NEWS RELEASE

CALIFORNIA STATE TREASURER BILL LOCKYER

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Treasurer Lockyer Announces Financing Deal to Help Hospitals and Health Care Systems Avoid Further Strain from Interest Hikes on Bonds

Approval Will Protect Money for Patient Care and Facilities

SACRAMENTO – State Treasurer Bill Lockyer today announced the approval of an emergency initiative that will help California hospitals and health care systems avoid skyrocketing interest rates in the troubled municipal bond market and preserve funds instead for health care and needed facilities.

"Patients should not have to suffer because hospitals and health care systems are forced to pay high and higher interest rates on bonds," said Lockyer. "Today's action aims to ease the burden of these interest rate hikes on hospitals, and bring back some stability to their balance sheets so they can focus on keeping Californians healthy."

The program approved today by the California Health Facilities Financing Authority (CHFFA) will allow hospitals to refinance or convert existing tax-exempt bonds, structured either as auction rate securities or variable rate demand bonds, into different debt instruments with more affordable and predictable interest payments. Today's initiative also will allow other hospitals with existing variable-rate debt to convert to traditional fixed-rate securities thru an expedited approval process. Chaired by Lockyer, CHFFA approves health care providers' issuance of tax-exempt bonds, including the debt that will be restructured under today's emergency initiative.

Six hospitals and health care systems will be the first to take advantage of the program, and will refinance a combined total of more than $4.6 billion in debt. The six providers include: Catholic Healthcare West in San Francisco with $2.2 billion in debt; Sutter Health in Sacramento with $625 million; Stanford Hospitals and Clinics at Stanford with $665 million; Lucile Salter Packard Children's Hospital at Stanford with $69 million; Scripps Health in San Diego with $314 million; and Hoag Memorial Hospital Presbyterian in Newport Beach with $747 million.

The interest rates on auction rate securities are set in periodic auctions and determined in large part by the demand for bonds that holders want to sell. When an auction does not attract the necessary demand, the auction is declared a failure, and the interest rate automatically adjusts to a predetermined maximum set either by the bond documents or state law.

Fallout from the turmoil in capital markets caused by rating downgrades of bond insurers and other factors has hit issuers of tax-exempt, auction rate bonds. In recent weeks, issuers in California and across the country have suffered substantial interest rate hikes either because auctions fail or they produce clearing prices much higher than the pre-auction level.

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CHFFA provides low-cost financial assistance to public hospitals and private, non-profit health care providers in California. Funding provided through CHFFA can be used for construction, remodeling or renovation, acquisition of land or existing facilities, purchase or lease of equipment, working capital for start-up facilities, and other purposes. CHFFA has financed a wide range of providers and programs throughout the state, from rural, community-based organizations to large multi-hospital systems.

For more information, visit www.treasurer.ca.gov/chffa.

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