THE BOND BUYER

Cleveland Clinic readies financing for projects, takes on acquired system's debt

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Published

April 10 2019, 2:32pm EDT

The Cleveland Clinic plans to hit the market next week with a $930 million sale, a piece of which will take out the debt of the Florida-based health system it acquired earlier this year to expand its footprint.

The Ohio-based health system's deal is divided into six series of tax-exempt bonds with a diverse structure that the Clinic hopes will potentially lower its costs, according to chief financial officer, Steven Glass.

“Of the total amount proposed to be issued, approximately half will be fixed-rate and half variable-rate products," Glass said. “The variable rate issues include variable rate demand bonds supported by both bank facilities and self-liquidity and public floating-rate notes providing product diversification and a potentially lower cost of capital.”

Roughly $226 million of the proceeds will defease outstanding Martin Memorial Medical Center bonds, which was previously issued to finance costs of Martin Health System hospital facilities recently acquired by Cleveland Clinic.

Those bonds will be issued through the Martin County Health Facilities Authority which is serving as the conduit borrower.

Another $225 million of fixed-rate debt will sell through the state of Ohio and go to finance healthcare facilities and improvements in Ohio.

The system plans to price $90 million of floating rate notes, $120 million of variable rate demand bonds supported by self-liquidity and $260 million of VRDBs, supported by bank facilities to finance the acquisition of assets the Clinic is currently leasing.

There will be a limited competitive auction for the FRNs on April 16. The fixed rate bonds are expected to price on April 17. The VRDBs are expected to price on or about May 8.

Barclays and Citi are co-senior managers. RBC Capital Markets and UBS Financial Services Inc. are co-managers. Glass said that PNC and U.S. Bank are expected to each sole manage a series of VRDBs. Melio & Company serves as Cleveland Clinic’s financial advisor.

Moody’s Investor Service affirmed its Aa2 rating on the fixed-rate and the floating-rate bonds and S&P Global Ratings has affirmed its AA rating on the bonds, with stable outlooks.

The bonds, coupled with roughly $392 million private placement the system plans to issue in August to complete funding for a new hospital in central London, will bring the system’s total debt outstanding to $5 billion, Glass said.

“With its very strong enterprise and financial profiles coupled with the history of execution, we believe CCHS has cushion at the rating that we expect it to maintain,” S&P said. “The stable outlook reflects our view that as CCHS expands the system domestically and internationally, it will continue to be one of the premier health care providers.

"We also expect management to operate the system at a level that supports the long-term strategic plan and capital spending, as the health system also invests in new partnerships that allow it to be more adept at facing the changing health care landscape,” S&P said.

The health system's Florida acquisition expands its overall share in the Florida market to 10% from 2%, according to Moody's.

Moody's believes that the expanded presence in Florida will provide opportunities in a growth market, improve the system's market position, and provide capacity for patient demand.

Cleveland Clinic's health system includes its main campus near downtown Cleveland, 10 regional hospitals and more than 150 northern Ohio outpatient locations.

It also operates health and wellness centers in West Palm Beach, Florida, and Toronto, Canada, and specialized neurological clinical centers in Las Vegas, Abu Dhabi, United Arab Emirates, and London, United Kingdom.

The health system reported $8.9 billion in total revenue in fiscal 2018.