By ROBERT PIERCE • Daily Leader

EDITOR’S NOTE: This is the final in a series of articles regarding a joint meeting last Tuesday between the Southwest Medical Center Board of Trustees and the Seward County Commission comparing the difference between types of bonds being considered for the upgrades.

Officials from Southwest Medical Center are looking to spend about

$21 million on upgrades to the hospital’s facilities.

Last Tuesday, Seward County commissioners and the SWMC Board of Trustees heard from a representative from a Missouri-based bank which does bonds for many hospitals such as Liberal’s.

Scott A. Crist, vice president of public finance for United Missouri Bank, said he sees a lot of facilities and projects such as the one being planned for SWMC, and since Sept. 15, 2008, the market has changed considerably for hospitals.

Crist said most hospitals are either putting off projects or finding alternate ways to finance critical projects.

“We just closed a bond issue in Iowa last week for a county-owned hospital, separate board of governors for the hospital, just exactly like this situation,” he said. “The project was critical. It was a

$22 million project. They did the same process we’re talking about.”

That was a government obligation bond the Iowa county paid for from revenues from the hospital.

“They did it through a notice and publication and a hearing process,”

Crist said. “As a result, the hospital got interest rates of under 5 percent. It was a 17-year bond issue at $22 million, whereas they would be at around 10 percent without that assistance.”

Crist said the hospital will make the payments either way.

“The hospital can more than make up those payments, but the county realized that adding that credit behind it to help establish the market for those bonds greatly improved the cash flow of the hospital and just made everything work great,” he said.

For this reason, Crist said he would advise SWMC to move forward with the project and look at a public bond commission rather than a revenue bond.

He said when UMB was brought on board with the Liberal project, the SWMC board wanted to make sure the amount of debt the hospital was thinking of issuing was something it could afford,.

“We looked at the last five years’ historical financials,” Crist said. “We looked at them on a stand-alone basis, and then we compared them to hospitals on a national level.We compared them to hospitals on a more regional level.”

Crist said the numbers compared very well.

“Their cash position was very, very good compared to other hospitals,” he said. “Their operating performance was strong.”

Crist said the SWMC project is needed because the average age of plant for the Liberal hospital is considerably higher than others.

“Their average age of plant’s only 13 years,” he said referring to other hospitals. “The higher rated hospitals are eight or nine years in average age of plant. That means they’re updating their facilities constantly with capital projects that are significant enough to keep the average age of plant pretty low.”

Liberal’s hospital’s age of plant is 17 years, and Crist said this shows a definite need for upgrades.

He said five-year forecasts are also examined for bonds.

“We use extremely modest presumptions – 3 percent annual growth in revenues, 3 percent growth in expenses,” he said. “We’re not looking for a 10 percent big bump in revenue because of the project. We don’t do that. We’re very conservative.”

Crist said the most important detail is based on the historical performance of the hospital.

“Can they handle this debt assuming pretty steady operative results?”

he said.

Crist said from a financial standpoint, the SWMC project makes sense for many reasons.

“Not the least of which is the financial ability of the hospital to make the payments,” he said.

Crist said an advantage of the PBC structure is that it does not require a bond election.

“It can be written into the charter resolution of the county,” he said. “You still allow for public input. The GO bond allows for public input because you’re having an election. The PBC process allows for public input because they can file a petition. When notice is published, a petition can be filed and force it to the ballot.”

Crist said GO bonds are subject to the statutory debt limitations of the county.

“It does count against your debt limitations,” he said. “The PBC bonds do not.”

Crist said both bonds are payable from revenues of the hospital.

“From a bond purchaser standpoint, they’re viewed the same,” he said.

“The GO bonds require a longer time frame, and you’re not quite as flexible in how you do that. With the PBC structure, you have a little bit more flexibility and a shorter time frame.”

Crist said this is a great opportunity from an interest standpoint since federal and treasury officials are keeping short-term rates fairly low.

“It’s an attractive time to finance as well,” he said.

Crist said inflationary pressure will start to build from federal stimulus money, and some inflationary impact is expected for the next

12 to 18 months.

“Locking in rates now would be very beneficial,” he said.

Crist said if the county chooses the PBC option and there is opposition to the bond, a petition can be filed to force a ballot.

“If there’s not, you don’t have to put it on the ballot, and you can move forward with a project that is critical to the community,” he said.

Crist said a PBC is a lease structure.

“Right now, the county owns the hospital, and the hospital board manages it,” he said. “Under the PBC structure, the county creates the PBC. They do a charter resolution that creates the PBC. A notice is published, and there’s a protest period for 60 days.”

Crist said if there is no protest, a PBC is created, and it has the authority to do whatever is written into the resolution.

“In this case, it would be issue revenue bonds that would be backed by the county to help finance the renovations to the hospital,” he said. “What you would have is the county transferring title to the PBC that is an instrumentality of the county.”

Crist said the PBC then leases back to the county.

“Those lease payments from the county to the PBC are what pays the bonds,” he said. “The lease payments from the county are not subject to the cash basis law.”