



AFTER THE FINANCING

Where Patients are Family Graham Health System

The staff at Graham Health System views taking care of patients as more than just a job. It's their mission to treat patients as family and provide the very best in health care, including state-of-the-art equipment and modern facilities. Their commitment to serving patients has not gone unnoticed; in 2014, Graham Hospital was recognized as one of the 100 SafeCare Hospitals, an award that is given to organizations that achieve the best overall performance. This accomplishment didn't happen overnight, though. Graham has undertaken a dozen major construction projects over the last 11 years to significantly upgrade the physical plant of its 49-bed acute care facility and has invested heavily in its multi-specialty clinic network, building four new clinics throughout rural Fulton County, Illinois.

Expansion, Renovation and Refinance

Graham Health System is comprised of Graham Hospital, Graham Medical Group, Graham Home Medical Equipment and the Graham Wellness Center. Leadership at Graham Hospital sought funding for multiple capital expenditures, including the remodeling of its skilled nursing facility totaling \$2.1 million, expansion to its physician clinic totaling \$8.5 million, and a small addition and total renovation of its five inpatient and outpatient surgery suites of \$11.4 million. The hospital's outstanding debt of \$26 million was in the form of tax-exempt, variable-rate demand bonds enhanced by a direct pay letter-of-credit from a regional bank. The debt was hedged by two floating-to-fixed rate swaps with two separate swap counterparties.

Serving as Graham's investment banker, Lancaster Pollard conducted a competitive funding process that resulted in financing proposals from eight funding sources, ranging from local, regional and national banks to non-bank funds. Hospital leadership elected to proceed with the funding option that offered a blend of the lowest cost of capital and favorable terms.

Bob Senneff, President and CEO of Graham Health System stated, "Lancaster Pollard helped us understand how we could leverage our balance sheet and grow the organization using tax exempt financing, using our relationship with the City of Canton, Illinois as a conduit to access these dollars. We have gone to the capital markets in 2006,

2009 and most recently in 2015 to access funds as we continue to grow our enterprise. Through a combination of variable rate debt that was 'swapped for fixed', using letters of credit, and through straight variable rate debt, Graham has an overall very favorable all-in cost of capital."

The \$48 million funding structure from 2015 converted Graham Hospital's letter-of-credit backed bond structure to a private placement structure, thereby eliminating letter-of-credit renewal risk and extending the term of the financing by nearly a decade. The structure also permitted the hospital to retain its existing interest rate swaps, thereby preserving the hospital's interest rate hedge and preventing the hospital from realizing a swap termination mark-to-market payment. The structure provides funds for capital expenditures using a cost effective draw structure, minimizing interest expense to the System as it further upgrades its hospital facilities.

A Total Makeover

Major projects that have been funded through the three debt offerings include a gut and remodel of the medical and surgical unit, the obstetrics unit, the intensive care unit, the skilled nursing unit, the post coronary unit, the lab and the surgery unit.

The Medical Group's newest addition provides an entrance into the north side of the building that takes patients directly into the Convenient Care Clinic, which not only has a new space, but expanded hours as well, to better serve patients' needs. After being housed in the basement at Graham Hospital for many years, the rehabilitation services (physical, occupational and speech therapies) staff is now



The aquatic therapy pool is a beneficial new addition.

surrounded by windows, illuminating their patient care area. Additionally, the new 14 foot warm water therapy pool has a mechanical lift to assist patients in and out of the pool and has four depths to accommodate different heights and exercise programs. In addition to the pool, there are several new pieces of equipment that will expand Graham's ability to provide care for their patients. One of those is a set of height and width electric adjustable parallel bars, which can quickly be sized for an individual patient.

A new cancer care suite is also a recent addition. Senneff stated, "Of all the areas that occupy our newest Graham Medical Group addition, the new Illinois cancer care suite is the one I'm most proud of. For those folks dealing with this horrific disease we call cancer, our ability to serve them in this state-of-the-art facility is just so rewarding. The ease of access to the suite - via a convenient new parking lot, valet parking, a dedicated elevator, a warm, inviting family lobby and a new open treatment area with natural sunlight on three sides are all stark differences from the 'old suite' housed on the third floor of Graham Hospital."



A renovated entrance helps welcome patients and families.

to recruit physicians and staff, have a strong information technology platform, have a physical plant that would accommodate a major shift to outpatient care from inpatient and build a strong balance sheet through our income statement, which meant having strong operating and non-operating margins. We also needed to reverse the outmigration to the neighboring tertiary centers by winning back the trust of those we served."

As construction and renovation carries into 2018, Graham Health System will continue to provide the very best in health care with updated facilities and a caring, compassionate staff who treats patients like family.



The cardiac rehab center has new state-of-the-art equipment.

Continuing to Succeed

Most recently, Graham Health System recruited 25 new physicians to the medical staff, stands with an operating margin in excess of 5.5%, has 350 days cash on hand, has internally designated investments in excess of \$70,000,000 and is operating on the latest versions of online medical records, Meditech and eClinical Works® (ECW). Patient volumes are up across the board, and Graham Health System continues to add new services, which include wound and hyperbaric oxygen clinics and outpatient vascular surgery.

Senneff said, "I knew coming here 12 years ago that we had to accomplish four to five major initiatives if we were to be clinically and financially successful and remain as a freestanding, independent entity. We would have to: be able