other Federal or state statutory law or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Official Statement or the final Official Statement (or in any supplement or amendment thereto), or arise out of or are based upon the omission or alleged omission to state in the Preliminary Official Statement or the final Official Statement a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and agrees to reimburse each such indemnified party, as incurred, for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; *provided, however*, that the District will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made in the Preliminary Official Statement or the final Official Statement (or in any supplement or amendment thereto), in reliance upon and in conformity with written information furnished to the District by or on behalf of the Underwriter through a representative of the Underwriter specifically for inclusion therein or in reliance upon and in conformity with written information furnished to the District by or on behalf of the Bond Insurer specifically for inclusion therein. This indemnity agreement will be in addition to any liability which the District may otherwise have.

(b) The Underwriter agrees to indemnify and hold harmless the District and the Authority, each of their respective officials, directors, officers and employees, and each person who controls the District or the Authority within the meaning of either the Securities Act or the Exchange Act, to the same extent as the foregoing indemnity from the District and the Authority to the Underwriter, but only with reference to written information relating to the Underwriter furnished to the District or the Authority by or on behalf of the Underwriter through a representative of the Underwriter specifically for inclusion in the Preliminary Official Statement or the final Official Statement (or in any amendment or supplement thereto). This indemnity agreement will be in addition to any liability which the Underwriter may otherwise have. The District and the Authority acknowledge that the statement set forth in the preface of the Preliminary Official Statement and of the final Official Statement regarding the Underwriter's involvement in the preparation of the Official Statement, and the information under the caption "UNDERWRITING," constitute the only information furnished in writing by or on behalf of the Underwriter for inclusion in the Preliminary Official Statement or the final Official Statement (or in any amendment or supplement thereto).

(c) Promptly after receipt by an indemnified party under this Section 15 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 15, notify the indemnifying party in writing of the commencement thereof; but the failure so to notify the indemnifying party (i) will not relieve it from liability under paragraph (a) or (b) above unless and to the extent it did not otherwise learn of such action and such failure results in the forfeiture by the indemnifying party of substantial rights and defenses; and (ii) will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the indemnification obligation provided in paragraph (a) or (b) above. The indemnifying party shall be entitled to appoint counsel of the indemnifying party's choice at the indemnifying party's expense, to represent the indemnified party in any action for which indemnification is sought (in which case the indemnifying party shall not thereafter be responsible for the fees and expenses of any separate counsel retained by the indemnified party or parties except as set forth below); *provided, however*, that such counsel shall be reasonably satisfactory to the indemnified party. Notwithstanding the indemnifying party's election to appoint counsel to represent the indemnified party in an action, the indemnified party shall have the right to employ separate counsel (including local counsel), and the indemnifying party shall bear the reasonable fees, costs and expenses of such separate counsel if:

- (i) the use of counsel chosen by the indemnifying party to represent the indemnified party would present such counsel with a conflict of interest;
- (ii) the actual or potential defendants in, or targets of, any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party;
- (iii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of the institution of such action; or

- (iv) the indemnifying party shall authorize the indemnified party to employ separate counsel at the expense of the indemnifying party.

An indemnifying party will not, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding.

(d) If the indemnity provided in paragraph (a) or (b) of this Section 15 is unavailable to or insufficient to hold harmless an indemnified party for any reason, the District and the Underwriter agree to contribute to the aggregate losses, claims, damages and liabilities (including legal or other expenses reasonably incurred in connection with investigating or defending same) (collectively "Losses") to which the District and the Underwriter may be subject in such proportion as is appropriate to reflect the relative benefits received by the District on the one hand and by the Underwriter on the other from the offering of the Bonds. If the allocation provided by the immediately preceding sentence is unavailable for any reason, the District and the Underwriter shall contribute in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the District on the one hand and of the Underwriter on the other in connection with the statements or omissions which resulted in such Losses, as well as any other relevant equitable considerations. In no case shall the Underwriter be responsible for any amount in excess of the purchase discount or commission applicable to the Bonds purchased by the Underwriter hereunder. Benefits received by the District shall be deemed to be equal to the total net proceeds from the offering (before deducting expenses) received by it, and benefits received by the Underwriter shall be deemed to be equal to the Underwriter's discount. Relative fault shall be determined by reference to, among other things, whether any untrue or any alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information provided by the District on the one hand or the Underwriter on the other, the intent of the parties and their relative knowledge, information and opportunity to correct or prevent such untrue statement or omission. The District and the Underwriter agree that it would not be just and equitable if contribution were determined by pro rata allocation or any other method of allocation which does not take account of the equitable considerations referred to above. Notwithstanding the provisions of this paragraph (d), no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 15, each person who controls the Underwriter within the meaning of either the Securities Act or the Exchange Act and each director, officer, employee and agent of the Underwriter shall have the same rights to contribution as the Underwriter, and each person who controls the District within the meaning of either the Securities Act or the Exchange Act and each official, director, officer and employee of the District shall have the same rights to contribution as the District, subject in each case to the applicable terms and conditions of this paragraph (d).

## **16. Expenses.**

(a) The District shall pay all expenses of the District and the Authority incident to the performance of their obligations in connection with the authorization, issuance and sale of the Bonds to the Underwriter, — including without limitation: [premiums and cost of Bond Insurance, if any,] fees and expenses of the District's financial advisor and any other consultants retained by the District or Authority, fees of DTC, fees and expenses of rating agencies, and fees and expenses of Bond Counsel, of District's Counsel, and of Squire, Sanders & Dempsey L.L.P., as Underwriter's Counsel in an amount of \$ \_\_\_\_\_. All fees and expenses to be paid by the District pursuant to this Purchase Agreement may be paid from Bond proceeds to the extent permitted by the District Resolution, the Paying Agent Agreement and the Tax Certificate.

(b) All expenses of selling the Bonds, all out-of-pocket expenses of the Underwriter, including travel and other expenses, CUSIP Service Bureau charges, California Debt and Investment Advisory Commission fees, any fees charged by the Municipal Securities Rulemaking Board, blue sky fees, and printing, publishing and electronic distribution costs related to the preparation and distribution of the Preliminary Official Statement and the Official Statement shall be paid by the Underwriter.

(c) The District shall also pay for expenses (included in the expense component of the spread) incurred on behalf of the District's employees which are incidental to implementing this Purchase Agreement, including, but not limited to, meals, transportation, lodging, and entertainment of those employees, and the District shall reimburse the Underwriter if the Underwriter pays for any such expenses on behalf of the District.

**17. Notices.** Any notice or other communication to be given under this Purchase Agreement (other than the acceptance hereof as specified in the first paragraph hereof) may be given by delivering the same in writing if to the District, to Palomar Pomerado Health, 15255 Innovation Drive, Suite 204, San Diego, California 92128, Attn: Robert Hemker and Janine Sarti, with a copy to: Ursula Hyman, Esq., Latham & Watkins LLP, 633 West 5th Street, Los Angeles, California 90071; if to the Authority, to North San Diego County Health Facilities Financing Authority, c/o Palomar Pomerado Health, 15255 Innovation Drive, Suite 204, San Diego, California 92128, Attn: Robert Hemker; or if to the Underwriter, to Citigroup Global Markets Inc., 444 South Flower Street, 27th Floor, Los Angeles, California 90071, Attn: Robert Barna.

**18. Parties in Interest; Survival of Representations, Agreements and Warranties.** This Purchase Agreement when accepted by the District and the Authority in writing as heretofore specified shall constitute the entire agreement between the District, the Authority and the Underwriter. This Purchase Agreement is made solely for the benefit of the District, the Authority and the Underwriter (including the successors or assigns of the Underwriter). No person shall acquire or have any rights hereunder or by virtue hereof. All representations, warranties and agreements of the District and the Authority in this Purchase Agreement shall survive regardless of (a) any investigation or any statement in respect thereof made by or on behalf of the Underwriter, and (b) delivery of and payment by the Underwriter for the Bonds hereunder.

19. **Severability.** If any provision of this Purchase Agreement is held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision thereof.

20. **Non-assignment.** Notwithstanding anything stated to the contrary herein, none of the parties hereto may assign or transfer its interest herein, or delegate or transfer any of its obligations hereunder, without the prior consent of the other parties hereto.

21. **Entire Agreement.** This Purchase Agreement, when executed by the parties hereto, shall constitute the entire agreement of the parties hereto, including their permitted successors and assigns, respectively.

22. **Execution in Counterparts.** This Purchase Agreement may be executed in several counterparts each of which shall be regarded as an original and all of which shall constitute but one and the same document.

[Reminder of Page Intentionally Left Blank]

23. **Applicable Law.** This Purchase Agreement shall be interpreted, governed and enforced in accordance with the law of the State applicable to contracts made and performed in such State.

Very truly yours,

**CITIGROUP GLOBAL MARKETS INC.**

By: \_\_\_\_\_  
Its: \_\_\_\_\_

The foregoing is hereby agreed to and accepted as of the date first above written:

**PALOMAR POMERADO HEALTH**

By: \_\_\_\_\_  
Its: Chief Financial Officer

**NORTH SAN DIEGO COUNTY  
HEALTH FACILITIES FINANCING AUTHORITY**

By: \_\_\_\_\_  
Its: Treasurer/Controller

**EXHIBIT A**

**INTEREST RATES AND MATURITIES; REDEMPTION**

**[\$250,000,000]**

**PALOMAR POMERADO HEALTH**

**General Obligation Bonds, Election of 2004, Series 2007A**

**A. Terms of Bonds**

**\$ \_\_\_\_\_ CURRENT INTEREST BONDS**

<b>Maturity (August 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>Price</b>
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**\$ \_\_\_\_\_ % Current Interest Term Bond due August 1, 20\_\_ - Yield \_\_\_\_%**

**\$ \_\_\_\_\_ CAPITAL APPRECIATION BONDS**

<b>Maturity (August 1)</b>	<b>Initial Principal Amount</b>	<b>Accretion Rate (approximate)</b>	<b>Accreted Value at Maturity</b>	<b>Yield to Maturity</b>	<b>Price</b>
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**B. Redemption**

**Optional Redemption**

The Bonds maturing on or before August 1, 20\_\_ are not subject to redemption. The Bonds maturing on or after August 1, 20\_\_ are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, in whole or in part, on any date, commencing August 1, 20\_\_, at a redemption price equal to the principal amount thereof called for redemption, together with interest accrued thereon, to the date of redemption, without premium.

**Mandatory Sinking Fund Redemption**

The Bonds maturing on August 1, 20\_\_, are subject to redemption prior to maturity from mandatory sinking fund payments on August 1 of each year, beginning August 1, 20\_\_, at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium. The principal amount represented by such Bonds to be so redeemed and the dates therefor and the final principal payment date is as indicated in the following table:

Redemption Date: August 1, 20\_\_

<u>Redemption Date</u> <u>(August 1)</u>	<u>Principal Amount</u>
---	-------------------------

The Bonds maturing on August 1, 20\_\_, are subject to redemption prior to maturity from mandatory sinking fund payments on August 1 of each year, beginning August 1, 20\_\_, at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium. The principal amount represented by such Bonds to be so redeemed and the dates therefor and the final principal payment date is as indicated in the following table:

Redemption Date: August 1, 20\_\_

<u>Redemption Date</u> <u>(August 1)</u>	<u>Principal Amount</u>
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**C. Terms Specified to be provided pursuant to Section 6589 of the Government Code of the State of California:**

Minimum Rate of Interest:	Set forth in Section A above.
Costs of Issuance:	\$_[ ] (including the premium for the Bond Insurance Policy.
Amount of Required Reserve:	No Required Reserve.
Procedure to be used in case of default:	Set forth in Paying Agent Agreement, dated as of June 1, 2005, between Palomar Pomerado Health and Wells Fargo Bank, National Association, as paying agent, as supplemented by the First Supplemental Paying Agent Agreement, dated as of December 1, 2007.



## EXHIBIT B

### TERMINATION EVENTS

The following events are each defined as Termination Events for all purposes of this Purchase Agreement:

- (a) any event occurs, or information becomes known, which, in the reasonable opinion of the Underwriter, causes any statement contained in the Official Statement to be materially misleading or results in a failure of the Official Statement to state a material fact necessary to make the statements in the Official Statement, in the light of the circumstances under which they were made, not misleading; or
- (b) the marketability of the Bonds or the market price thereof, in the reasonable opinion of the Underwriter, has been materially adversely affected by any of the following:
  - (i) an amendment to the Constitution of the United States, or by any legislation pending in or enacted by the Congress of the United States, or by any legislation pending in or enacted by the State of California, or
  - (ii) the amendment of legislation pending as of the date of this Purchase Agreement in the Congress of the United States, or
  - (iii) the recommendation to Congress or endorsement for passage (by press release, other form of notice or otherwise) of legislation by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or
  - (iv) the proposal for consideration of legislation by either such Committee or by any member thereof, or the presentment of legislation for consideration as an option by either such Committee, or by the staff of the Joint Committee on Taxation of the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or
  - (v) any decision of any Federal or State court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other federal or State authority materially adversely affecting the federal or State tax status of the District, or the interest on bonds or notes or obligations of the general character of the Bonds; or
- (c) any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency of the State of California, or a decision by any court of competent jurisdiction within the State of California or any court of the United States shall be rendered which, in the opinion of the Underwriter, materially adversely affects the market price of the Bonds; or

- (d) legislation shall be enacted by the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Bonds, or the issuance, offering or sale of the Bonds, including all underlying obligations, as contemplated hereby or by the Official Statement, is in violation or would be in violation of, or that obligations of the general character of the Bonds, or the Bonds, are not exempt from registration under, any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, or that the District Resolution or Paying Agent Agreement needs to be qualified under the Trust Indenture Act of 1939, as amended and as then in effect; or
- (e) additional material restrictions not in force as of the date hereof are imposed upon trading in securities generally by any governmental authority or by any national securities exchange which restrictions, in the reasonable opinion of the Underwriter, materially adversely affect the Underwriter's ability to trade the Bonds; or
- (f) a general banking moratorium has been established by federal or State of California authorities; or
- (g) there occurs any outbreak or escalation of hostilities, declaration by the United States of a national emergency or war or other calamity or crisis, the effect of which on financial markets is such as to make it, in the sole yet reasonable judgment of the Underwriter, impractical or inadvisable to proceed with the offering or delivery of the Bonds as contemplated by the final Official Statement (exclusive of any amendment or supplement thereto); or
- (h) any rating of the Bonds has been downgraded, suspended or withdrawn by a national rating service, which, in the reasonable opinion of the Underwriter, materially adversely affects the marketability or market price of the Bonds; or
- (i) the commencement of any action, suit or proceeding which, in the opinion of the Underwriter, materially adversely affects the market price of the Bonds; or
- (j) there is in force a general suspension of trading on the New York Stock Exchange; or
- (k) there occurs any other event which, in the reasonable opinion of the Underwriter, materially adversely affects the marketability of the Bonds at the rates set forth in Exhibit A.

**EXHIBIT C**

**PROPOSED SUPPLEMENTAL OPINION OF BOND COUNSEL**

[Date of Closing]

Citigroup Global Markets Inc.  
Los Angeles, California

Palomar Pomerado Health  
General Obligation Bonds, Election of 2004, Series 2007A  
(Supplemental Opinion)

Ladies and Gentlemen:

This letter is addressed to you as underwriter (the "Underwriter") pursuant to Section 11(d)(ii) of the Bond Purchase Agreement, dated \_\_\_\_\_, 2007 (the "Bond Purchase Agreement"), among you, Palomar Pomerado Health (the "District") and the North San Diego County Health Facilities Financing Authority (the "Authority"), providing for the purchase of \$[\_\_\_\_\_] aggregate principal amount of Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2007A (the "Bonds"). The Bonds represent part of an issue, in the aggregate principal amount of \$496,000,000 authorized at an election held in the District on November 2, 2004, and are being issued under and pursuant to the provisions The Local Health Care District Law of the State of California (constituting Division 23 of the California Health and Safety Code and Resolution \_\_\_\_\_ adopted by the Board of Directors of the District on \_\_\_\_\_, 2007 ("the "Resolution"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Bond Purchase Agreement.

We have delivered our final legal opinion (the "Bond Opinion") as bond counsel concerning the validity of the Bonds and certain other matters, dated the date hereof and addressed to the District. You may rely on such opinion as though the same were addressed to you.

In connection with our role as bond counsel, we have reviewed the Bond Purchase Agreement; the Paying Agent Agreement, dated as of June 1, 2005, as supplemented and amended by the First Supplemental Paying Agent Agreement, dated as of December 1, 2007 (hereinafter collectively referred to as the "Paying Agent Agreement"), between the District and Wells Fargo Bank, National Association, as paying agent (the "Paying Agent"); the Tax Certificate, dated the date hereof (the "Tax Certificate"); opinions of counsel to the District, the Authority and the Paying Agent, certificates of the District, the Authority, the Paying Agent and others; and such other documents, opinions and matters to the extent we deemed necessary to provide the opinions or conclusions set forth herein.

The opinions or conclusions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions or conclusions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents and of the legal conclusions contained in the opinions referred to in the third paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in such documents. In addition, we call attention to the fact that the rights and obligations under the Bonds, the Resolution, the Paying Agent Agreement, the Tax Certificate and the Bond Purchase Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, waiver or severability provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated December \_\_, 2007 (the "Official Statement"), or other offering material relating to the Bonds and express no opinion relating thereto except as expressly set forth in numbered paragraph 2 below.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions or conclusions:

1. The Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Paying Agent Agreement is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended. No opinion is expressed with respect to the Bond Insurance Policy.

2. The statements contained in the Official Statement under the captions "The Bonds" (excluding the statements under the subcaptions "General Provisions; Book-Entry Only System," "Investment of Bond Proceeds" and "Annual Debt Service" and all information about book-entry or The Depository Trust Company), "Security and Source of Payment for the Bonds" (excluding all paragraphs under such caption other than the first two paragraphs), "Tax Matters," and Appendix C-"Proposed Form of Opinion of Bond Counsel," excluding any material that may be treated as included under such captions by cross-reference, insofar as such statements expressly summarize certain provisions of the Bonds, the Paying Agent Agreement and the form and content of our Bond Opinion are accurate in all material respects.

This letter is furnished by us as bond counsel. No attorney-client relationship has existed or exists between our firm and the Underwriter in connection with the Bonds or by virtue of this letter. Our engagement with respect to the Bonds has concluded with their issuance. We disclaim any obligation to update this letter. This letter is delivered to you as Underwriter of the

Bonds, is solely for your benefit as such Underwriter and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person. This letter is not intended to, and may not, be relied upon by owners of the Bonds or by any other party to whom it is not specifically addressed.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

**EXHIBIT D-1**

**PROPOSED OPINION OF DISTRICT COUNSEL**

[To Be Updated by Lathaw & Watkins]

[Closing Date]

Citigroup Global Markets Inc.  
444 South Flower Street, 27<sup>th</sup> Fl.  
Los Angeles, CA 90071-2971

[Bond Insurer

Wells Fargo Bank, National Association  
[Address]

\_\_\_\_\_  
\_\_\_\_\_  
North San Diego County Health  
Facilities Financing Authority  
15255 Innovation Drive, Suite 204  
San Diego, California 92128

Re: [\$[250,000,000] Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2007A

Ladies and Gentlemen:

We have acted as special counsel to Palomar Pomerado Health, a local hospital district (the "District"), and are rendering this opinion in connection with the issuance and sale by the District of [\$[250,000,000]] Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2007A (the "Bonds"). The District will sell the Bonds to the North San Diego Health Facilities Financing Authority (the "Authority"), and the Authority will sell the Bonds to Citigroup Global Markets Inc., as underwriter (the "Underwriter") pursuant to that certain Bond Purchase Agreement dated [\_\_\_\_], 2007 (the "Bond Purchase Agreement"), among the Underwriter, the District, and the Authority and the other Financing Documents (as defined below). This letter is furnished pursuant to Section 11(d)(v) of the Bond Purchase Agreement.

As such counsel, we have examined such matters of fact and questions of law as we have considered appropriate for purposes of this letter, except where a specified fact confirmation procedure is stated to have been performed (in which case we have with your consent performed the stated procedure), and except where a statement is qualified as to knowledge (in which case we have with your consent made no or limited inquiry as specified below). We have examined, among other things, the following:

- a. The Bond Purchase Agreement;

- b. The Paying Agent Agreement dated as of June 1, 2005, as supplemented by the First Supplement, dated as of \_\_\_\_\_ 1, 2007 between the District and Wells Fargo Bank, N.A. (the "Paying Agent Agreement");
- c. The Continuing Disclosure Undertaking dated the date hereof, executed and delivered by the District (the "Continuing Disclosure Undertaking");
- d. The Joint Exercise of Powers Agreement dated May 27, 2005 between the District and Tri-City Healthcare District (the "JPA Agreement");
- e. The resolution calling the election, adopted by the Board of Directors of the District on August 4, 2004 (the "Election Resolution");
- f. The resolution authorizing execution and delivery of the JPA Agreement, adopted by the Board of Directors of the District on April 11, 2005 (the "JPA Resolution");
- g. The resolution authorizing the issuance of the Bonds, adopted by the Board of Directors of the District on [\_\_\_\_], 2007 (the "Bond Resolution," and, together with the Election Resolution and the JPA Resolution, the "Resolutions");
- h. Proposition BB – Hospital, Emergency Care, Trauma Center Improvement and Repair Measure;
- i. The form of the Bonds;
- j. The Resolution establishing the Northern San Diego County Hospital District, filed with the California Secretary of State on June 24, 1948, and the Resolution of the Board of Board of Supervisors of San Diego Count dated June 21, 1948, setting forth the results of the voting to establish the District (collectively, the "Governing Documents");
- k. The Bylaws of the District;
- l. The Preliminary Official Statement dated [\_\_\_\_], 2007;
- m. The Official Statement dated [\_\_\_\_], 2007;
- n. The agreements and instruments creating, evidencing or securing indebtedness of the Borrower for borrowed money identified to us by an officer of the Borrower as material to the Borrower and listed in Annex A (the "Material Agreements");
- o. Such other documents as we have deemed necessary and advisable for the purpose of rendering the opinions set forth below.

The documents described in subsections (a) - (d) above are referred to herein collectively as the "Financing Documents."

With your consent, we have relied upon the foregoing, including the representations and warranties of the District in the Financing Documents, and upon certificates of officers of the District and of others with respect to certain factual matters. We have not independently verified such factual matters. Whenever a statement herein is qualified by "to the best of our knowledge," or a similar phrase, it is intended to indicate that those attorneys in this firm who have rendered legal services in connection with the issuance and sale of the Bonds by the District do not have current actual knowledge of the inaccuracy of any such statement. However, except as otherwise expressly indicated, we have not undertaken any independent investigation to determine the accuracy of any such statement.

We are opining herein as to the effect on the subject transaction only of the federal laws of the United States and the internal laws of the State California, and we express no opinion with respect to the applicability to the opinions expressed herein, or the effect thereon, of the laws of any other jurisdiction or as to any matters of municipal law or the laws of any local agencies within any state other than the Health Care District Law of the State of California. Unless otherwise stated herein, our opinions herein are based upon our consideration of only those statutes, rules and regulations which, in our experience, are normally applicable to California Health Care Districts. We express no opinion as to any state or federal laws or regulations applicable to the subject transactions because of the legal or regulatory status of any parties to the Financing Documents other than (i) Division 23 of the California Health and Safety Code (the "Local Health Care District Law") and other California laws governing governmental bodies such as the District, (ii) California Government Code section 6589, and (iii) with respect to Paragraph 5, below, the California Environmental Quality Act.

Subject to the foregoing and the other matters set forth herein, it is our opinion that, as of the date hereof:

1. The District is a local hospital district validly existing under the Local Hospital District Law of the State of California with local hospital district power and authority to adopt the Resolutions, issue the Bonds, execute and deliver the Official Statement, and enter into the Financing Documents and perform its obligations thereunder.
2. Each of the Resolutions was duly adopted at a meeting of the governing body of the District which was duly called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting at the time of adoption, has not been modified, amended, rescinded or revoked, and is in full force and effect.
3. The issuance of the Bonds, and the execution, delivery and performance of the Financing Documents by the District and the execution and delivery of the Official Statement by the District have been duly authorized by all necessary action of the District. The Bonds, the Financing Documents,



and the Official Statement have been duly executed and delivered by the District.

4. Each of the Bonds and the Financing Documents constitutes a legally valid and binding obligation of the District, enforceable against the District in accordance with its terms.
5. The execution and delivery of the Official Statement by the District, the execution and delivery of the Financing Documents by the District, the performance of the obligations of the District under the Financing Documents, the adoption of each of the Resolutions by the District, and the issuance, delivery, or sale of the Bonds by the District, on the date hereof do not:
  - (i) violate the provisions of the Governing Documents or the Bylaws of the District,
  - (ii) result in the breach of or a default under any of the Material Agreements,
  - (iii) violate any federal or California statute, rule, or regulation applicable to the District; any provision of the California Constitution applicable to the District; or any court or governmental order applicable to the District, or
  - (iv) require any consents, approvals, or authorizations to be obtained by the District from, or any registrations, declarations or filings to be made by the District with any governmental authority, under any federal or California statute, rule or regulation applicable to the District on or prior to the date hereof that have not been obtained or made, except for governmental authorizations, approvals, permits and consents that are required in the ordinary course of development of the Project.
  - (v) Based solely on review of officer's certificates from the District and docket search results dated [\_\_\_\_], 2007 obtained from docket searches of the United States District Court (Statewide, California) and the United States Bankruptcy Court (Statewide, California) and docket search results dated [\_\_\_\_], 2007 from the San Diego County Superior Court, there is no action, suit, proceeding, inquiry or investigation before or by any judicial body or administrative agency, state or federal, which is pending or threatened against the District, which if determined against the District, could (a) materially adversely affect the consummation of the transactions contemplated by the Bonds, the Financing Documents, the Resolutions or the Official Statement, (b) declare the Bonds or the Financing Documents to be invalid or

unenforceable in whole or in material part, (c) adversely affect the exclusion of the interest paid on the Bonds from gross income for federal income tax purposes and the exemption of such interest from California personal income taxation, (d) adversely affect the existence of the District or in any way challenge the respective powers of the several officers of the District required to execute any documents or certificates in connection with the delivery of the Bonds or of the titles of the officials of the District to their respective offices, or (e) restrain or enjoin the sale, issuance or delivery of the Bonds, the application of the proceeds of the sale of the Bonds, or the levy and collection of *ad valorem* taxes of the District to pay the principal of and interest on the Bonds.

The opinions expressed in paragraphs 4 and 5 do not include any opinions with respect to the creation, validity, perfection or priority of any security interest or lien, and the opinions expressed in paragraphs 4 and 5 do not include any opinions with respect to compliance with laws relating to permissible rates of interest.

The opinions expressed in paragraph 4 are further subject to the following limitations, qualifications and exceptions:

- a. the effects of bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium or other similar laws relating to or affecting the rights or remedies of creditors;
- b. the effects of general principles of equity, whether considered in a proceeding in equity or at law (including the possible unavailability of specific performance or injunctive relief), concepts of materiality, reasonableness, good faith and fair dealing, and the discretion of the court before which a proceeding is brought;
- c. the unenforceability under certain circumstances under law or court decisions of provisions for the indemnification or exculpation of or contribution to a party with respect to a liability where such indemnification, exculpation or contribution is contrary to public policy;
- d. certain rights, remedies and waivers contained in the Financing Documents and the Bonds may be limited or rendered ineffective by applicable California laws or judicial decisions governing such provisions, but such laws or judicial decisions do not render the Financing Documents or the Bonds invalid or unenforceable as a whole; and
- e. we express no opinion as to the validity or enforceability of any provisions for liquidated damages, default interest, late charges,

monetary penalties, prepayment or make-whole premiums (excluding any premiums upon optional redemption of the Bonds) or other economic remedies and call to your attention the provisions of Sections 1717 and 1717.5 of the California Civil Code, which limit and create obligations for the payment of attorney's fees.

Without limiting the generality of the foregoing, the opinions expressed above are also subject to the following limitations, exceptions and assumptions:

In rendering the opinions in clause (ii) of paragraph 5 insofar as they require interpretation of the Material Agreements, with your consent, (i) we have assumed that all courts of competent jurisdiction would enforce such agreements in accordance with their plain meaning, (ii) to the extent that any questions of legality or legal construction have arisen in connection with our review, we have applied the laws of California in resolving such questions, although certain of the Material Agreements may be governed by other laws which differ from the law of California, (iii) we express no opinion with respect to the effect of any discretionary action or inaction by the District under the Financing Documents or the Material Agreements which may result in a breach or default under any Material Agreement (provided that the issuance of the Bonds is not treated as a discretionary action), and (iv) we express no opinion with respect to any matters which require the performance of a mathematical calculation or the making of a financial or accounting determination. In rendering the opinions in clauses (iii) and (iv) of paragraph 5, we express no opinion as to securities laws (including blue-sky laws), tax laws, antitrust or trade regulation laws, insolvency or fraudulent transfer laws, pension or employee benefit laws, compliance with fiduciary duty requirements, usury laws, environmental laws (other than the California Environmental Quality Act), or other laws excluded by customary practice.

With your consent, we have assumed (a) that the Financing Documents and Bonds have been duly authorized, executed and delivered by the parties thereto other than the District (to the extent that there are other parties thereto), (b) that the Financing Documents constitute legally valid and binding obligations of the parties thereto other than the District, enforceable against each of them in accordance with their respective terms, and (c) that the status of the Financing Documents and Bonds as legally valid and binding obligations of the parties is not affected by any (i) breaches of, or defaults under, agreements or instruments, (ii) violations of statutes, rules, regulations or court or governmental orders, or (iii) failures to obtain required consents, approvals or authorizations from, or make required registrations, declarations or filings with, governmental authorities, provided that we make no such assumption to the extent we have opined as to such matters with respect to the District herein.

This letter is furnished only to you and is solely for your benefit in connection with the transactions covered hereby. This letter may not be relied upon by you for any other purpose, or furnished to, assigned to, quoted to or relied upon by any other person, firm or entity for any purpose, without our prior written consent, which may be granted or withheld in our discretion.

Very truly yours,

D-1-6

**ANNEX A**  
**MATERIAL AGREEMENTS**

[identify by title, date and parties]

**EXHIBIT D-2**

**PROPOSED OPINION OF DISTRICT COUNSEL**

[Closing Date]

Citigroup Global Markets Inc.  
444 South Flower Street, 27<sup>th</sup> Fl.  
Los Angeles, CA 90071-2971

Re: [\$[250,000,000] Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2007A

Ladies and Gentlemen:

We have acted as counsel to Palomar Pomerado Health, a local hospital district (the "District"), in connection with the issuance by the District of \$[250,000,000] Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2007A (the "Bonds"). The District will sell the Bonds to the North San Diego Health Facilities Financing Authority (the "Authority"), and the Authority will sell the Bonds to Citigroup Global Markets Inc., as underwriter (the "Underwriter") pursuant to that certain Bond Purchase Agreement dated [\_\_\_\_], 2007 (the "Bond Purchase Agreement"), among the Underwriter, the District, and the Authority. This letter is furnished pursuant to Section 11(d)(5) of the Bond Purchase Agreement. The Bonds are described in that certain Official Statement dated [\_\_\_\_], 2007 (the "Official Statement").

The primary purpose of our professional engagement was not to establish or confirm factual matters or financial or quantitative information. Therefore, we are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in, or incorporated by reference in, the Official Statement, and have not made an independent check or verification thereof. However, in the course of acting as counsel to the District in connection with the preparation of the Official Statement, we reviewed the Official Statement and participated in conferences and telephone conversations with officers and other representatives of the District, the independent public accountants for the District, your representatives, and your counsel, during which conferences and conversations the contents of the Official Statement and related matters were discussed. We also reviewed and relied upon certain District records and documents, letters from counsel and accountants, and oral and written statements of officers and other representatives of the District and others as to the existence and consequence of certain factual and other matters.

Based on our participation, review and reliance as described above, we advise you that no facts came to our attention that caused us to believe that the Official Statement, as of the date of the Official Statement and as of this date, contains an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading; it being understood that we express no belief with respect to the financial statements, schedules, or other financial, demographic, and statistical data included or

incorporated by reference in, or omitted from, the Official Statement, or as to the accuracy, completeness or fairness of the information contained in the sections of the Official Statement under the headings titled ["Bond Insurance,"] "The Authority" or "Tax Matters," or with respect to Appendices A-F.

This letter is furnished only to you in your capacity as underwriter in connection with the transactions referenced in the first paragraph. This letter may not be relied upon by you for any other purpose, or furnished to, assigned to, quoted to, or relied upon by any other person, firm or other entity for any purpose (including any person, firm or other entity that acquires Bonds from you) without our prior written consent, which may be granted or withheld in our sole discretion.

Very truly yours,

**EXHIBIT E**

**PROPOSED OPINION OF AUTHORITY COUNSEL**

[Date of Closing]

North San Diego Health Facilities Financing Authority  
San Diego, California

Citigroup Global Markets Inc.  
Los Angeles, California

Palomar Pomerado Health  
General Obligation Bonds, Election of 2004, Series 2007A

Ladies and Gentlemen:

We have acted as special counsel to the North San Diego County Health Facilities Financing Authority (the "Authority") in connection with the purchase and sale of \$[250,000,000] aggregate principal amount of Palomar Pomerado Health General Obligation Bonds, Election of 2004, Series 2007A (the "Bonds") pursuant to a Bond Purchase Agreement, dated December [ ], 2007 (the "Bond Purchase Agreement"), among you, Palomar Pomerado Health (the "District") and the Authority. In such connection, we have reviewed Resolution No. [ ], adopted by the Authority on November \_\_, 2007 (the "Resolution"); the Bond Purchase Agreement; certificates of the Authority and others as to certain factual matters; and such documents and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings, and court decisions. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. With the delivery of this letter, our engagement with respect to the Bonds has concluded, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the first paragraph hereof. We express no opinion herein as to the validity or enforceability of the Bonds or as to the tax status of interest on the Bonds. We call attention to the fact that the rights and obligations under the Resolution and the Bond Purchase Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the Bond Purchase Agreement. We also undertake no responsibility of

any kind for the Official Statement, dated December \_\_\_\_, 2007, or other offering material relating to the Bonds.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Authority is a joint powers agency organized and existing under the laws of the State of California.

2. The Resolution was duly adopted at a meeting of the governing body of the Authority which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout. The Resolution is in full force and effect and has not been amended, modified or rescinded.

3. The Bond Purchase Agreement has been duly executed and delivered by the Authority and is a valid and binding agreement of the Authority.

This letter is furnished by us as special counsel to the Authority. No attorney-client relationship has existed or exists between our firm and the addressees hereto (other than the Authority) in connection with the Bonds or by virtue of this letter. This letter is solely for the benefit of the addressees hereof, and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any person other than the addressees to this letter. This letter is not intended to, and may not, be relied upon by the owners of any Bonds or by any other party to whom it is not specifically addressed.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP