

Case Study: Girard Medical Center

Property Type:

Critical Access Hospital

Location:

Girard, Kan.

Project Objective:

Renovation & Expansion

Financing Amount:

\$13.9 million

Source of Funding:

Bank qualified, tax-exempt fixed rate, unenhanced bonds and taxable Build America Bonds

"There is no way this financing could have gone better. In navigating the many options, Lancaster Pollard clearly kept our best interests top of mind. We couldn't be more pleased with the outcome."

Kenny Boyd, CEO
Girard Medical Center
Girard, Kan.

Background and Challenges

Girard Medical Center (Girard) is a Critical Access Hospital serving rural Southeast Kansas. It was constructed in 1969, and has undergone multiple remodeling projects, the latest in 1992. As part of a public hospital district, Girard is a government-owned entity supported by its community and is eligible for certain benefits, such as access to tax revenues and tax-exempt bonds, which can provide a lower cost of capital.

Due to Girard's aging structure, the board decided to pursue financing for a significant expansion and renovation to better serve its community. The hospital turned to Lancaster Pollard to help determine the options available, with the objectives of obtaining a favorable interest rate and minimizing upfront costs.

Financial Solution

Lancaster Pollard multi-tracked the options available to Girard, including HUD mortgage insurance and unenhanced bonds, and ultimately recommended issuing taxable bonds through the public building commission in conjunction with tax-exempt, unenhanced bonds. The two-series bond issuance provided the hospital with the lowest cost of capital and upfront costs compared to the other options presented.

As a government entity, Girard was able to leverage the public building commission's A-rating to issue taxable bonds. With the investment grade rating, Girard had the opportunity to utilize Build America Bonds, a component of the 2009 America Recovery and Reinvestment Act (ARRA). By taking advantage of the Build America Bonds issuance, the hospital will receive a monthly direct payment from the government that reduces the interest coupon cost by 35% over the life of the bonds.

Girard's tax-exempt, unenhanced bonds were designated as bank qualified. When tax-exempt bonds are bank qualified, banks purchasing the bonds are able to deduct 80% of their cost of buying and carrying the bonds. Banks pass along the savings to the borrower by way of a lower interest rate. Once again, Girard benefited from the ARRA as the act increased the amount of bank-qualified bonds that can be issued in 2009 and 2010 to \$30 million (as opposed to the standard \$10 million) and applied this new limit not to the bond issuer as in the past, but to the borrower.

Financing Progress

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Given the recent economic conditions, the area had not seen a project of this size in quite some time; and, it generated significant local interest from buyers eager to take part in a community project and increase the diversity of their portfolios. Due to this high interest, Lancaster Pollard structured the bonds to enable Girard to extend an attractive investment opportunity to local banks and made a portion of the bond issuance available to the local individual investor market via retail distribution.

Outcome

This financing structure met Girard's needs by providing a very favorable interest rate and limiting its upfront costs as opposed to the alternate options considered. In addition, the fixed-rate bonds ensure the hospital level debt service payments throughout the 26-year amortization. Moreover, the structure allowed Girard and its board to provide its community with a chance to invest in a local project.

With the bond proceeds, Girard will construct a 30,000 square-foot expansion to the existing structure, and renovate 6,000 square-feet that will house a new physical speech and occupational therapy department, cardiac rehabilitation, surgical units, respiratory therapy, a pharmacy and a medical record department in addition to 16 new patient rooms. The newly constructed patient rooms will enable the hospital to offer private rooms for all patients. Girard's renovations also entail an upgrade to the main entry and an increase in the number of parking spots. The construction and renovation project will have an immediate positive impact on the community as it will provide a number of jobs and help boost the local economy.