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## Clark County Council goes along with \$52 million for hospital

First option denied; would have only covered current debt

**BRADEN LAMMERS**  
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The Clark County Council approved a \$52 million bond agreement with Clark Memorial Hospital to a thunderous round of applause from a packed house — including many employees — at its meeting Monday night.

The council approved the agreement 5-2, with County Council President David Abbott and Councilman Chuck Moore voting against the measure.

The arrangement will allow the hospital to sell bonds for the value of the buildings and property, and buy them back over time, essentially setting up a landlord-tenant structure with the county.

The agreement will cover two outstanding bond issues totaling \$32 million. The remaining \$20 million will cover an information-technology upgrade and provide a reserve fund for the hospital.

The \$20 million reserve fund became a point of contention for the council before Monday's vote.

An original motion made would have provided the hospital with \$32 million to refinance its outstanding bond payments, minus the reserve fund.

The motion failed 2-5, with Abbott and Moore voting for that measure.

"Had [the council] only approved \$32 million, we would have made due somehow, because we would have had to," said Martin Padgett, president and CEO of Clark Memorial Hospital.

"The extra 20 [million] is important because we still have \$15 million to pay off on the computer system and we have an annual capital budget we have to meet every year, as well," Padgett said. "We actually had approval for a \$20 million loan in 2008, prior to the national economy issues."

Clark Memorial originally sought the agreement with the county because it said it was not feasible for the hospital to continue to operate if it had secured a loan at current interest rates or through its previous provider, Chase Bank.

With the county co-signing as a financial backer, the hospital will be able to secure a much better interest rate.

Padgett said the reserve fund was considered a necessity for the hospital.

"[It] is there as a requirement, at the bond issue, to make sure we have one year's maximum number of payments set aside," Padgett said.

The computer upgrade — also funded from the additional \$20 million — is a response to a federal government mandate that by 2014 hospitals operate with an electronic medical records system.

The hospital has paid \$19 million on the original \$33 million cost for the upgrade, Padgett said.

The county and the hospital are no strangers to this type of agreement. The last time the county entered into this type of arrangement was 1968.

It was paid off about a year ago.

"The structure that is being proposed is a very common structure," said Jerimi Ullom, attorney with Hall Render, a health care finance practice. "Easily one-third or more of the county hospitals around the state finance their facilities ... in precisely this structure, many of them utilizing this structure every time they access the market, even if other alternatives are available."

With the current agreement in place, the maximum lease payment per year will be \$5.4 million, for the 20-year term of the lease. Taxpayers may be responsible for covering some of those bond payments if the hospital falls short.

If the hospital could not meet its bond payment, it would notify the county about 12 to 17 months in advance. If the payments still can't be made after that time, the county would be obligated to cover the remaining balance of that particular year's bond payment. The final security would be at the state level, with the state holding a moral obligation to replenish the hospital's reserve fund.

"That backup ... is a year-by-year backup," Ullom said. "This is not a situation where if the hospital were short, in its lease payment in 2012, the bondholders would show up at the county's doorstep the next morning demanding \$52 million."

In exchange for Clark County taxpayers being obligated to cover the hospital's bond covenants should they fail to meet payment amounts, the county is getting increased patient safety, better technology and access to information through the technology upgrade, Padgett said.

He added that health care technology doesn't seem to go out-of-date as quickly as home computers and personal technology devices. A 5-year-old MRI machine is still an up-to-date piece of equipment, he said.



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The approval of the debt agreement was the second, and largest hurdle remaining in hospital securing financing.

The final step will be approval by the Indiana Bond Bank. The proposal will go to the bank after two 30-day periods.

One period will be for notice and a public hearing with the county commissioners and the second will be a chance for residents to file objections.



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