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## Health Care

### Two for 242: Federal mortgage insurance helps hospitals improve services and reputations

Doctors at St. Mark's Medical Center in Texas suspected appendicitis in a man admitted opening day. Confirming the diagnosis could have taken hours at the hospital St. Mark's replaced. But with the new digital CT scanner St. Mark's purchased — using funds made available by a federally-insured mortgage — the patient waited only minutes.

St. Mark's opened its doors July 11. The new facility and its equipment were financed through the Federal Housing Administration's Section 242 mortgage insurance program. Bucyrus Community Hospital in Ohio is using the same loan program to battle an image problem. Bucyrus will use \$26 million to transform its 95-year-old building into a modern, spacious asset with new operating rooms and a new oncology ward.

"Twenty-one months of construction will really bring us to state-of-the-art health care and [will] sustain us for decades to come," Bucyrus Chief Executive Officer Gerard Klein said.

#### Tapping an available well

The two hospitals' uses of federal mortgage insurance illustrate the program's gradual breakout from a geographical niche market to revamp and revitalize older hospitals and build new ones nationwide. The program puts the full strength of the government behind hospitals. Federal insurance lets them issue higher-

rated bonds with lower interest rates to reduce the cost of borrowing.

"Historically the program was principally centered in the northeast, particularly in New York," said William Tan, director of HUD's Division of Facilities and Loans. In the last five years, however, the program has made a concerted effort to diversify its portfolio geographically and in terms of hospital size. Thirty-three hospitals in 16 states have used the program since 2001.

The changing economy also has contributed to interest in the mortgage insurance program. Hospitals that may formerly have qualified on their own to issue mid- to high-rated bonds have found tighter financial constraints in the face of rising health care costs and changing Medicare reimbursement policies.

"We've had interest and approvals throughout the nation," Tan said. "It's renovations, modernization, new construction, expansion. We have examples of each of them."

The underwriting criteria and program flexibility made the program the only viable option for St. Mark's and Bucyrus, two very different undertakings with the same goals.

#### St. Mark's Medical Center:

**If you build it, they will come**

St. Mark's replaced Fayette Memorial

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Hospital, a 1960s-era building that had a hard time recruiting physicians. But St. Mark's has the potential to become a regional health center, Chief Executive Officer Kelley Oliphint said, and already its impact has been dramatic.

Expanding Fayette Memorial Hospital was not possible; the property was landlocked. St. Mark's credit profile was not strong enough for traditional financing or private credit enhancement. Interest rates without enhancement would have been prohibitively high.

"From a financial standpoint, while we were doing well, people don't want to back something that's just been going pretty well for two years," Oliphint said. "And while I felt that certainly we were going to do well in the future, it's hard to convince someone who's going to give you a ton of money."

Financing with the 242 program under historically low interest rates, St. Mark's ended up with more money than it thought possible. It replaced old equipment rather than moving it from Fayette Memorial. Demand for diagnostic imaging was up 40 percent for CT scans and 66 percent for MRIs in the first month of business, Oliphint said, and physician referrals already are higher than they ever had been prior to the financing.

Physician recruitment also has improved, Oliphint said. Two OB/GYNs and a general surgeon recently joined the team. A new medical office building is preparing to build next door.

### Brand new, or rebrand old?

Funding options can complicate the decision to renovate or build new. The 242 program allows both, though it involves a lengthy federal approval process. The St. Mark's decision to build new added land purchase and fundraising issues, while Bucyrus was challenged to bring an old building up to code and add services in a limited footprint.

Building a new hospital offers a fresh start, but the increased project scope may require additional equity contribution. Hospitals taking on renovations, such as Bucyrus, may include existing buildings and equipment in their project values, maximizing loan amounts because the 242 program guarantees up to 90 percent of the project value. New hospitals such as St. Mark's, however, can count only the equipment that will be transferred to the new site and may incur site development costs that cannot be funded by the 242 program. Though each project was about \$25 mil-

lion, Bucyrus' equity contribution was one-fourth that of St. Mark's.

### Bucyrus Community Hospital: Out of old site, a new mindset

The Bucyrus community was invested in its facility, having contributed to previous projects. And leaders decided building new would have been too expensive. The cost-conscious hospital found a bonus in the 242 program: contractor guaranteed maximum prices. Once a price was set, the hospital knew it would not have to pay fees for contingencies.

Bucyrus Community Hospital was the first in Ohio to use the 242 program. It took advantage of special underwriting criteria for Critical Access Hospitals. The hospital recast some of its financial statements to achieve the financial ratios that qualified it for the mortgage insurance.

"Our options were very thin," Bucyrus' Klein said. "The most likely option [without 242] is we wouldn't have been able to proceed." Breaking the master plan into smaller projects was another possibility, he said, a choice that dealt with piecemeal problems rather than true structural issues.

Bucyrus broke ground in July 2005 on 50,000 square feet of additions. The funding also relocates the 25-bed hospital's heliport, expands the oncology ward and builds a new restaurant and community meeting space.

Klein said he is confident the renovations will reestablish a strong reputation to match the hospitals' commitment to the community. More options for ambulatory surgery and more attractive surgical suites should appeal to physicians, he said, and the new oncology ward, ICU, emergency department and ambulatory unit are designed to meet the community's changing needs for decades to come.

"When you see such a significant modernization going on," he said, "...that represents progress for not only the hospital, but for the community."