

# **MICHIGAN STATE HOSPITAL FINANCE AUTHORITY**

## **Bond Issuance Approval Guidelines**

### **Introduction**

The Michigan State Hospital Finance Authority (the "Authority") was created to lend money to nonprofit hospitals for capital improvements or to refinance indebtedness. The State of Michigan is not liable for Authority bonds and the bonds are not a general obligation of the Authority. The source of payment for the Authority bonds is solely the loan payments and security provided by the hospital borrowers. Nonetheless, a number of defaults on Authority bonds could have an adverse effect on future attempts by the Authority to access the public debt markets. This could increase the cost of capital for Michigan healthcare institutions. In order to provide the lowest cost loans, the Authority must be able to access the tax-exempt public debt markets. It is, therefore, necessary to establish bond issuance approval guidelines and a loan committee to review certain types of transactions. The following are guidelines to MSHFA staff as to which transactions are required to receive preliminary Authority approval or review by the loan committee prior to final Authority approval. Each proposed bond issue will be evaluated on its own merit.

### **Preliminary Approval Guidelines**

If a proposed bond issue does not meet one of the following criteria, preliminary Authority approval is required.

1. Existing Authority borrower that has maintained its credit rating; or
2. Rating in the "A" category; or
3. Letter of credit, bond insurance, or guarantee from an organization with a rating in the "A" category; or
4. Privately placed vendor financing to a single Institutional Investor.

### **Bond Issue Guidelines**

If a proposed bond issue does not meet one of the following criteria, it should be brought to the loan committee.

1. Investment Grade Rating from a Nationally Recognized Agency experienced in rating healthcare organizations; or
2. Letter of credit, bond insurance, or guarantee from an organization with an Investment Grade Rating; or
3. Privately placed with Institutional Investors, in minimum denominations of \$100,000, which provide an Investor Letter; or

4. A limited offering to Institutional Investors, in minimum denominations of \$100,000. The bonds will be sold through an Underwriter with an acceptable disclosure document and legal opinion.

Definitions:

Institutional Investor- A firm that purchases large volumes of municipal securities, including mutual funds, banks, insurance and finance companies.

Investment Grade Rating- minimum rating of BBB- or Baa3

Investor Letter- A letter signed by each Institutional Investor acknowledging the risks associated with the securities being purchased and a representation of its financial ability to take such risks, its access to information on the securities and its intent to hold the securities for investment purposes. The letter must state that the Institutional Investors have not relied on information provided by the Authority.

Nationally Recognized Agency – Fitch Ratings, Standard & Poor's Ratings Services, or Moody's Investors Service

Underwriter- A registered broker-dealer of municipal securities.

**Credit Review**

The Authority staff will review five years of financial statements to determine the financial condition of all applicants. If the applicant does not have the following attributes, it should be brought to the loan committee.

1. Current assets in excess of current liabilities.
2. Total assets in excess of total liabilities.
3. Operating revenues in excess of operating expenses.
4. Stable or rising inpatient admissions or increasing outpatient or emergency room visits for hospitals or percent occupancy for nursing homes.
5. Projected debt service with only historical revenues coverage should exceed 1.25 times for hospitals and 1.10 times for nursing homes. (Forecasted debt service coverage, including new project revenues should be at least 2 times.)

### **Loan Committee Review**

Projects that do not meet the Bond Issue Guidelines and Credit Review attributes require analysis by staff and review by the loan committee. In addition, the loan committee should review the following projects.

1. Non hospital projects unless owned by and the debt is an obligation of a hospital.
2. Bond issues that deviate from standard structure including derivative products, non-level debt structure, extended bond maturities, and other new financial products.
3. Controversial hospital projects.

### **Existing Loans**

The Authority will give special consideration to projects related to facilities where the Authority has an existing loan and one of the following conditions is present.

1. The proposed loan is a refinancing which will reduce debt service payments.
2. The project will result in an increase in the corporation's excess of revenues over expenses.
3. The loan is for facility renovations, which are necessary to maintain licensure or accreditation.