

## Bucyrus Community Hospital: A case study

Bucyrus Community Hospital serves a region of about 25,000 people in north central Ohio. The 25-bed hospital offers emergency treatment, inpatient and outpatient services, charity care, and smoking cessation and nutrition programs. It was certified as a Critical Access Hospital in 2003.

### Service concerns

A focus group identified substantial barriers to Bucyrus' long-term prosperity. Newer health care equipment was prohibitively expensive, and community residents were willing to drive to larger hospitals for what they perceived as more advanced treatment, despite Bucyrus' proven capability. Staff retention and physicians' hesitancy to recommend the hospital also were deemed barriers to serving in perpetuity. Community perceptions were deteriorating.

A long-term plan for survival would have to include a major overhaul to better meet patient expectations and attract staff. Board members decided to renovate the 95-year-old building, which was important to the community whose investment had supported past capital projects.

The hospital engaged invest-

ment and mortgage banking firm Lancaster Pollard to evaluate its situation, educate hospital leaders on funding options, and create a long-term financial plan to provide upgrades and reestablish a reputation as a valuable resource that would match Bucyrus' ongoing community commitment.

### Challenges to accessing capital

Bucyrus, like many smaller hospitals, could not secure an adequate loan on its own. The interest rates it would have qualified for would have made borrowing too expensive. It also was unable to secure private credit enhancements because of its non-investment grade credit strength. Federal enhancement options were the only cost-effective, realistic alternative.

The Federal Housing Authority's Sec. 242 mortgage insurance program offered several benefits that made it Bucyrus' best option.

The hospital's actual operations were in the red for two of three years prior to its financing. Its balance sheet did not yet reflect its improved financial state, which resulted from newly accessed cost-based Medicare reimbursement as a Critical Access Hospital. It would not have qualified for the traditional FHA 242 program because it did not have positive historic operating margins.

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### BORROWER:

Bucyrus  
Community Hospital

### LOCATION:

Bucyrus, Ohio

### TYPE OF PROJECT:

Renovation and  
Expansion of services

### SOURCE OF FUNDING:

GNMA-securitized loan  
enhanced by HUD Sec. 242  
mortgage insurance for  
Critical Access Hospitals.

**Small hospitals are critical resources. Their long-term missions require prudent financial commitments to stay current with patient demands and technologies.**

**The FHA Sec. 242 program offers Critical Access Hospitals underwriting privileges that can make it easier for them to borrow.**

### **The ideal solution**

As a Critical Access Hospital, however, the program allowed Bucyrus to recast its financials as if it had been receiving cost-based Medicare reimbursement for the three years previous to its federal mortgage insurance application. This dramatically improved Bucyrus' financial picture, giving it positive operating earnings and more than the 1.25x debt service ratio it needed to qualify for the enhancement.

The program also gave Bucyrus the option to borrow the entire project amount because of the way the 242 program calculates its loan-to-value ratio. The 242 program allows hospitals to borrow up to 90 percent of the value of the project. Project value for the program, however, is calculated in such a way that it can exceed the actual project cost. Project value calculations can include existing assets in addition to the actual project costs of new financing or construction. If the entire project cost is 90 percent or less of the project value, then the 242 program can fund the entire project cost.

Bucyrus' renovation and refinance project cost was \$26.8 million, so it still would have had to come up with \$2.68 million (10 percent) in additional funding. But with the \$5.9 million value of the existing physical plant, property and equipment, Bucyrus' project value increased to \$32.7 million. The hospital could have borrowed up to \$29 million (90 percent of \$32.7 million) with the 242 program. Ultimately



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it borrowed nearly \$26 million to cover most of its project costs. Bucyrus strategically chose to invest some of its own money in the renovation to assure its operating margins could handle the debt service and keep the hospital financially stable in the long term.

### **A hospital for the future**

The program allowed Bucyrus to fund renovations and three major additions that include a new main entry and more patient-friendly waiting area, a new operating room to serve profitable surgery needs, a new emergency room and a new nine-bed oncology department. The hospital's heliport will be moved to improve Bucyrus' service to its Life Flight/Mobile Life partners. The note issuance also refinances existing indebtedness to lower interest payments.

The financing was an ideal fit for Bucyrus Community Hospital's long-term plan to strengthen its reputation and improve its service by adapting to changing technologies and patient demands. The renovations will keep the hospital competitive and reassure community members that it will continue serving them in the best way possible.

### **About the firm**

Lancaster Pollard is a trusted provider of tailored financial solutions for the health care sector. It consists of three affiliated companies and offers a full range of investment banking, mortgage banking and investment advisory services.