

THE BOND BUYER

Rural Indiana hospital readies deal to fund new patient tower

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Goshen Health, a rural Indiana hospital that has bucked the negative trends experienced by many of its counterparts nationally, will sell \$70 million of debt Thursday to finance a four-story patient tower.

The bonds will sell through the Indiana Finance Authority and are secured by a gross receivables pledge. Barclays is the senior manager. The hospital has not issued bonds in the last 25 years.



A rendering of new patient tower Goshen Health, to be funded with bonds pricing on Thursday.

“This is a new opportunity for Goshen Health and we’re excited to have the new

investment of external capital into our community,” said Ben Bontrager, Goshen’s chief financial officer.

S&P Global Ratings assigned its A-minus rating and stable outlook to the bonds.

“The rating reflects Goshen Health's position as the sole provider in a small primary service area, with a leading inpatient market share and a dominant outpatient market share, tempered by the presence of two significantly larger systems in the region,” S&P said. The hospital is located in Goshen, north-central Indiana.

The hospital is structuring roughly \$25 million of the bonds with a mandatory tender for a preliminary initial period of seven years subject to market conditions at pricing.

“We are taking advantage of low interest rates on shorter-term debt,” Bontrager said. “We anticipate lowering overall interest cost and reducing annual debt service levels. Our renewal risk on the shorter-termed debt is alleviated with our significant position of cash reserves and high days cash on hand.”

The bond issue is all new debt in support of the facilities expansion project, but Bontrager said the hospital expects to achieve significant interest savings with the combined structure of a shorter-term component with traditional long-term fixed-rate debt.

Goshen is doing well compared to other rural hospitals — a sector that has faced growing market and public concerns nationally due to closings that are forcing some rural communities to travel long distances for medical care.

UNC’s Rural Health Research Program data shows a recent uptick in rural facility closures. In total, 106 rural hospitals have closed since 2010 — an average rate of just over 10 per year — but this number includes fifteen closures last year and nine through the first half of 2019 alone.

The challenges that rural hospitals face in large part are due to demographics, said George Huang, senior municipal research analyst at Wells Fargo. “Rural hospitals don’t have enough people so you might not get the volumes that you would see in more densely populated areas,” Huang said.

Huang added that these areas often tend to have weaker socioeconomic factors as well, such as lower-income, lower healthy life expectancy, in addition to older populations that makes them particularly exposed to governmental payors.

Goshen, however, has seen an uptick in patient admissions with a mixed payor base with limited exposure to governmental payors. The hospital is the leading

provider in the area it services, with a 54.1% inpatient market share and a 75.5% outpatient market share in 2018, according to an investor presentation.

The system incurred a number of operating challenges between 2016 and 2018 including an approximately \$1.5 million reduction in its Indiana Health Assessment Fee and \$7 million in cuts related to a new payor contract. The fee program created by the Indiana state legislature in 2011 is a way to increase federal matching dollars paid to Indiana's hospitals through the federal state Medicaid program.

"Operating income has declined in recent years," Bontrager said during the investor presentation. "We have been adapting to diminishing benefits from Indiana's hospital assessment fee program as well as significant reimbursement cuts that were implemented by our largest commercial payors."

Bontrager said that offsetting those cuts were significant financial improvements by the management of Goshen Health with \$12 million recognized in 2018 alone.

The hospital also incurred expenses associated with the transition away from Indiana University Health. Goshen was an affiliate with Indiana University Health from 2000 to 2016. The separation agreement included a \$20 million payment from Goshen Health to IU Health, payable over 10 years. IU Health also agreed to a 10-year noncompete contract within a 50-mile radius of Goshen Health.