Switching horses midstream: monitoring the markets throughout a debt financing can create opportunities for long-term savings

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How can a small, rural hospital ensure it is accessing the most efficient capital when the markets--and the hospital--are in constant flux? One critical access hospital capitalized on a key strategy: Monitor the elements affecting the hospital's credit profile and its ability to access capital throughout the financing, and monitor backup borrowing options. Internal and external factors affect a lender's perception of a hospital as a borrower, and midfinancing changes to either can both open and close doors to lower-cost capital.

With a 100-year-old campus that was landlocked and becoming too costly to renovate, Heart of the Rockies Regional Medical Center in Salida, Colo., needed to access the capital markets to fund construction of a new facility.

In 1885, the rural town of Salida grew up around the new Denver & Rio Grande Railroad Hospital. The hospital, which served railroad employees in the developing frontier town, was rebuilt in 1897 after a fire. For the past century, it has sustained the community both physically and economically as a health provider, a major employer, and a draw for new residents.

The facility that evolved into Heart of the Rockies Regional Medical Center continues to play a major role in Chaffee County development. A replacement critical access hospital currently under construction is the culmination of a massive effort to turn around the hospital's finances and re-establish Heart of the Rockies as a strong economic driver and a modern provider of medical care.

Early Steps

Before attempting to access the capital markets, Heart of the Rockies made sure its internal credit characteristics were strong. Over several years, it reviewed its finances, staffing, and administrative practices and made changes to strengthen those areas. The hospital addressed retention and improved management and teamwork. It increased its cash reserves from $3 million in 2000 to $13 million in 2006. It also became certified as a critical access hospital, adopted national productivity guidelines to increase efficiency, and partnered with other providers to streamline services and improve operations.

Next, the hospital addressed its aging campus, which comprised the 1897 building, additions from the 1920s, 1960s, and 1993, and three former homes. Annual maintenance was estimated at $500,000--twice normal maintenance costs because of the aging facilities. Size was a major limitation. Ceilings were too low to accommodate modern equipment, doorways were too narrow to easily transport patients, and the hospital housed more than 250 full- and part-time employees in space designed for 145. Constructing a new hospital was deemed the best way to meet community needs in the most cost-effective manner.

Credit challenges included the rural location, which was far from many rated commercial banks, the facility's short history of profitability, and, at 55 percent debt to capitalization, its relatively high pro forma leverage position. Additionally, when Heart of the Rockies was investigating funding options, non-investment-grade hospitals were paying...

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