

# Helping a Community Hospital Preserve Independence and Obtain FHA Financing

**Client Profile:** A west coast single hospital system

## **Challenge:**

To assist the client in determining whether to pursue a merger option, and eventually, to perform a feasibility study in support of an FHA refinancing.

The client had issued tax exempt bonds to finance a new hospital some years ago, and the construction process fell drastically behind schedule. When the new facility led to a drastic increase in demand, the hospital struggled to efficiently organize all the services in the new hospital and was on the verge of being out of compliance with their bond covenants. They had taken serious steps towards merging with a regional hospital system when their investment bankers raised a flag about whether that approach was really necessary, and Veralon was brought in to analyze the situation.

## **Solution and results:**

Veralon worked with hospital management to vet and refine a turnaround plan. The plan addressed issues that had developed in association with the new hospital opening, and ensuing staffing and cost impacts.

We incorporated the turnaround plan into a highly detailed financial model that facilitated development of a prospective financial analysis. Veralon used this analysis as the basis for a variety of scenario and sensitivity analyses, and determined that the client could function effectively long enough to refinance their bonds at a lower rate in 3 to 4 years. The lower rate would make the hospital financially sustainable. This provided the hospital Board with the confidence to decide to remain independent.

The analysis also became the basis for a financial feasibility study prepared to support an FHA/HUD guaranteed refinancing, which was completed in accordance with HUD guidelines including preparation of all required Financial and Statistical Tables (FAST).

## **Results**

Once the client had determined they could remain independent, there was an unexpected opportunity for them to immediately refinance under an FHA program. By taking advantage of this, they saved even more on financing. Veralon's feasibility study was the ultimate key to supporting the hospital's continued independence. The FHA financing was approved and the hospital continues as an independent entity with a positive financial outlook.