Case Study: Gooding County Memorial Hospital

Project Objective:
Replacement hospital

Location:
Gooding, Idaho

Financing Amount:
$27.6 million

Source of Funding:
Fixed-rate notes enhanced by HUD/FHA Section 242 mortgage insurance

"Lancaster Pollard's expertise and attention to detail led to our hospital closing an affordable, complex financing in a very difficult market. They presented many options for us, and their comprehensive analyses and informed opinions were provided in an honest, straightforward way. I recommend Lancaster Pollard with great enthusiasm, and I will utilize them in the future for any further capital needs."

Earl Fitzpatrick, CEO
Gooding County
Memorial Hospital

Background and Challenges

Gooding County Memorial Hospital had an outdated layout, a flat roof and limited space for necessary service lines. Renovating the landlocked 1969 facility would have been more expensive than replacing it. Gooding also faced complex borrowing limitations because of an Idaho Supreme Court ruling (City of Boise v. Frazier). In requiring a voter supermajority and imposing dollar limits on municipal bonds, the ruling stifled Idaho municipal financing. The hospital engaged Lancaster Pollard to find a creative financing solution to make the replacement hospital project happen.

Financial Solution

Lancaster Pollard determined that the interest rate environment at the time would have made using unenhanced bonds prohibitively expensive, so the firm evaluated multiple credit enhancement strategies at once, including bank letters of credit, USDA loans and other options.

Gooding and Lancaster Pollard selected FHA Section 242 hospital mortgage insurance to enhance $27.6 million in taxable notes. Using taxable notes reduced the hospital's up-front cash requirements, and the notes also priced more favorably than tax-exempt bonds at the time. In an innovative move, Gooding created a new nonprofit organization in order to issue the debt in compliance with the Supreme Court ruling. The new operations and building are under the 501(c)(3), and the hospital was able to retain its community's financial support via a conduit for the existing county tax levy.

During early 2009, Lancaster Pollard and Gooding waited for the capital markets to stabilize before locking in an affordable interest rate.

Outcome

The new hospital will be called North Canyon Medical Center. The loan carries the equivalent of an "AAA" debt rating, which is expected to save the hospital $9 million in interest over the 25-year amortization. The debt also has very favorable covenants that will position North Canyon Medical Center for future growth and long-term success.