NEWS RELEASE

CALIFORNIA STATE TREASURER BILL LOCKYER

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Treasurer Lockyer Announces Help for Hospitals and Health Care Systems Facing Interest Rate Crunch on Bonds

Action Will Protect Vital Dollars for Patient Care and Facilities

SACRAMENTO – State Treasurer Bill Lockyer today announced that California hospitals and health care systems struggling with skyrocketing interest rates in the troubled municipal bond market will be able to avoid those added costs and preserve funds instead to provide health care and needed facilities under an emergency program being offered by the California Health Facilities Financing Authority (CHFFA).

"When hospitals and health care systems have to spend more money to pay interest on bonds, they have less to spend on healing people and funding vital facilities and projects," said Lockyer. "This expedited opportunity to refinance existing debt aims to ensure that Californians are not unfairly burdened with diminished care and services because of market events beyond their control."

The CHFFA initiative 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. CHFFA approves health care providers' issuance of tax-exempt bonds, including debt that would be restructured under the emergency initiative.

CHFFA has set a special meeting for March 11 in Sacramento to consider refinancing or conversion applications. Six hospitals and health care systems have reserved spots on the agenda for potential applications to refinance or convert more than $4.6 billion in combined debt. The six potential applicants include: Catholic Healthcare West in San Francisco; Sutter Health in Sacramento; Stanford Hospitals and Clinics at Stanford; Lucile Salter Packard Children's Hospital at Stanford; Scripps Health in San Diego; and Hoag Memorial Hospital Presbyterian in Newport Beach. None of the six have made final decisions on whether to file applications.

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.

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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. For instance, according to Lucille Salter Packard Children's Hospital, its auction rate securities recently reset at prices that will increase annual debt service costs by $2.95 million, or roughly $56,730 per week.

Chaired by Lockyer as State Treasurer, 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 about CHFFA or the March 11 meeting, visit www.treasurer.ca.gov/chffa.

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