



*Client Brief:*

## **Tax-exempt Debt Issuance**

**Key words:** debt management, project financing, bond rating, bond covenants, credit enhancement, refunding

**Conundrum:** Small health system sought to access the capital markets to significantly renovate its hospital and create a single obligated group structure from its several separate corporations and facilities.

**Synopsis:** The primary goal was to raise funds to renovate key areas in the hospital, including the operating rooms, emergency department, maternity department, and the main entrance. The health system's existing long-term debt included several different debt issues, each secured by a different corporate credit with different covenants. The corporate credits consisted of a community hospital, skilled nursing facility, retirement community, and visiting nurse association.

The challenges included determining how much needed to be renovated and how much could be spent, as well as the optimal debt structure and financing documents. In addition to analyzing the priorities and return on investment of the desired renovations, Suzanne developed financial projections and analyzed the system's debt capacity, and explored different debt structures, rated and unrated, with and without credit enhancement, and refinancing and restructuring existing debt. As part of reviewing all the legal documents for the financing, she negotiated the financing covenants and legal language that would both attract investors and allow the system the flexibility it needed to operate.

To achieve the best ratings and cost of capital, Suzanne helped the health system craft and present their case to bankers, rating agencies, bond insurers, and potential investors. Critical to this effort was ensuring that the senior management was comfortable and confident that the project was the correct direction and magnitude to better position the system to sustain its operations in a difficult reimbursement climate with depressed volumes. This also involved the preparation of the key narratives and data in the official statement or offering memorandum.

Essentially, Suzanne was able to draw upon her experience as an investment banker specializing in health care finance and act as an in-house banker.

**Benefit/outcome:** It resulted in the successful issuance of \$27 million in a new debt offering and the ability to pursue the desired renovation project. All the corporate entities were consolidated in a single, stronger, obligated group structure.

**Client type:** community health system