



June 20, 2014

The Honorable Ricardo Lara
State Capitol, Room 5050
Sacramento, California 95814-4900

Re: SB 1094, Oppose as Amended April 21, 2014

Dear Senator Lara:

Thank you for the opportunity to submit this statement for the record on behalf of the Securities Industry and Financial Markets Association (SIFMA).¹ SIFMA represents the shared interests of hundreds of securities firms, banks and asset managers, many of whom have a presence in California. A number of our member firms act as underwriters and investment bankers to California health care systems and hospitals.

We are writing to express our opposition to SB 1094 as currently drafted. We apologize for coming late to the table. We, however, believe that such a bill will be viewed very negatively in the capital markets. Specifically, the uncertainty created by this bill will be costly to health care institutions, limit their capital access, and potentially deter necessary transactions from occurring.

The healthcare landscape has changed dramatically since the passage of the Affordable Care Act ("ACA"), which has at its core the desire to improve quality, lower costs, and increase the availability of health care. Health care providers have responded to these new imperatives, by improving the efficiency of care delivery and seeking to better manage the overall health of the populations they serve. In many cases, the means to achieve these goals has been consolidation among hospitals as well as other ancillary health care entities. The process through which these types of transactions are reviewed and approved in California is already complex and cumbersome. This bill would add unduly onerous further constraints and uncertainty.

A great many of the transactions that involve the consolidation of non-profit hospitals in California are financed in the tax-exempt bond market. Part of the advantage of consolidation is the ability to issue debt secured by a joint and several obligation of all of the entities that are coming together, providing a broader and more diversified revenue base that is attractive to investors. By opening up the potential for unspecified future regulatory review of a transaction after that transaction has already closed and been financed, SB 1094 creates significant uncertainty as to what credit an investor is buying and whether it could be fundamentally altered by external action. In the capital markets, this type of uncertainty manifests itself in higher rates for the borrowing entity, which ultimately raises the cost of health care for everyone.

¹ The Securities Industry and Financial Markets Association (SIFMA) brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA has offices in New York and in Washington, D.C. For more information, visit <http://www.sifma.org>.

In addition to the negative investor reaction, we also believe that the ability to retroactively impose restrictions on merged healthcare entities as well as potentially unwind such a merger could have a chilling effect on the healthcare entities themselves who are considering transactions that would be in the best interest of the communities they serve. Spending the considerable amount of time, energy, and money on such a transaction only to have it suffer additional constraints after the fact may prove too daunting for many potential consolidators, again leaving California healthcare providers at a disadvantage in implementing the goals of the ACA. This would stand in stark contrast to the progressive stance the state has already taken on ACA policy, with the expansion of its Medi-Cal program and the establishment of a highly functioning state-run insurance marketplace.

I appreciate the opportunity to share with you some of our concerns about SB 1094. Please feel free to contact me at 212-313-1311 or our lobbyist Joanne Bettencourt at 916-447-8229 if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Kim Chamberlain". The signature is written in a cursive, flowing style.

Kim Chamberlain
Managing Director and Associate General Counsel
State Government Affairs

cc: Assemblymember Richard Pan, Chair of Assembly Health Committee
Assembly Health Committee Members