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Health Care

**Little Credit, Big Money:  
Yuma District Hospital’s USDA Success Story**

Picture a hospital executive say-  
ing to its investment banker, “We  
have a 56-year-old facility, less  
than \$3 million in cash, and we  
need \$25 million to replace our  
hospital. Did I mention that we  
cannot pledge a mortgage?”

Yet despite its limited resources,  
Yuma District Hospital’s commu-  
nity support, clever construction  
methods and good financing are  
transforming the aging facility  
into one prepared to evolve with  
the technology and patient de-  
mands of the 21st century. The  
hospital’s new 12-bed facility will  
have the capacity to bring state-  
of-the-art services in-house and  
better serve a growing popula-  
tion.

**Long-time Dedication**

Located in northeast Colorado,  
just 30 miles from the Nebraska  
border, Yuma District Hospital  
serves Yuma County and sur-  
rounding areas. The 14-bed facil-  
ity was built in 1949 and designat-  
ed critical access in 2002. Doctors  
travel up to 150 miles to Yuma to  
provide health care specialties  
and surgical services normally  
seen only in urban hospitals.

The existing hospital was de-  
signed for inpatient services, not  
growing outpatient needs. Sight

lines from the nurse station made  
it difficult to see people seeking  
late-night help, and the building  
lacked surgical patient prepara-  
tion and recovery areas. The  
hospital had been renovated and  
expanded several times, but the  
cost of continual renovation had  
reached the point that it exceeded  
the cost of building a new facility.

**Limited Options**

Critical Access Hospital status  
carried benefits for issuing future  
debt. The capital cost compo-  
nent of Medicare reimbursement  
meant the federal government  
would help pay for the new hos-  
pital by reimbursing a portion  
of interest costs. Utilization and  
revenues were trending upward,  
and the addition of two new etha-  
nol plants in Yuma improved the  
hospital’s long-term outlook.

Lancaster Pollard articulated the  
community’s strong support as a  
favorable chapter of the hospital’s  
credit profile. The city of Yuma  
agreed to swap land dedicated  
to the new hospital in exchange  
for the existing hospital property,  
and the hospital also received  
several donations, including  
funds for a rehabilitation pool.

Financially, Yuma District Hospi-  
tal was moderately profitable with

(continued on back)

limited liquidity. Cash was dedicated to operations, and state statutes limited the district hospital's ability to pledge a mortgage. The hospital receives a few hundred thousand dollars annually from tax levies for operations. Respectful of the community's ongoing support for its operations, the hospital board did not want to burden taxpayers with a general obligation for the new facility.

## Small Hospital, Big Financing

Yuma District Hospital worked with Lancaster Pollard to finance through the U.S. Department of Agriculture's Community Facilities Program because of the long amortization period of 40 years, a revenue-only pledge that required no mortgage, and the absence of renewal risk associated with letters of credit. A low, one-time origination fee to USDA of 1 percent of the loan also was appealing.

The USDA offers three funding options under its Community Facilities program: grants, direct loans and guaranteed loans designated for non-profits serving communities of less than 20,000. From fiscal year 2004 to 2006, the USDA financed 99 hospitals for a total of about \$440 million, with typical obligations between \$7 million and \$10 million.

Direct loans are competitive, but the guaranteed portion of the program historically has not used its total obligation capacity; in fiscal year 2006, \$166 million in loans out of a \$210 million budget was guaranteed. Interest on loans guaranteed under this program is taxable. The USDA continues to investigate the possibility of guaranteeing tax-exempt loans to further reduce borrowing costs.

Five months after application, Yuma District Hospital received commitments for \$24.5 million in USDA loans -- \$7 million from a direct loan and \$17.5 million lent by Lancaster Pollard and guaranteed by the USDA. The loans amortize over 40 and 30 years, respectively. Lancaster Pollard also provided a tax-exempt construction loan. The total obligation was the largest ever made to a critical access hospital by the USDA and offers a competitive cost of capital with the equivalent of an "AAA" rating.

## Saving Money, Saving Lives

An efficient construction method saved the hospital interest costs during the construction loan period. Rather than building the new facility using frame construction, Yuma opted for pre-poured concrete -- a more expensive system, and a technique not often seen with hospitals. The efficient method, in fact, may be most familiar as the one used by "big-box" department stores. Walls and

other elements are poured off-site, then attached to a foundation on the construction site and assembled like a massive, tornado-proof gingerbread house.

In terms of materials cost, concrete slab construction is more expensive than typical frame methods. But by cutting off two to three months of construction time, the hospital saves \$200,000 in construction loan interest costs.

The new Critical Access Hospital, located 850 yards from the old facility, will have the capacity to eventually bring services such as bone scanning in-house. It will include a 10-bed inpatient suite with private rooms, a two-bed obstetrics unit, a surgery suite with an operating room and a minor procedure room, an emergency department with observation beds as well as radiology, laboratory, pharmacy, physical therapy and administration clinic space.

