Case Study: Financing Rural, Community & Critical Access Hospitals

Shoshone Medical Center Kellogg, Idaho

Borrower:
Shoshone Medical Center

Location:
Kellogg, Idaho

Loan Amount:
$18.5 Million

Type of Project:
Replacement Facility

Financing Structure:
FHA Section 242 Mortgage Insurance

Role of InnoVative Capital:
FHA Mortgage Banker

Historic CAH Financing Drives Economic Resurgence

Financially Struggling Hospital and its Mining Community Plan for their Future Prosperity

Built in 1958, Shoshone Medical Center's fortunes, much like that of Kellogg, ID, the community it serves, have historically been tied to the price of silver. Declining silver prices in the 1980's and 90's closed local mines, decimated the regional economy and brought financial hardship to Shoshone. To finance its operations, Shoshone incurred short-term deficit funding and postponed capital projects required to improve its aging facility.

In 2002, the future of Kellogg began to improve with Shoshone's designation as a critical access hospital and its receipt of greater levels of Medicare through cost-based reimbursement. Shoshone began operating in the "black" and began speaking publicly about the possibility of a new modern hospital. Kellogg, a long under-developed ski destination, sought to capitalize on the expectation of a new hospital equipped with state-of-the-art orthopedic services and attracted private investors in numerous ski-related ventures including Swiss style chalets at the nearby ski mountain.

Can a High Risk Hospital Obtain a Low Interest Loan?

While Shoshone's financials had improved as a CAH, in order to afford a replacement facility it would be essential to obtain a low interest loan. Shoshone contacted InnoVative Capital with a case for a new hospital. After reviewing Shoshone's past, present and forecasted performance, InnoVative Capital identified the FHA Section 242 Mortgage Insurance Program, as the financing option most appropriate for its needs, due to HUD's acceptance of higher risk hospital borrowers, manageable covenants and a stated dedication to critical access hospitals.

However, Several Challenging Hurdles Still Lay Ahead

First, as a district hospital, Shoshone couldn't pledge a mortgage, a security requirement for an FHA-insured loan. Second, Shoshone's outstanding debt was secured by hospital assets, which needed to be released, to grant HUD a first lien. Third, the replacement facility was to be constructed in a flood plain and former EPA Superfund site. Lastly, with little cash, Shoshone needed 100% debt financing.

InnoVative Capital Successfully Structures the Financing

InnoVative Capital was able to formulate a financing that resolved all of these issues to the satisfaction of HUD and in September, 2003, provided Shoshone with an $18.5 million, twenty-seven year loan at an all-in fixed interest rate below 5.5%. The new hospital opened in January 2005 and the community's economic development has far exceeded all expectations.

About InnoVative Capital

InnoVative Capital is a banking and financial advisory firm specializing in construction/permanent financing for hospitals. With tailored representation of rural, community and critical access hospitals we can best meet the unique financing challenges that differentiate small hospitals from tertiary care and health systems. Offering broad access to capital markets at attractive rates and terms; InnoVative Capital acts as financial advisor or mortgage banker for FHA 242 financings, USDA loans, municipal bond transactions, commercial loans and equity deals.

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