

Bond Case Briefs

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Illinois Conduit's Program Offers Boost to Smaller Hospitals.

CHICAGO — The Illinois Finance Authority is rolling out a new financing program this summer to help smaller hospitals purchase equipment and meet federal healthcare record-keeping mandates.

The authority also has in the pipeline a series of deals totaling more than \$1 billion that received board approval this month for the University of Chicago, a large healthcare system, and two downtown Chicago-cultural institutions.

The MedCap Program offers medium-term capital for various medical projects. The program is “aimed at small-to-medium sized hospitals, of which there are many in the state, to help them meet their mandates for electronic medical and healthcare record keeping,” said Pamela Lenane, a vice president who focuses on the healthcare sector for the IFA.

“It could also help them with upgrade technology assets” and other equipment needs,” she said.

The state has 52 hospitals that carry a critical access designation. The IFA is initially marketing the program to smaller, independent hospitals that lack the same access to low-cost capital as larger systems, and it could eventually expand the program to also help continuing care and retirement facilities.

The authority has been looking to expand its programming and Lenane said it saw a need on the equipment/IT/medical records front. It’s distributing marketing materials to hospitals and financial advisors and sharing information on the program at various hospital meetings over the summer.

The program offers tax-exempt financing with terms of up to 10 years, step up payments, and a draw down option, with fixed authority and bond counsel fees. The benefits include reduced issuance costs and fees, a simplified process, and standard documentation. For transactions under \$20 million, the borrower would pay an issuer’s fee of between \$5,000 and \$12,000. Interest rates on a tax-exempt loan could range from a low of 1.69% to 2.82% on terms between two and 10 years.

The debt would be securitized by collateral via a Uniform Commercial Code filing with no revenue pledge required and could be structured outside of a hospital’s master trust indenture. Lenane said those are significant benefits because security and collateral issues for short-lived projects like IT and other equipment pose a challenge.

The bonds would be directly purchased by a lender. The IFA is in discussion with various lenders and has a commitment from Bank of America Merrill Lynch.

The board gave preliminary approval for an up to \$585 million new money and refunding of 2007 bonds for the University of Chicago. The sale is tentatively expected to include nearly \$350 million of new money and up to \$250 million of refunding bonds. The sizing could be cut if the university decides to go with a taxable structure. Those securities would be issued by the university and not the IFA.

The university is working with lead manager Barclays Capital Inc. The co-managers include Wells Fargo Securities, Loop Capital Markets LLC, and William Blair & Co. Its advisor is Prager & Co. LLC and bond counsel is Chapman.

The university carries ratings of Aa2 from Moody's Investors Service, AA from Standard & Poor's, and AA-plus from Fitch Ratings. Standard & Poor's assigns a negative outlook. The school has been adding to its debt load to finance campus wide projects. Moody's last year dropped its rating by one level.

"Indications are that the university's investment in strategic priorities is yielding favorable results that will position it well in the future," Moody's said in downgrading the elite school. "However, risk is elevated over the next several years until the university is able to translate its strategic successes into strengthened cash flow to absorb growing debt service."

Standard & Poor's said its negative outlook reflects worse-than-anticipated fiscal 2013 financial performance combined with the university's strategic financial plan that anticipates deliberate deficits through fiscal 2018 and \$300 million to \$500 million in additional debt from fiscal 2015 to 2018.

The university has a total of \$3 billion of outstanding bonds.

The university's strengths include its "global prominence as an elite research university, with exceptionally strong student demand at both the undergraduate and graduate level, demonstrated fundraising prowess for strategic initiatives, and growing unrestricted liquidity," Moody's said. The IFA board also approved an up to \$500 million new money and refunding for OSF Healthcare system. The sale also allows the hospital system to refinance a taxable loan that helped finance its acquisitions of Kewanee Hospital and St. Anthony's and finance a new tower at one of its facilities. New money accounts for \$105 million of the deal.

Barclays and Jefferies are underwriting the issue and independent advisor Anne Donahoe is working with OSF, which carries single-A ratings from Fitch and Standard & Poor's and an A3 from Moody's.

OSF is headquartered in Peoria. Ten of the corporation's hospitals are in Illinois. One hospital is in Michigan.

The authority board also gave final approval to the Field Museum of Natural History's plans to convert \$89 million of floating-rate debt now backed by a letter of credit. The museum will directly place the debt with Northern Trust, JPMorgan Chase Bank subsidiary DNT Asset Trust, and Wintrust Bank. A general pledge from the museum will continue to secure the debt which will not be rated.

The museum carries ratings of A2 from Moody's and A from Standard & Poor's.

"The rating reflects our view of the Field's consistent operating performance, adequate balance sheet measures for the rating, good fundraising, and progress against its long-range financial planning model," said Standard & Poor's analyst Jessica Matsumori in a report last year. "The aforementioned strengths somewhat offsets some of the credit risks regarding the size and repayment structure of the museum's overall debt profile."

The refunding would reduce letter of credit pricing risk and to reduce variable interest rate risk on the existing series of bonds to be refunded, IFA documents said.

The museum is working with counsel Quarles & Brady LLP, bond counsel Chapman and Cutler LLP.

The Field Museum is one of the world's largest natural history museums, providing collection-based research, exhibits, and public education with a focus on diversity in the world's physical environments and cultures. Its collections are composed of over 25 million professionally maintained natural objects and man-made artifacts. The museum and its collections originated and were an outgrowth from the World's Columbian Exposition held in Chicago in 1893.

The board also signed off on the Shedd Aquarium Society's proposed \$23 million refunding of insured debt that will also be directly placed with a bank – JPMorgan Chase Bank's DNT subsidiary.

Shedd carries an A1 rating and stable outlook from Moody's which was last affirmed in 2013. The refunding bonds will be secured by a pledge from the aquarium and not assets. "The proposed refunding will reduce annual debt service expense thereby providing surplus cash flow for program costs," IFA documents said.

The Shedd is working with Chapman and Cutler as bond counsel.

The Shedd Aquarium Society was established in 1924 to construct, maintain and establish the John G. Shedd Aquarium for educational and scientific purposes, for the collection, care, study, and exhibition of fish and other aquatic animals and plant life, and the education of the public. The aquarium offers one of the largest collections of aquatic life in the world.

The Bond Buyer

by Yvette Shields

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