

Rockdale Citizen

RMC forced to pay off bonds

Bank refuses to renew letter of credit for \$12M bonds

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CONYERS - The Rockdale County Hospital Authority held an emergency-called meeting Monday to approve paying off \$12 million in construction bonds after Bank of America announced it would not renew its line of credit agreement with the hospital.

The Hospital Authority approved the payout of the Series 2003B bonds that were originally issued for \$15 million and used to partially finance construction of the East Tower addition.

The bonds in question are the smallest of the three RMC bonds that totaled \$83.26 million as of Oct. 31. The hospital's other outstanding bonds are Series 2002, worth \$23.06 million, and Series 2003A, worth \$48.2 million.

Sandy Albrecht, chief financial officer for RMC, explained Monday the hospital had a five-year letter of credit agreement with Bank of America for the bonds that were to expire Dec. 18. Bank of America told RMC officials they were not going to renew the agreement due to the tightening credit market.

"Due to the credit crunch in the financial markets, businesses are converting their variable rate debt to letters of credit, and so the financial institutions have very little room to be issuing new letters of credit," Albrecht said. "Bank of America told us they were issuing new letters of credit only to their most credit worthy and best customers."

RMC officials received notice this summer from the bond rating firm Standard & Poor's that the hospital's credit rating had been downgraded from BBB to BBB- with a negative outlook. Standard & Poor's advised hospital officials that without significant improvement or a sale of the public hospital, further downgrades could be expected.

Albrecht said when Bank of America advised RMC of its intentions, she sought a new letter of credit agreement with other banks, including SunTrust, BB&T and Wachovia, but none of them showed interest. She said those she spoke to refused to open a new letter of credit agreement for the same reasons Bank of America gave for not renewing theirs.

Albrecht said the credit rating downgrade was not the primary reason for Bank of America's decision not to renew the letter of credit agreement, but it was a contributing factor. She noted that the hospital still had an accredited rating, but the poor state of the bond markets was the driving force behind the bank's move.

RMC's bonds were issued as auction rate bonds, or variable rate bonds. The auction rate bonds allow local governments and hospitals to borrow long term while getting short-term rates with securities whose yields are reset by bids every seven, 28 or 35 days.

RMC's Series 2003B bonds were resold in the bond markets every 35 days, Albrecht said.

The letter of credit agreement between RMC and Bank of America required the bank to buy all unsold bonds. However, several large banks had allowed bond auctions to fail this year by not buying unsold bonds due to a lack of credit caused by the subprime mortgage crisis.

The failed auctions, in turn, drove interest rates up on the bonds, making it more expensive for banks to purchase unsold bonds for their clients.

The hospital's move followed a similar move by Rockdale County in November when county commissioners refinanced \$10 million of water department bonds for related reasons. Rather than paying off the bonds the county changed them from a variable rate to a fixed rate.

Albrecht said the \$12 million buyout will not affect the proposed sale of the hospital to LifePoint Hospitals Inc. The terms of the sale received approval from the Georgia Attorney General's Office last week, and when completed, the transaction will satisfy all of RMC's bond debt.

Hospital officials will dip into RMC's money market accounts to cover the buyout. Albrecht said the hospital will have 19 days of interest costs to cover before the anticipated closing of the sale to LifePoint on Jan. 5.

The attorney general's report last week giving approval to the sale pointed out the seriousness of the hospital's financial woes after a deal to sell the hospital to Signature Hospital fell through earlier this year.

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