California Healthcare News

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Build America Bonds Combine with HUD Mortgage Insurance to Provide Exceptional Borrowing Option

By Anthony J. Taddey
Managing Director
Lancaster Pollard

Governmental hospitals seeking capital for renovations, new construction or acquisition may have only until the remainder of the year to take advantage of a temporary Federal option designed to provide lower-interest financing.

At the end of 2010, the ability to designate qualified debt as Build America Bonds (BABs) will sunset if it is not renewed in the federal budget. By designating taxable debt as BABs, borrowers can be reimbursed by the federal government for 35% of their interest coupon expense. Combining BABs with HUD's Section 242 mortgage insurance program creates a lower-cost, long-term, non-recourse debt structure that eliminates the difficulty of finding both a construction and permanent loan.

What are BABs?

Build America Bonds were created by Congress under the American Recovery and Reinvestment Act. Borrowers receive a 35% governmental reimbursement of their interest cost. (Borrowers, including non-governmental entities, in specially designated economic development recovery zones can receive 45% of their interest cost reimbursed by issuing Recovery Zone Bonds. Dozens of California cities and counties qualify.) This reimbursement applies to the interest coupon only, not to any credit enhancement that may be treated as interest in an "all-in" interest cost. BABs can be used by public (government-owned) hospitals to issue debt for new construction, acquisition or other capital expenditures. For 2009, they cannot be used by 501(c)(3) hospitals, by for-profit entities, or for refinancing or working capital needs. President Obama's budget suggests opening BABs up to nonprofits in 2011, but reducing the subsidy to 28%.

Advantages of BABs and HUD Mortgage Insurance

With investor interest concentrated on investment-grade securities, many borrowers are taking a fresh look at HUD's mortgage insurance programs for hospitals. In particular, municipalities are seeking opportunities to finance hospital projects without impacting their debt capacities for other infrastructure needs. Falling tax receipts and uncertainty about future economic development has driven a need for creative financing solutions.

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Inside This Issue

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LETTERS TO THE EDITOR

If you have questions or suggestions regarding the News and its contents, please reply to dpeel@cahcnews.com.

Letter from the Publisher and Editor

Dear Reader,

We received several comments from our readers about the hospital financial information presented in last month's edition. Over 500 Director to "C" level financial executives receive Healthcare News publications so it's important our financial reporting is accurate, timely and independently derived. However, our intent is to communicate high level information to healthcare leaders in *all vocations*, not just finance, to help increase awareness of healthcare industry financial health.

Overall, the feedback from last month's reporting was good. Some told us we should provide more footnotes to explain specific situations. Others said we should consolidate reporting at some systems to show their overall picture. There is clearly an interest in receiving this type of information and we will accommodate these suggestions as space allows.

If you didn't catch last month's edition, visit our web site at www.cahcnews.com to download this financial information. Until next month,

David Peel, Publisher and Editor

California Healthcare News 2010 Editorial Calendar

Month and Year	Theme of Edition	Space Reservation	Distribution Date
January 2010	Clinics	December 1, 2009	December 21, 2009
February 2010	Human Resources	January 2, 2010	January 19, 2010
March 2010	Hospitals	February 1, 2010	February 23, 2010
April 2010	Insurance	March 1, 2010	March 23, 2010
May 2010	Clinics	April 1, 2010	April 20, 2010
June 2010	Human Resources	May 3, 2010	May 25, 2010
July 2010	Hospitals	June 1, 2010	June 22, 2010
August 2010	Insurance	July 6, 2010	July 20, 2010
September 2010	Clinics	August 2, 2010	August 24, 2010
October 2010	Human Resources	September 1, 2010	September 22, 2010
November 2010	Hospitals	October 1, 2010	October 19, 2010
December 2010	Facilities	November 1, 2010	November 23, 2010

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Although interest on paid BABs is taxable income to the investor, the 35% subsidy can often provide a better net interest rate to the borrower than traditional tax-exempt debt. Taxable debt combined with HUD mortgage insurance offers several additional advantages, including:

- Borrowers using federal mortgage insurance with tax-exempt bonds must fund all the bonds at once. This means the hospital is paying interest on the entire issuance as soon as the transaction closes. Taxable bond issuances, however, can be issued on a "draw-down" basis, so bonds are funded as they are needed. BABs insured with HUD reduce carrying costs by eliminating most of the negative arbitrage normally associated with tax-exempt, HUD-insured construction bonds.
- Hospital borrowers can use BABs insured by the FHA 242 program in combination with GNMA securities to achieve a AAA interest rate. Hospitals cannot use GNMA securities with tax-exempt bonds. To achieve a AA rating with tax-exempt bonds and federal mortgage insurance (not AAA), they must provide for a large debt service reserve fund at closing in addition to providing for funds to cover the 1% of the loan not covered by FHA insurance.
- BABs issued without HUD mortgage insurance can be utilized for an entire issue or in combination with tax-exempt debt. Borrowers maintain the flexibility to designate maturities as BABs or tax-exempt depending on the a) eligibility of the debt and b) the net interest cost of subsidized BABs versus tax-exempt interest rates.

Market Response

The market response to BABs has been very strong. Many bond issuances have been oversubscribed with a wait list of buyers, creating competition that helps reduce interest rates. BABs are expected to comprise more than 20% of the $400 billion annual municipal bond market before the program expires. BABs have also impacted access to capital for projects not eligible to use them. The popularity of BABs has reduced the amount of tax-exempt bonds available for purchase, as many issuances that would have gone tax-exempt under more normal market conditions chose to issue BABs. As a result, buyers of tax-exempt bonds have fewer investment options even as liquidity returns to the market. For nonprofit hospitals, which do not qualify for BABs, this contraction is helping make traditional tax-exempt interest rates more competitive.

Anthony J. Taddey is a managing director for Lancaster Pollard, a leading provider of debt financing and investment advisory services for hospitals nationwide. Mr. Taddey is the head of the firm's Western Region office in Los Angeles, Calif., and can be reached at (310) 458-9180 or ataddey@lancasterpollard.com. To download Lancaster Pollard's newly-published white paper explaining hospital financing options, visit www.lancasterpollard.com/site.cfm/Our-Focus/Health-Care-Finance.cfm.

BABs Impact on a Hospital's Interest Rate

	Tax-exempt FHA-242-backed Issue	GNMA/FHA Sale	BABs Issue with GNMA/FHA 242
Rating Agency Required Deposits	~10%	0%	0%
Cost of Issuance	2%	2%	2%
Total Upfront Costs	**12%**	**2%**	**2%**
GNMA/Bond Coupon	5.75%	6.5%	6.5%
GNMA Guarantee Fee & Servicing	0.1%-0.2%	0.2%-0.3%	0.2%-0.3%
BABs Subsidy	n/a	n/a	(2.275%)
Mortgage Insurance Premium	0.5%	0.5%	0.5%
Net Interest Cost	**~6.4%**	**~7.25%**	**~4.975%**

The Role of Healthcare Reform on the 2010 Financial Markets

By Luc Arsenault
Transaction Services Practice Leader
Moss Adams LLP

By Chris Pritchard
Partner & Business Assurance Leader
Moss Adams LLP

A year ago, after the economic collapse, the only real financial transactions being completed were in pharmaceuticals, life sciences, and healthcare. Once healthcare reform became a legislative priority in Washington, D.C., however, the healthcare M&A market came to a halt.

Over the course of 2009, healthcare reform took on greater shape in the public sector and the uncertainty in the capital markets decreased. Toward the end of 2009, there was a renewal of healthcare M&A activity.

Looking ahead, we believe 2010 offers a tremendous amount of opportunity for a variety of healthcare transactions. And the next 12 months should easily make up for the stop-and-start nature of last year's market. Indeed, many of our clients who used to do two to three healthcare deals a year prior to 2009 did none last year; but they're telling us they plan to make up for the lack of 2009 transactions in 2010.

They'll be encouraged by an economy that's slowly healing as it emerges from recession. It's true that the financing environment isn't completely favorable today, but there are signs of life, and we see more and more lenders coming to the table with a renewed appetite for deals.

The positive macro transition, plus some sort of signed healthcare reform legislation, should, in the end, make the next few quarters very active ones when it comes to healthcare M&A. The only red flag—and it's an important caveat—is that healthcare reform coming out of Washington, D.C., could have a profound impact on valuations.

There are three kinds of healthcare transactions we see unfolding in 2010, and each one necessitates a different approach to due diligence.

The first involves venture-backed healthcare organizations seeking to acquire similar accretive business units because they want to create a larger healthcare organization that would be attractive to an upstream consolidator for future sale. Due diligence here demands that the acquiring healthcare organization substantiate robust EBITDA, a healthy payor mix, lucrative contracts, strong management teams, and a strategic market hold. The due-diligence process also must look for potential liabilities, such as unrecorded tax issues or regulatory issues that might place undue burden on the heath care organization. Finally, the due-diligence effort must examine structural integrity, which includes considering outdated IT systems, at-risk key employees, and deteriorating market reputation.

The second type of deal involves not-for-profit healthcare organizations seeking to acquire specific assets of target healthcare companies in order to strengthen or fill in current business needs. In this case, due diligence should consid-

er the same items noted above, but to a lesser degree. Instead, the buyer must closely analyze the strategic nature of the target assets while minimizing possible liabilities.

The third type of deal involves healthcare organizations—either for-profit or not-for-profit—looking to divest themselves of unprofitable divisions, facing unpalatable regulatory requirements, confronted with an unworkable monopoly, or seeking a white knight to save the day with an acquisition. Due diligence in these distressed situations is usually more focused on the financial assets being acquired, the fair value of those assets, and the minimum purchase price that's acceptable.

The general rule of thumb is that the longer a due-diligence process takes, the greater the likelihood the deal will falter. That's why we recommend that healthcare buyers and sellers today focus on the push-pull dynamic, which leads to the ultimate sales price. In this dynamic, the buyer typically slows the due-diligence process down to make sure all the variables are considered and the lowest price is achieved. At the same time, the seller generally tries to speed up the process to complete the sale at the highest possible price.

These due-diligence guidelines and approaches are not hard and fast, but they do represent several potential courses of action that we believe will help buyers and sellers in the healthcare market as they complete necessary and meaningful transactions in 2010.

Mr. Arsenault is the Transaction Services Practice Leader for Moss Adams. He has more than 12 years of experience in mergers and acquisitions involving transactions ranging in size from several million to $20 billion dollars. Prior to Moss Adams, Mr. Arsenault worked at Genentech and as a life science subject matter expert in the Transaction Advisory Service group of Ernst & Young in its San Francisco, CA office. Contact Mr. Arsenault at 415-677-8287 or luc.arsenault@mossadams.com.

Mr. Pritchard is a Partner at Moss Adams and business assurance leader of the firm's Healthcare Practice. He also leads the San Francisco office healthcare group. A member of the firm's business assurance and healthcare executive committees, Mr. Pritchard has over 16 years of public accounting experience serving healthcare organizations. Mr. Pritchard can be reached by phone at 415-677-8262 or by email at chris.pritchard@mossadams.com.

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Chief Financial Officer

(San Francisco, CA)

Chinese Community Health Plan, (CCHP) a fast growing HMO organization, located in the beautiful San Francisco financial and downtown area, with it's own Integrated Health System, works closely with hospital, health plans and physician group in strategic planning, physician service and development is seeking:

Chief Financial Officer

Responsible for the overall financial planning, direction, policies and operation of the financial services and accounting practices. Responsibilities include financial analysis, budgeting, productivity and benchmarking, reimbursement cost analysis, managed care risk report and analysis.

The candidate must have strong leadership skills, a master's degree in Finance/Accounting, a minimum of 5 years experience with at least 3 years in HMO insurance filed and familiarity with regulatory requirement for HCFA's Medicare + Choice and commercial HMO programs.

For more information, please contact Karen Chow, Director of HR, Chinese Hospital/CCHP, 845 Jackson Street, San Francisco, CA 94133 email: **karenc@chasf.org** fax: 415-677-2404

Director of Surgery

(El Centro, CA)

Would you like to live and work in Sunny Southern California without the cost and hassle of living in a big city in California?? Would you like to be the Director of Surgery in a community owned hospital that is progressive and on the cutting edge of technology?? Would you love to be part of a growing and future oriented healthcare facility that values and supports education and leadership development?? If so we have the perfect position for you.

If you are a registered nurse in the State of California or are able to obtain your California license and have experience as a Manager, Director or Acting Director of a Surgical Department we would love to talk with you.

Our Director of Surgery reports directly to our CNO. The Surgical Director is in charge of our PACU, OR's, recovery, and our post operation department and endoscopy departments. ECRMC currently has 5 surgical suites. El Centro Regional Medical Center is planning to expand in our surgical areas and will be adding service lines. We need a director that is future thinking, goal oriented and has an excellent knowledge base of running a surgical department.

If you are interested in applying for this position with our hospital please either call Luis Castro **lcastro@ecrmc.org** at 760 370-3729 or Kathy Dagnon **kdagnon@ecrmc.org** at 760 339-7199 or go to our website: **www.ecrmc.org**

Remember the only Ice we have in El Centro is the ice in our Raspados.

Chief Financial Officer

(Tucson, AZ)

Oro Valley Hospital (**www.nmcorovalley.com**) located 15 miles North of Tucson, AZ in Oro Valley is seeking a Chief Financial Officer. OVH is a full-service acute care 96-bed, $90 Million Net Revenue hospital. This facility features state-of-the-art outpatient and inpatient services, including Cardiology, Cosmetic Surgery, Emergency Services, General Surgery, Laboratory, Oncology, Physical Rehabilitation, Urgent Care, Cardiopulmonary Testing, Day Surgery, Endoscopy/GI Lab, Imaging & Diagnostics, Neurology, Orthopedics, Physical Therapy and Urology. The CFO will have direct oversight of the following departments: Accounting, Business Office, HIM, Case Management, IS, and Materials Management.

Oro Valley Hospital is a subsidiary of Community Health Systems, Inc (CHS). CHS is the largest publicly-traded hospital company in the United States and a leading operator of general acute care hospitals in non-urban and mid-size markets throughout the country. The company's subsidiaries currently own, lease or operate approximately 122 hospitals in 29 states, with an aggregate of approximately 18,000 licensed beds.

Ideal candidates will have acute care hospital CFO experience.

For more information about this opportunity, visit our website at **www.chs.net** or contact **Robert_Kane@chs.net**.

Delivering world-class health care to our community one patient at a time…

At Citrus Valley Health Partners (CVHP), our family of dedicated nurses and other health care professionals live out a mission to heal people in body, mind and spirit. With services ranging from family-centered maternity care and high level neonatal care to technologically advanced cardiac services and an innovative palliative care program, our work touches people at every stage of their lives. CVHP is about caring for our community and caring about our employees by giving them the opportunity to make a difference every day.

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Assistant Director – Acute Rehab Unit

In this role, you will organize workflow, provide input with annual budgeting, and be responsible for staff scheduling and act as a liaison to the medical and hospital staff. In partnership with the Director of the Acute Rehab Program, you will provide general supervision and technical support to the Acute Rehab Unit staff and will be responsible for maintaining regulatory compliance. You will also perform other duties as assigned.

This position requires a current CA RN license, BLS certification, a Bachelor's degree in Nursing or related field (Master's degree preferred), and a minimum of 3 years of clinical RN experience in Rehabilitation. Certified Rehabilitation RN (CRRN) preferred. Qualified candidate must have knowledge of Title 22 and Rehabilitation/Inpatient Rehabilitation facility regulations, and have strong interpersonal, computer, and communication skills. Excellent customer service skills also required.

We offer competitive compensation and benefits in a positive work environment. Please apply online at **www.cvhp.org** or to learn more, you may call **Angela Bernacki, Employment Manager at (626) 858-8517**.

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Career Opportunities

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Chief Financial Officer

(Palmer, AK)

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Mat-Su Regional Medical Center is a subsidiary of Community Health Systems, Inc (CHS). CHS is the largest publicly-traded hospital company in the United States and a leading operator of general acute care hospitals in non-urban and mid-size markets throughout the country. The company's subsidiaries currently own, lease or operate approximately 122 hospitals in 29 states, with an aggregate of approximately 18,000 licensed beds.

Ideal candidates will have acute care hospital CFO experience.

For more information about this opportunity, visit our website at **www.chs.net** or contact **Robert_Kane@chs.net**.

El Centro Regional Medical Center

Senior Director of Education

(El Centro, CA)

Would you like to live and work in Sunny Southern California without the cost and hassle of living in a big city in California?? Would you like to be the Senior Director of Education in a community owned hospital that is progressive and on the cutting edge of technology?? Would you love to be part of a growing and future oriented healthcare facility that values and supports education and leadership development?? If so we have the perfect position for you.

If you are a registered nurse in the State of California or are able to obtain your California license and you have your Masters degree or are currently enrolled in a Masters program we are interested in discussing our position with you. We would also especially love it if you have experience teaching and developing curriculum in a hospital setting.

Our Senior Director of Education has 8 direct reports and develops and directs all staff education including clinical, leadership development and general staff training.

If you are interested in applying for this position with our hospital please either call Luis Castro **lcastro@ecrmc.org** at 760 370-3729 or Kathy Dagnon **kdagnon@ecrmc.org** at 760 339-7199 or go to our website: **www.ecrmc.org**

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(Duarte, CA)

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Pharmacy Benefit Manager

(San Francisco, CA)

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For more information, please contact Karen Chow, Director of HR, Chinese Hosital/CCHP, 845 Jackson Street, San Francisco, Ca 94133 email: **karenc@chasf.org** fax: 415-677-2404

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Position is responsible for the successful development, implementation, and growth of our Imaging Department and Cardiovascular service line. Develop and implement business plans and strategic initiatives to ensure alignment with PeaceHealth's mission and organizational objectives. Reports to Vice President of Surgery and Professional Services.

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Please contact Debbie Troyer, Recruiter, **Dtroyer@peacehealth.org**, or 360-636-4106 for additional information or to submit a resume.

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Position is responsible for the successful development, implementation, and growth of Surgical Services. Develop and implement business plans and strategic initiatives to ensure alignment with PeaceHealth's mission and organizational objectives.

Min. of five years of experience in a clinical setting. Operating Room experience preferred. Three years progressively responsible healthcare management experience, and current RN licensure or healthcare equivalent is also required.

Please contact Lisa Wishard, Recruiter, **Lwishard@peacehealth.org**, or 360-636-4144 for additional information or to submit a resume.

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