

**United States House of Representatives  
Committee on Financial Services**

**Testimony submitted by Swedish Covenant Hospital, Chicago Illinois at the hearing titled  
“Municipal Bond Turmoil: Impact on Cities, Towns, and States”  
Wednesday, March 12, 2008**

Good morning, Chairman Frank and members of the committee.

My name is Mark Newton and I am the President and CEO of Swedish Covenant Hospital, located in Chicago, Illinois. Thank you for the opportunity to speak with you today about a very serious issue, the failing auction market for municipal bonds; and its impact on the not-for-profit hospital industry and more specifically, Swedish Covenant Hospital.

Swedish Covenant Hospital is a 334-bed urban community hospital, the largest remaining independent non-profit hospital serving the culturally diverse north side of Chicago. Founded in 1886 by missionaries of the Swedish Evangelical Covenant Church, the hospital employs more than 2000 staff members, with a demographic composition that mirrors the community we serve. Over 50 different languages are spoken by community members, physicians and staff. More than 550 physicians are on staff at the hospital representing 45 different specialties, and we provide teaching programs in family medicine, internal medicine, obstetrics, critical care and emergency medicine.

Swedish Covenant Hospital is a federal disproportionate share hospital and as such represents a critical safety net for uninsured and underinsured residents. Our community counts on us as a key partner in assuring access to high quality health care services, a commitment to mission which we take very seriously. We consider ourselves your partner in caring for vulnerable populations, and I am thankful to share our story as this Committee considers how best to respond to the crisis in the tax exempt bond markets.

According to a March 2008 report by our financial advisors, Kaufman Hall, the 2007 subprime mortgage crisis has led to a complete meltdown in the auction-rate securities market and now is spilling over into the variable-rate bond market. Because both markets are accessed extensively by healthcare organizations for variable-rate debt, the turmoil represents a significant event risk for hospitals and health systems nationwide.

The risk is made greater because of the cascading nature of the turmoil over the last few months without a predictable fire break on the horizon.

As President and CEO of an urban hospital, I am no stranger to responding to community health risks, to competitive market changes, to the malpractice crisis in Illinois, to nurse staffing shortages and to the ever threatening possibilities of revenue stream cuts to the Medicare and Medicaid programs. Historically, we seemingly have been able to respond in turn to each of these risks to the healthcare system, while continuing to expand our infrastructure and advancing quality outcomes. Key to our ability to respond has been the availability of predictable and efficient capital.

Let me share some details of our story. Since 2000 when I first joined Swedish Covenant Hospital, two hospitals within a few miles have closed, one has stopped obstetrical services and others are for sale. This translates into the loss of approximately 500 hospital beds and 3000 jobs. Swedish Covenant Hospital's best response to our community during the last eight years has been to invest in new facilities, services, technologies and staff while others downsized and curtailed services. Our sense of mission tells us that we must provide both respectful and efficient healthcare to vulnerable people regardless of their economic standing, and to be willing to strategically invest for the long term health of our community.

We now find ourselves responding to a crisis which requires us to reinvent our balance sheet and rethink strategies for capital spending. We are into a refinancing process that will cost over \$1 million in transaction fees alone, a dollar amount taken from direct patient care. Our monthly interest costs have historically been in the range of \$600,000 per month and increased in early February by an additional \$350,000 per month. This increase is tied directly to failed auctions and to the resultant expectations by bondholders of rates of interest of between 10% and 15% for tax exempt insured debt. Clearly, this is not a sustainable scenario.

All of this turmoil has significantly lessened our confidence in financial markets. As concerning, is our new reality that we simply cannot yet tell where this crisis will end, and confidence restored. We now have to be even more alert for unintended consequences as we restructure our balance sheet.

Today, Swedish Covenant Hospital's amount of debt is approximately 150 million with 83% fixed and 17% variable, and is either insured by bond insurance or supported by bank letter of credit for rate enhancement. We are an underlying BBB+ credit. Our fixed rate now is 4.9 % and we expect the cost of fixed rate debt to increase to 6.5%. After refinancing we will have to increase the percentage of variable debt to around 60%. One unintended consequence is even greater reliance on banks letter of credit which is by nature short term. In a period where the Federal Reserve is lowering rates and increasing liquidity, we simply are not seeing carryover to the tax exempt market. The cost of bank credit enhancement (as a replacement for traditional bond insurance) has increased significantly. Credit enhancement capacity has been reduced as we look forward in the next three months to a massive period of debt refinancing by hospitals such as Swedish Covenant.

One other unintended consequence of the unplanned timing of our refinancing is the cost of unwinding existing interest rates swaps which will cost roughly \$9.0 million.

What does this all translate into?

Hospitals like Swedish Covenant will face significant cost increases on existing debt and may have very little capacity for access to new capital for the next few years. We are slowing down investments in projects such as implementation of an Electronic Medical Record. We will postpone expansion and renovations of core infrastructure. And we will conserve other spending to maintain needed cash balances as banks tighten other credit terms such as higher minimum levels of cash on hand.

Perhaps my final observation is that organizations such as mine truly need a firebreak in this current cascading crisis. As I noted before, as your partner in providing healthcare services, we really need and want to get back to the basics of caring for people. The fabric of an efficient and effective healthcare system depends on access to stable and predictable sources of capital.

I want to thank the committee for the opportunity to discuss this important issue and welcome any questions.