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Georgia BAB Deal May Be Model for Some Hospitals

By SHELLY SIGO

BRADENTON, Fla.—**Wills Memorial Hospital** in Washington, Ga., last month sold nearly \$13 million of taxable Build America Bonds with a draw-down structure and enhancements that officials believe may help other rural health-care providers access the capital markets in these difficult times.

In addition, Wills Memorial's sale most likely was the first Federal Housing Administration-insured BAB deal with a draw-down structure also enhanced by **Ginnie Mae** securities, according to **Red Capital Markets Inc.**, which was the underwriter on the deal.

The bonds were sold on behalf of Wills

Memorial by the **Wilkes County Hospital Authority** on Aug. 5 and the deal closed about two weeks later. **King & Spalding LLP** served as bond counsel; underwriters' counsel was **Eichner & Norris PLLC**.

Bond proceeds will allow the 25-bed critical access facility to replace its 48-year-old inpatient medical and surgical unit, pharmacy and respiratory therapy areas, and outpatient specialty clinic. The hospital also plans to renovate the emergency department and construct a new main entrance.

The transaction was structured in two series as \$12.4 million of taxable BABs maturing in 2037 and \$600,000 of taxable revenue bonds maturing in 2015.

The bonds sold with a AAA rating from **Standard & Poor's** because they are secured with Ginnie Mae securities backed by the full faith and credit of the U.S. government. The BABs are callable in 2019.

Both series priced to yield 7.2%. After the 35% federal subsidy, the BABs will carry a 5.01% fixed interest rate during construction and the 25-year amortization period.

"It was a unique transaction and really helped the hospital save on escrows and to protect its liquidity and end up with an attractive all-in fixed cost of capital," said **Jeff Fivecoat**, assistant vice president at Red Capital Markets.



A rendering of how Wills Memorial Hospital in Washington, Ga., will look after a major rebuilding and renovation effort funded by Build America Bonds.



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PNC Financial Services Group Inc. acquired Red Capital Group, which includes Red Capital Markets, in 2008.

After examining several financing strategies, Fivecoat said the lowest cost to the hospital was a BAB structure.

He noted that Wills Memorial qualified to issue the taxable debt that provides a 35% subsidy from the U.S. Treasury over the life of the bonds, a program that has gained in popularity since it was created when the American Recovery and Reinvestment Act was passed earlier this year.

The deal was also structured using an FHA-backed loan from Red Mortgage Capital and insured through the Section 242 program for hospitals administered by the Department of Housing and Urban Development. The additional guarantee by Ginnie Mae allowed the bonds to receive Standard & Poor's highest rating.

The next step was to select the funding method that would provide low, ongoing costs and minimize upfront cash requirements for the hospital.

The deal was structured as "draw-down" bonds, or bonds that are purchased as project funds are needed, rather than

funding the entire bond issue up front as is customary.

That saved the hospital approximately \$900,000 in cash escrows at the time of closing and will result in approximately \$5.8 million of interest savings over the life of the financing, Red Mortgage documents said.

"The draw-down structure significantly reduced the rating agency required cash escrows required at closing, which are necessary to secure the bond's triple-A rating," Fivecoat said, noting that the structure also eliminates negative arbitrage.

Wills Memorial Hospital is a 25-bed, full-service facility that employs 170 full- and part-time staff members. It is governed by the Wilkes County Hospital Authority, which was created by **Georgia** law in 1957. The agency is based in Washington, which is about 113 miles east of Atlanta.

The hospital serves a population of approximately 20,000 residents in its primary and secondary service areas and is the only source of care for residents and visitors within Wilkes County, according to the official statement.

"The unique draw-down structure re-

sulted in significant savings for us at closing and over the term of the financing, which will enable us to act on our commitment to providing greater accessibility to quality health care for the community," Wills Memorial chief executive officer **Marvin Goldman** said in statement.

Other hospitals could use the same structure as Wills Memorial to finance critical needs, Fivecoat said, noting that his firm is currently working on a similar financing structure for a public hospital district in Washington state.

Certain eligibility requirements of the FHA-242 and BAB programs must be met. Only municipally owned or controlled hospitals can issue BABs for new construction, Fivecoat said.

One requirement of the FHA program is that a hospital must have zero or more in operating income over the last three years.

For a new construction program, a hospital also must have a history of debt service coverage of 125% or greater the last three years.

More information on the FHA-242 program is available at www.portal.hud.gov/portal/page/portal/FHA_Home/lenders/lenders_health_care_facilities. □



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