



# Blount Memorial Hospital

Plan of Finance Overview: Series 2013A Debt Refinancing & Swaps

May 16, 2019

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# Goals & Objectives

# Goals & Objectives Overview

- Address Blount Memorial's capital structure needs
  - Address refinancing of Blount Memorial's Series 2013A loan due on 12/30/2019
  - Minimize cost burden to Blount Memorial
  - Reduce financial obligation to Blount County
  - Reduce capital structure risk profile
    - Interest rate movement risk
    - Renewal risk (bank loan had 3 year maturity)
    - Collateral posting risk / Termination payment risk (swaps)
- Review of Blount Memorial's debt and swap structure
- Review of financing alternatives available and the pros and cons to each alternative
- Prepare education and recommendation

# Debt & Swap Objectives

## Debt Objectives

Refinance Prior to 12/30/19

- Series 2013A JPM Bank Loan expires on December 30, 2019. Given current low cost, optimal to leave in place as long as possible.

Secure Bank Loan with Hospital Revenues Only

- Pinnacle Bank and First Tennessee Bank have offered loans secured by Hospital revenues only, not Blount County tax pledge

Refinance with Attractive Interest Rate

- Pinnacle Bank and First Tennessee Bank have offered interest rates less than 3%

Refinance with Longer Term Loan

- Pinnacle Bank and First Tennessee have offered bank loans through 2029 (final maturity of debt)

Debt Finance New Money

- Pinnacle Bank and First Tennessee have loan capacity for \$10 to \$15mm of new debt

## Swap Objectives

Provide Hedge to Interest Rate Movement

- \$55.7mm of Series 2013A is hedged by increases in rate; hedge increases over time through 2029

Review modifications or termination of swap

- Change of obligor to a weaker credit will significantly increase cost of swap to Blount Memorial and may require a bank guaranty / posting of collateral; termination would cost ~\$9mm. Termination can be financed through several alternatives.

Minimize cost to Blount Memorial

- Least costly alternative is for the swaps to remain with Blount County and to continue payment agreement with Blount Memorial. Should the swap be terminated, financing the cost over multiple years is more attractive than upfront termination.



# Review of Capital Structure

# Blount Memorial Debt & Swap Overview

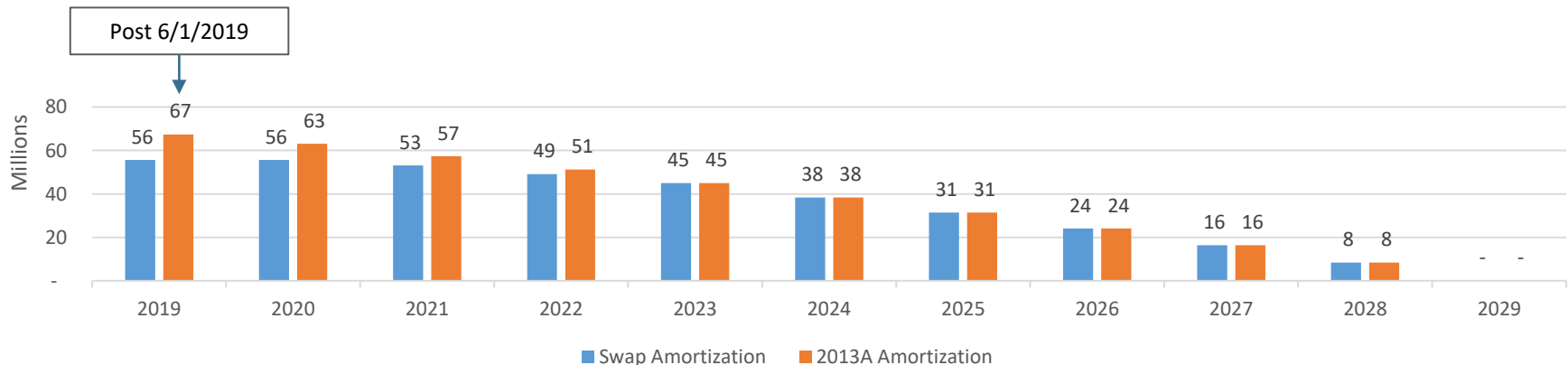
## Debt Overview

	Par	Structure	Bank Provider	Pricing	Tenor	Debt Final Maturity	Security
Series 2013A	71,450,000	GO Refunding Bonds (Bank Loan)	JP Morgan Chase Bank	67% of 1mLIB + 0.43% 2.11%	12/30/2019	6/1/2029	Ad valorem taxes of county, additional hospital operations
Series 2014	841,900	Hospital Rev Refunding Bonds (Bank Loan)	First TN Bank	1.68%	7/1/2019	7/1/2019	Gross Revenues Pledge of Hospital
Bank Note	1,197,453			3.38%		3/1/2027	
<b>Total</b>	<b>73,489,353</b>			<b>2.12%</b>			

## Swap Overview

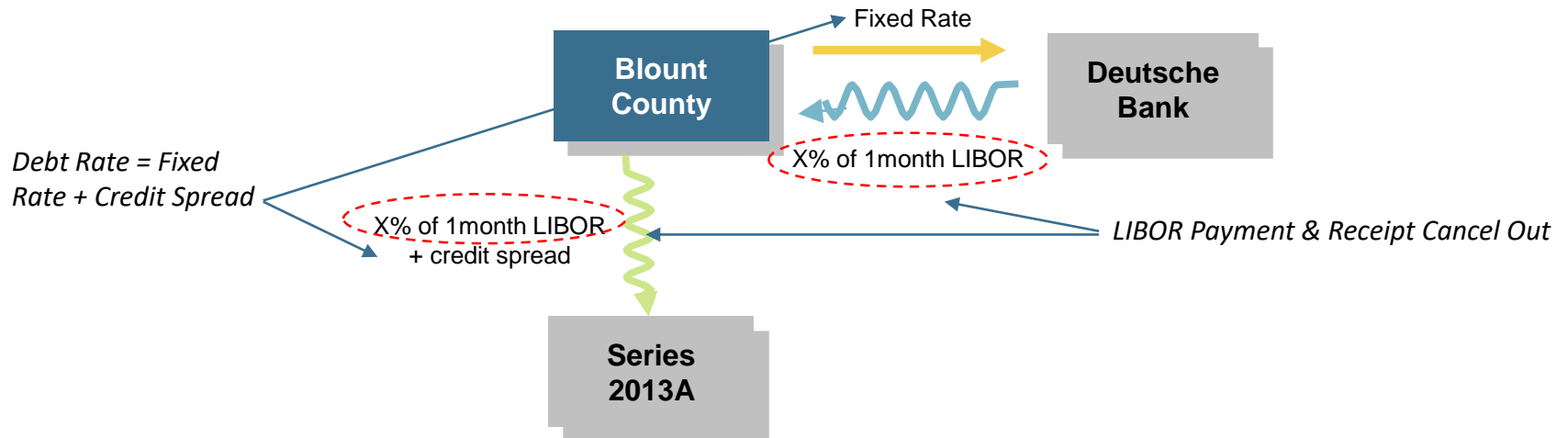
	Notional	Dated date	Pay Rate	Receive Rate	Maturity Date	Counterparty	MTM*	Obligor
Floating to Fixed Rate	25,000,000	Sep-09	4.40%	64.25% of 5 yr LIBOR	June 2026	Deutsche Bank	\$(3,371,287.45)	Blount County
Floating to Fixed Rate	30,700,000	Sep-09	3.88%	63.6% of 5 yr LIBOR	June 2029	Deutsche Bank	\$(5,581,209.28)	Blount County
<b>Total</b>	<b>55,700,000</b>		<b>Net Rate</b>	<b>2.63%</b>			<b>\$(8,952,496.73)</b>	

## Amortization



# Synthetic Fixed Rate Debt: Alternative to Fixed Rate Debt

## Synthetic Fixed Structure: How it works



## Synthetic Fixed Structure: Why do it?

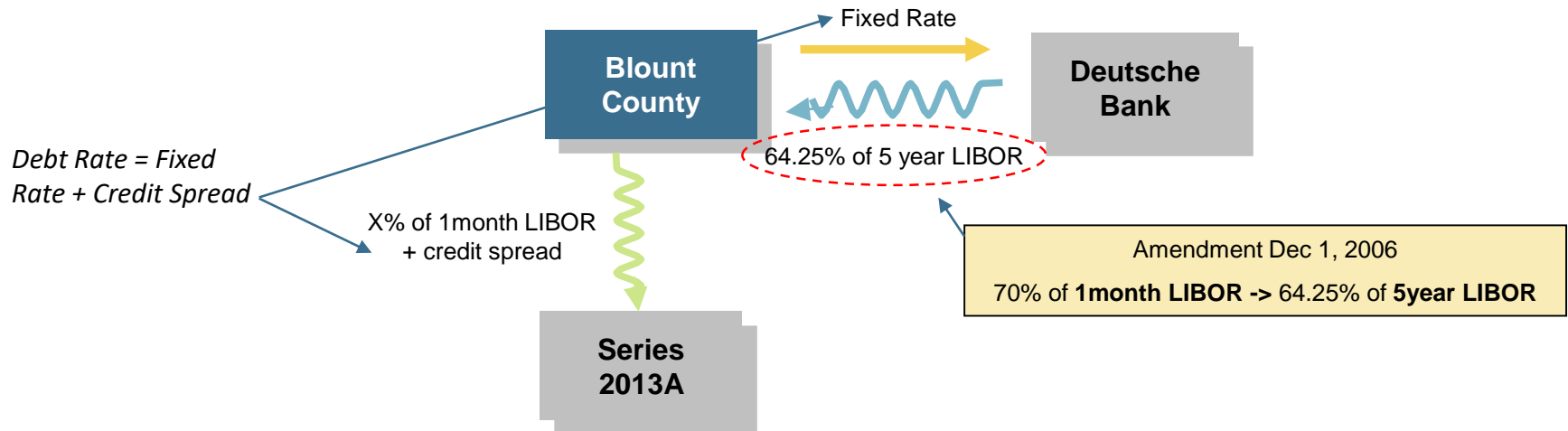
	Notional	Original Effective Date	Pay Rate	Receive Rate	Maturity Date	25-yr Traditional T/E Fixed Rate	70% of 25yr LIBOR	Differential	Yearly \$ Impact
Floating to Fixed Rate	25,000,000	1/17/2002	4.40%	70% of 1mLIBOR	June 2026	4.98%	4.23%	0.75%	\$188K
Floating to Fixed Rate	30,700,000	10/15/2003	3.88%	70% of 1mLIBOR	June 2029	4.96%	3.90%	1.06%	\$325K

Avg Cost of Series 2013A with swaps (since '13): 3.26%  
Current Cost of Series 2013A with swaps: 4.07%

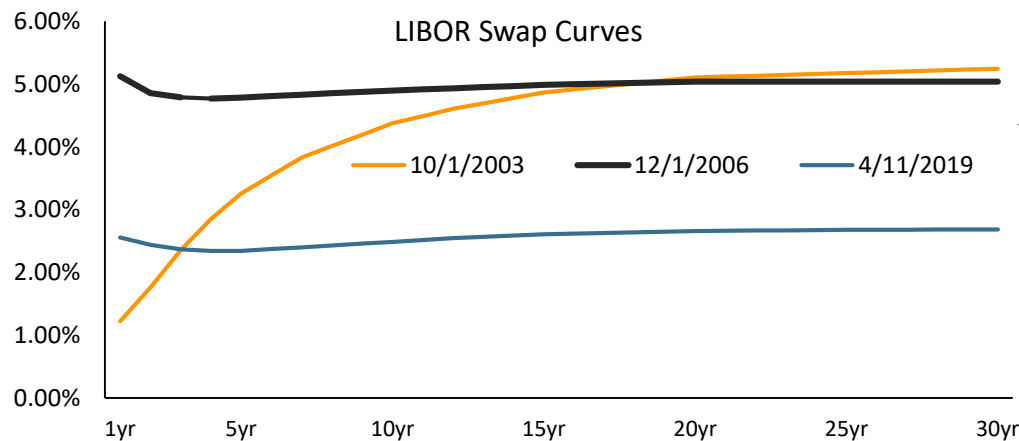


# Update in 2006: Receive 5 year LIBOR vs. 1 month LIBOR

## Structure Amendment in 2006



## Why did the structure change?

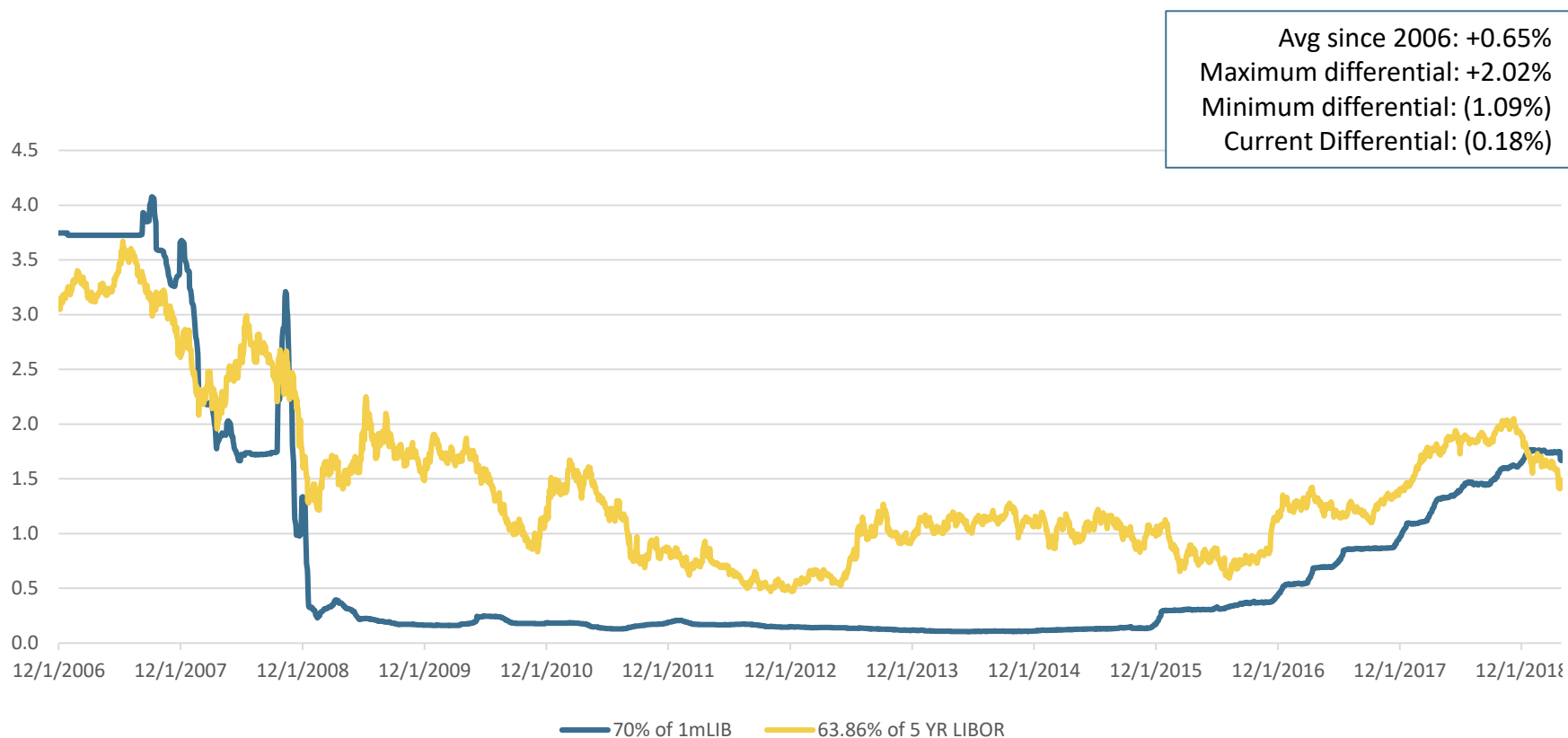


Yield curve flattened in December 2006

# Result of Swap Amendment: Higher Cashflow Over Time

- The impact of the swap amendment in 2006 has resulted in a positive cashflow of an average of **+0.65% or \$362K/year** based on the LIBOR legs.
- In today's market, the yield curve is flat (5 year LIBOR < 1 month LIBOR) and cashflow is negative

Differential (63.9% of 5yr LIBOR – 70% of 1mLIBOR)



# Capital Structure Performance to Date

- ✓ Blount Memorial's Series 2013A has benefitted from low variable rates at a cost of 67% of 1mLIB + 0.43%, current cost of 2.11%
- ✓ The floating-to-fixed rate swaps have hedged movement against variable rates and have averaged positive cashflow of 0.65% since 2006
- ✓ Blount County is not required to post collateral as swaps' mark-to-market has weakened
- ✓ Blount Memorial makes ongoing swap payments to Blount County
- × Swap payments may increase if 5-year LIBOR decreases
- × Blount Memorial has some unhedged variable rate exposure of 17% of total debt and variable rates have increased
- × Blount County financials include change in mark-to-market value
- × Mark-to-market value has worsened as rates have decreased and the yield curve has flattened



# Swap Considerations

# Swap Structure Considerations

	Issue	Risk Mitigant
<b>TN Regulations</b>	TN law prohibits municipalities from having swaps that are not related to debt	Blount County remains issuer of Series 2013A (not obligor) to enable swaps to remain in place
<b>Change of Obligor from Blount County to Blount Memorial</b>	Change from 'AA' credit to 'BBB' credit would require collateral posting or give DeutscheBank termination rights and force payment	Keep Blount County as counterparty to swap; Blount Memorial continues to make swap payments to Blount County
<b>MTM Valuation</b>	Significant negative value given rates are lower and yield curve is flat	Avoid today's termination cost; wait until rates increase and yield curve steepens or keep swap outstanding. If Blount chooses to terminate, consider financing vs upfront cash payment.

# Swap Termination Considerations

- Should Blount County terminate the swap, a payment of **\$9mm** would be due to Deutsche Bank
- The swap current valuation is significantly negatively to Blount County given current low rate environment and flat yield curve
- Swap valuation will improve as interest rates increase and yield curve steepens

	Notional	Dated date	Pay Rate	Receive Rate	Maturity Date	Counterparty	MTM*	Obligor
1 Floating to Fixed Rate	25,000,000	Sep-09	4.40%	64.25% of 5 yr LIBOR	June 2026	Deutsche Bank	\$(3,371,287.45)	Blount County
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<b>Total</b>	<b>55,700,000</b>						<b>\$(8,952,496.73)</b>	

Interest Rate Levels: Greatest driver of value. Swap value is driven by absolute level current of interest rates. If current rates are lower, the MTM value worsens; if current rates are higher, the MTM value improves.

Yield Curve: Swap value is driven by shape of the yield curve; if the curve is steeper (long term rates are higher than short term rates), the value improves. If the curve is flatter, the value deteriorates. The current yield curve is flat.

Final Maturity: Longer dated swaps have more MTM volatility

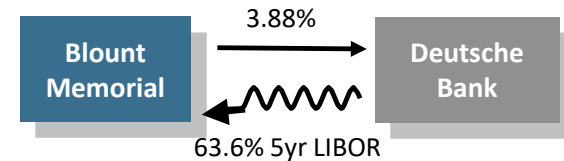
# Swap Mark-to-Market Factors

The value of a swap (MTM) is based on long term swap rates

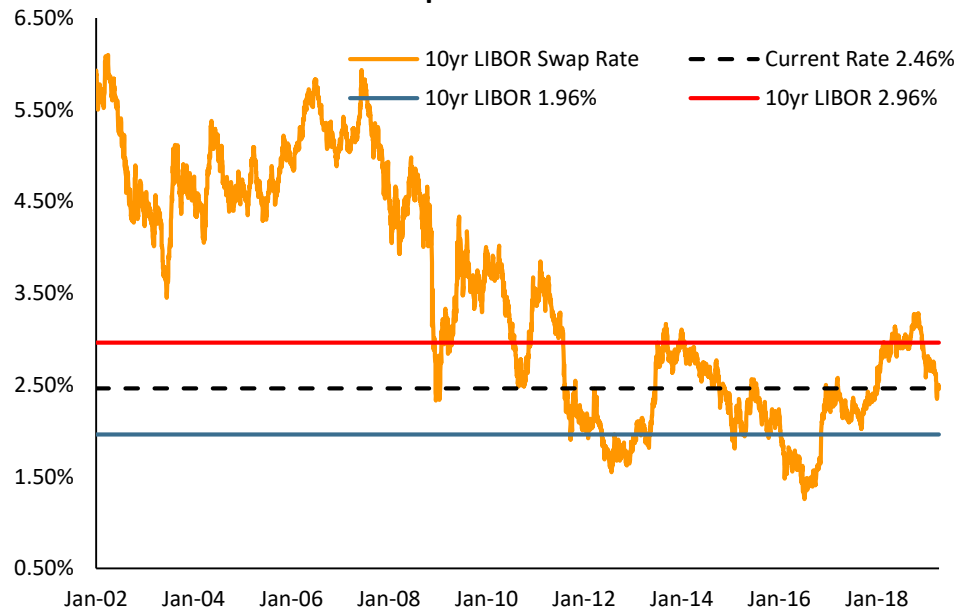
- The \$30.70 million fixed payer with a 2029 maturity is used as an example

Notional	Term	Pay	Receive	MTM \$	PV 0.01%
30,700,000	6/1/2029	3.88%	63.6% 5yr L	(5,581,000)	\$23,500

*Fixed Payer Swap*



**10 Year Swap Rate 2002 to Date**



- ← Rates up 50 bp: (\$4,860,000)
- ← Current: (\$5,581,000)
- ← Rates down 50 bp: (\$6,340,000)



# Review of Financing Alternatives



# Blount Memorial Debt Financing Needs & Bank Proposals

## Debt Financing Needs

	Amount
Series 2013A Refinancing	\$67.4mm
New Money Capital Needs	\$5mm to \$15mm
<b>Total Refinancing / New Money Needs</b>	<b>\$72.4mm to \$82.4mm</b>
<i>Swap Termination</i>	+\$9mm

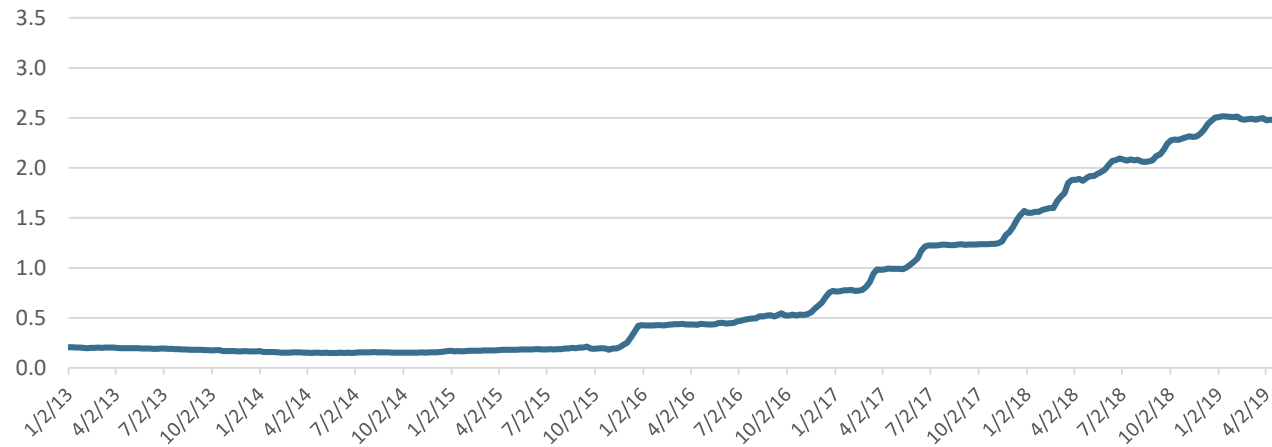
## Bank Proposals

	Security	Capacity	Tenor	Variable Rate	Fixed Rate	Covenants	Existing Creditor?
<b>First Tennessee Bank</b>	Hospital Revenue Pledge + Investments	~\$91mm	2029	~2.60% to 2.90%	~2.75% to 2.95%	Debt Service Coverage of at least 1:1, Days Cash on Hand minimum, May have Limit of Additional Debt	Yes
<b>Pinnacle Bank</b>	Hospital Revenue Pledge + Investments	~\$85mm	2029				No
<b>First Tennessee Bank</b> (swap termination)		\$9mm	2024		3.10% to 3.25%		

# Market Environment: Variable Rates Have Increased and Fixed Rates Are Historically Low

1monthLIBOR 2013 to Date

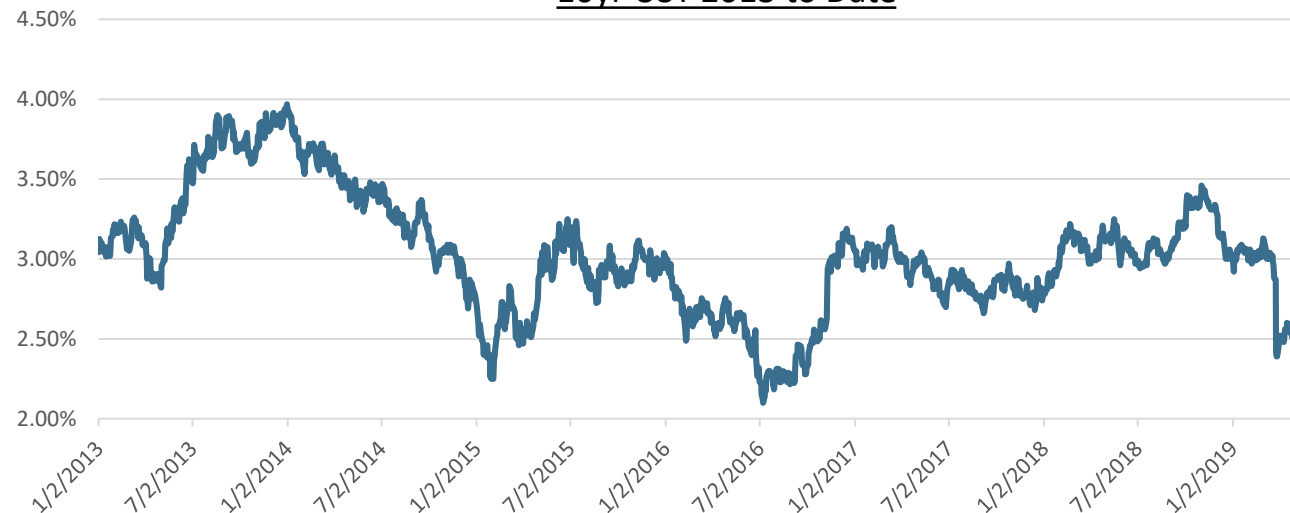
Short-Term Variable



Avg since 2013: 0.80%  
Current Rate: 2.45%

10yr UST 2013 to Date

Long-Term Fixed Rates



Avg since 2013: 3.02%  
Current Rate: 2.47%

# Series 2013A Debt Refinancing Alternatives

	Current Capital Structure	Alternative #1: Refinance with Variable / Fixed, Keep Swap	Alternative #2: Refinance with Fixed, Terminate Swap with tax-exempt New Money replacement
<b>Series 2013A Structure</b>	General Obligation Refunding Bonds (Blount County Issuer)	Hospital Revenue Refunding Bonds (Blount County Issuer)	Hospital Revenue Refunding Bonds (Blount County Issuer)
<b>Debt Security</b>	General Obligation of Blount County	<b>Gross Revenues Pledge &amp; Investment Account Pledge</b>	<b>Gross Revenues Pledge &amp; Investment Account Pledge</b>
<b>Entity Providing Pledge</b>	Blount County	Blount County & Blount Memorial	Blount County & Blount Memorial
<b>Bank Provider</b>	JP Morgan Chase	Pinnacle Bank / First TN	Pinnacle Bank / First TN
<b>Total Debt</b>	<u>\$67.4mm</u>	<u><b>\$77.4mm</b></u> (with \$10mm new money)	<u><b>\$86.4mm</b></u> (with \$10mm new money + \$9mm addtl new money)
<b>Bank Tenor</b>	3 years (originally) 12/30/2019	10 years 6/1/2029	10 years 6/1/2029
<b>Bank Pricing</b>	100% Variable Rate Based on current rates: <u>2.11%</u>	Variable Rate: 2.70% Fixed Rate: 2.75%	Fixed Rate 2.75%
<b>Swap Action</b>	None County remains Obligor	None County remains Obligor	Terminate and replace with \$9mm of new money tax-exempt funding
<b>Debt Mix</b>	81% Synthetic Fixed / 2% Fixed / 17 % Variable	71% Synthetic Fixed / 29% Fixed	100% Fixed
<b>Interest Rate and MTM Risk</b>	<b>Yes</b>	<b>Yes</b>	<b>No</b>
<b>FY 2020 Interest Expense</b>	\$1.4mm	\$2.1mm	\$2.4mm
<b>FY2020 DS &amp; Swap payments</b>	\$6.9mm	\$8.5mm	\$8.3mm
<b>Total DS &amp; Swap payments</b>	\$86.8mm	\$101.4mm	\$102.8mm



# Next Steps

# Next Steps

- Continue discussions with Blount County including education workshop in May/June
- Monitor interest rate movement
  - Impact on bank pricing
  - MTM movement
- Finalize negotiations with banks and decision on bank selection
- Recommendation targeted between June – August
- Bank financing will take 2-3 months to complete
  - Given 12/30/19 debt expiration, selection should be made by late September