

**Ambac**

Premier San Diego Health Care System Accesses Market for Refunding and New Money

\$290,000,000

California Health Facilities Financing Authority (Scripps Health)
Auction Rate and Variable Rate Bonds

Scripps Health, a San Diego-based integrated health delivery network enjoys an exceptional brand image thanks to its long-standing reputation for clinical excellence. In addition to being a leading health care provider, Scripps - with five acute-care hospitals, 2,600 affiliated physicians, and a small health maintenance organization (HMO) - employs more than 10,000 people in the region. Notwithstanding these strengths, Scripps had encountered significant operating challenges in prior years, most notably a period of management and financial instability from 1999-2001. The Southern California market, with low Medicare reimbursement rates, is a difficult market in which to operate. In addition, Scripps faces above average long-term capital needs. To help put the system on a better financial footing, Scripps' new management team decided to turn to the debt markets with a major financing. With its past record of weak financial results and the desirability of accessing compelling low interest rates available to synthetic fixed rate issuers, Scripps knew it would need financial guarantee insurance.

Approached as a possible credit enhancer, Ambac quickly analyzed the deal and reviewed the overall credit. Ambac underwriters met with Scripps' management and were impressed by the material and sustained financial improvement the team had achieved, as well as the high-end services that are Scripps' specialty. Scripps' essentiality, its increasing presence in the affluent and growing northern San Diego suburbs, and its long history of exceptional philanthropic support further impressed the Ambac team, which quickly structured a financial guarantee package to complement the bonds.

The resulting offering was primarily structured as auction rate bonds synthetically converted to a fixed rate through a Citigroup swap, also insured by Ambac. Proceeds from the \$290 million offering were used to refund \$192 million in high coupon debt and provided \$98 million to fund construction projects and pay costs of issuance. The triple-A-backed Scripps issue was aggressively priced and well-received by the market when it was issued in July 2005.

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