

Bond Case Briefs

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Cleveland Clinic To Issue Rare 100-Year Bond.

The Cleveland Clinic is seven years away from celebrating its centennial, but apparently it's already pretty sure it's going to be around for another hundred years, as it's gearing up to sell \$400 million worth of 100-year bonds. It will become "the first not-for-profit healthcare system, and one of the few in the US municipal market, to issue century bonds," according to Moody's Investors Service, which is assigning an Aa2 rating to the bonds that will mature in the year 2114. Moody's writes today that the Cleveland Clinic has what it takes to pull off a rare century bond:

The Cleveland Clinic Health System's national reputation, high demand for advanced patient services and exceptional fundraising capabilities support the staying power needed to meet a 100-year obligation. Given the rapidly changing and challenging dynamics of the healthcare industry, very few hospitals and health systems in the country exhibit these strong characteristics to manage the risks related to an ultra-long obligation....

CCHS's strong investment position and moderate amount of century bonds relative to total debt mitigate risks related to the expensive call provisions of century bonds and decreased balance sheet flexibility. The modest amount of century bonds is a key factor in minimizing the risk for healthcare systems; higher exposure to century bonds, even for a large healthcare system with similar characteristics as CCHS, would be viewed as a negative credit factor. Among the largest not-for-profit healthcare systems in the country, Cleveland Clinic has the strongest relative investment position, providing ample resources to call the bonds if needed.

Moody's says issuing century bonds today will lock in historically low interest rates but notes that such bonds "are extremely expensive to call because make-whole provisions are more costly than call provisions for tax-exempt debt." Moody's again:

The bonds are structured with an optional redemption allowing the system to redeem the outstanding bonds at a "make-whole redemption price," which is typically the present value of the remaining scheduled payments of principal and interest to the maturity date, discounted at a stated spread above Treasuries. In contrast, traditional tax-exempt debt is usually structured with a 10-year call feature that would enable an issuer to redeem the debt at par after 10 years.

As you'd expect, few issuers are able to convince investors they'll be around a century from now, and century bonds tend to be confined to sovereign governments, large public institutions and a few select corporations and financial institutions with investment-grade ratings and looooooonng track records. Past issuers include Mexico, the University of California system, Dutch agriculture bank Rabobank, and U.S. companies such as Norfolk Southern Corp., Walt Disney, Coca Cola, Ford, and JC Penney.

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