Radian Asset Assurance Inc. RADIAN

Deal Spotlight: General Obligation

Knox County Hospital
County of Knox, Kentucky

$15,815,000
Rating: AA (S&P)

UW: Raymond James & Associates, Inc.
FA: J.J.B. Hilliard, W.L. Lyons, Inc.
Dated Date: 12/1/06

The County of Knox, Kentucky (the "County") issued $15.815 million of Taxable General Obligation Refunding Bonds (Knox County Hospital Project), Series 2006 to refund debt related to Knox County Hospital (the "Hospital") in order to facilitate its sale to a private company. The bonds are taxable because the transfer from public to private ownership represents a change of use from a non-profit to a for-profit enterprise.

The County, encompassing 388 square miles, is located in Kentucky's Coal Field region, approximately 105 miles southeast of Lexington. Its current population is 32,000. The County has assessed value of over $1 billion, with average annual growth of 6.26% from 2002 to 2006. This issuance will represent the only direct debt outstanding for the County.

The Hospital is licensed for 42 acute and 16 long-term care beds providing primary care services to the citizens of Knox, Bell, Whitley and Harlan Counties. The County has determined that the sale of the Hospital to a private entity, specializing in healthcare management, will be the best course for the County's taxpayers both from a service and financial perspective. Pacer Health Corporation ("Pacer"), the current manager of the facility, has agreed to purchase the Hospital. Pacer owns or operates a total of five facilities in southern states.

The Bonds constitute general obligations of the County. The transaction is being effectuated through a lease/purchase agreement between the County and Pacer Health Management Corporation of Kentucky ("Pacer Corporation"), a wholly owned subsidiary of Pacer, for the purpose of allowing Pacer Corporation to lease, operate and purchase the Hospital from the County. The County assigned all of its rights and interests in the lease payments to the trustee. A gross revenue pledge of the Hospital secures the lease payments equal to debt service on the bonds. If the Hospital fails to make a lease rental payment due under the lease, the County has pledged its full faith, credit and taxing power to the prompt payment of the principal and interest on Bonds. The Bonds are also secured by a debt service reserve fund.

The County, which has an underlying rating of BBB from Standard & Poor's, accessed the market through a competitive sale at lower interest rates based on Radian's AA ratings. Attached are sample maturities with their spread to the applicable U.S. Treasury security.

Maturity	2022	2026	2036
Coupon	5.80%	5.85%	5.875%
Yield	5.84%	5.95%	6.00%
Spread to Treasuries (bps)	+126*	+137*	+124**

* Spread to the 4 5/8% Nov 2016 Treasury.
**Spread to the 5 3/8% Feb 2031 Treasury.

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