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Record Municipal Junk Bond for Hospital Set as Market Draws Cash.

The need to protect against earthquakes is about to jolt the municipal junk-bond market from its slumber.

California's Loma Linda University Medical Center on Wednesday is planning the biggest speculative grade, tax-exempt health-care deal since at least 1990, according to data compiled by Bloomberg. The $883 million sale will finance an expansion and overhaul to comply with the state's seismic safety requirements, a project that will double the center's debt and triggered a fall from investment grade last year.

The offering will gauge whether investors are growing more willing to buy the riskiest securities as cash floods into municipal-bond funds and yields hold near a five-decade low. It comes after underwriters have struggled since last year to line up buyers for other big speculative-grade sales, delaying issues from a Florida passenger railroad and a Texas methanol plant.

"The market is a little bit yield starved,'' said Steve Czepiel, a senior portfolio manager in Philadelphia at Delaware Investments who oversees a $1.15 billion high-yield municipal fund that holds some of the California hospital's securities. "This is a very good time for them to bring this deal to the marketplace."

Investors' increasing allocations to the municipal market have boosted prices this year as the Federal Reserve has held off on raising rates since its initial increase in December. By late last week, investors had added money to state and local debt funds for 29 straight weeks, the longest streak since March 2010, Lipper US Fund Flows data show.

The supply of new securities hasn't kept pace with the influx. This year, about $121 billion have been sold, down 13 percent from a year earlier, according to data compiled by Bloomberg.

"Cash flows into the market are very strong and there is very little to own," said Blake Anderson, managing director in high-yield securities trading at Mesirow Financial in San Francisco. "It's an auspicious time for the hospital to issue a substantial amount of debt."

Loma Linda's center, located about 60 miles (96 kilometers) east of Los Angeles, will use the proceeds to cover the bulk of its $1 billion project, which will add 983,000 square feet of hospital space and bring the complex into compliance with seismic safety rules that take effect in January 2020. Its facilities lie near two major earthquake faults.

Credit-rating companies downgraded Loma Linda last year because of the debt issue. This month, Standard & Poor's cut its grade again, dropping it one step to BB, the second level into junk, saying the medical center has little financial room to maneuver if the project encounters delays. Fitch Ratings has a stable outlook on its BB+ grade, the first step into junk.

Susan Onuma, a spokeswoman for the hospital group, declined to comment.

The yields on some Loma Linda bonds have risen relative to benchmark securities ahead of the offering. A bond due December 2044 traded Monday at an average yield of 4.19 percent, or 2.7 percentage points over top-rated debt, data compiled by Bloomberg show. That gap is up from about 2 percentage points in December 2014, when they were first issued.

The new securities will only be sold to qualified institutional buyers, such as mutual-fund managers, instead of individual investors, because of the “material degree of risk,” according to offering documents.

“In buying this type of bond, you have to be comfortable with the long-term outlook of the credit,’’ said Dan Solender, head of municipals at Lord Abbett & Co. in Jersey City, New Jersey. He manages $18 billion of municipals, including those issued by Loma Linda.

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