THE BOND BUYER

Marin General Hospital prepares to issue $159 million in revenue bonds

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Marin, Calif., General Hospital hopes to issue just under $159 million in revenue bonds next month to help pay for its new hospital wing and parking garage, and to retire debt.

On Tuesday, the Marin Healthcare District elected board and the hospital's private operating board will vote on whether to grant their approvals for the offering.

The bonds would be repaid over 27 years to coincide with the date on which Marin General Hospital Corp.'s lease of the hospital from the Marin Healthcare District expires. A longer payback period would have required going to voters to seek permission for the bond offering.

James McManus, Marin General's chief financial officer, said $91 million of the bond revenue would be used for the construction project, which is estimated to cost $535 million. The remainder of the construction project is being paid for with $394 million in revenue from a general obligation bond that Marin residents approved in November 2013 and private donations. Marin General has so far received $43.4 million in irrevocable philanthropic commitments for the project and is seeking additional donations.

McManus said $65 million in proceeds from the revenue bonds would also be used to repay a loan made to Marin General by Union Bank in 2010.

"We will refinance some of our existing debt and add it to the bond issue," McManus said. "A lot of organizations do this."

McManus said none of the revenue bond money is earmarked for medical equipment for the new hospital or for future building projects, such as a medical office building that has been discussed for the site.

At the time Union Bank made its loan to Marin General, the Marin Healthcare District had recently regained management control of the district-owned hospital from Sutter Health. Sutter, which assumed the lease in 1996, was widely criticized for taking profits from Marin General and investing the money in other hospitals in its system.

"Sutter walked away with everything that wasn't nailed down," said Larry Bedard, a longtime Marin Healthcare District board member. "As a stand-alone hospital, most banks weren't interested in talking with us. Union Bank gave us a couple of loans and a line of credit."

Marin Healthcare District board member Jennifer Rienks, who sits on the district board's finance and audit committee with Bedard, said, "This offering was always envisioned. We've been trying to get into a good credit rating place and we have.

"It's been a challenge to build up the reserves to make us credit worthy for the revenue bond while at the same time trying to fill in for all the money that Sutter took," Rienks said. "I think our administration has done a really good job balancing that."

At the end of March, Marin General announced it was in the process of finalizing a 10-year strategic alliance that could result in the University of California, San Francisco investing millions of dollars in Marin General over the next decade. The deal could include a $20 million enterprise-wide investment in Marin General as well as another $90 million for joint projects.

The prospectus for the revenue bond offering contains detailed information about Marin General and the financial challenges it faces.

The document shows that the hospital reported a profit of $21.5 million in 2015, $7.1 million in 2016 and $18.7 million in 2017. It states that the low profit in 2016 was primarily attributable to a $15.2 million loss from a legal settlement with a former vendor.

In an email statement, Marin General spokeswoman Jamie Maites wrote that between 2010 and 2012 Xerox Corp. financed the installation of the hospital's Paragon software system, which was supplied by McKesson Corp. Maites stated that Xerox was also hired to provide billing and collections. "It was Marin General Hospital's contention that Xerox breached three work orders and in doing so put the hospital at risk," Maites wrote. "We were disappointed to learn that the final ruling was not in our favor. We chose not to appeal the decision and have since moved on."

Maites declined to elaborate, and Xerox could not be reached immediately for comment.

"If you look at hospitals across the board right now, everybody's revenue is going down and that is a big challenge," Rienks said.

She said due to health care reform hospitals are treating more Medi-Cal patients and government reimbursements for Medi-Cal patients typically fail to cover hospital costs. She said contrary to expectations visits to Marin General's emergency room have increased since the adoption of the Affordable Care Act in 2010.

Bedard said, "I think we could be impacted by Washington, D.C; with Donald Trump getting rid of the individual mandate fewer people may be able to afford health insurance."