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## Harris County, Tex., Hospital District To Convert \$104M of Auction Rates

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By [Richard Williamson](#)

DALLAS - The Harris County Hospital District, serving Houston and the surrounding area, will convert nearly \$104 million of auction-rate debt to term mode today in a negotiated deal led by Banc of America Securities and Siebert Brandford Shank & Co.

First Southwest Co. serves as financial adviser.

The auction-rate debt was issued only last August, one of two issues sold at the same time. The district also issued \$198 million of Series 2007A fixed-rate bonds the same day that provided new money for a variety of capital needs, including new clinics and relocation of services from the main Ben Taub Hospital.

The bonds were insured by MBIA Insurance Corp. and the auction-rate bonds were taxable because they represented a second refinancing of existing debt.

The new bonds will retain MBIA insurance and be taxable but are expected to regain tax-exempt status on the remarketing date of Aug. 16, 2010, when the call dates for previously issued bonds are reached. The interest rate will be in variable-rate term mode until then, at which point the district will have the option of

converting the bonds to a variable-rate or fixed-rate mode. In the event of a failed remarketing in 2010, the rate would climb to 15%.

"This a true two-year piece of paper at an attractive rate to the buyer," said Edwin Harrison, director of financial services for Harris County.

Like other issuers, the district got caught in the collapse of the auction-rate securities market late in 2007 and is joining a parade of hospitals seeking to refinance. Today's deal will leave the hospital district with no auction-rate debt.

Houston had nearly \$2 billion of the city's overall \$11.5 billion in long-term debt in auction-rate bonds until last month when the city remarketed \$250 million in bonds for the Houston Airport System, converting them to fixed-rate debt.

Another \$350 million in combined utility system debt was also restructured.

The city controller's office estimated that through March, the combined utility system's auction-rate debt would cost about \$3 million more than comparable fixed-rate debt. However, the city saved about \$18 million from 2004 to 2007, officials said.

Harris County issues debt separately from the hospital district and has been unaffected by the auction-rate woes as it has no auction rate debt.

The upgrade last week of the county to triple-A by Standard & Poor's should have a halo effect on the hospital district, the rating agency said. The county hit the top rating just four months after Standard & Poor's upgraded its general obligation debt from AA-minus to AA. The county's tax base has nearly doubled to \$253 billion since 1999 and is up 37% since 2004.

Today's bonds carry A underlying ratings from Standard & Poor's and Fitch

Ratings. Moody's Investors Service upgraded the district's underlying rating from Baa2 to A1 with the 2007 issue.

"HCHD's A rating reflects strong support from Harris County, highlighted by an ad valorem tax (\$422 million in fiscal 2007 and an estimated \$480 million in fiscal 2008) on the county's large and growing tax base (\$253 billion), and the ability to further raise this tax revenue to support district operations," wrote Standard & Poor's analysts Martin D. Arrick and Kevin Holloran.

"Offsetting factors include an unfavorable payer mix with HCHD's heavy reliance on disproportionate-share hospital funding, upper-payment limit funding, and ad valorem tax revenue to bolster operations, although this is a typical financial profile for a hospital district," they added.

Although Fitch recently downgraded MBIA from AAA to AA, the insurer retains triple-A ratings from Moody's and Standard & Poor's. All three agencies have negative outlooks. MBIA has asked Fitch to withdraw its rating.

The Harris County Hospital District is the fifth largest public metropolitan health system in the country and consists of three hospitals - Ben Taub General Hospital, Lyndon B. Johnson General Hospital, and Quentin Mease Community Hospital. The district also has 12 primary care outpatient clinics. Other system components include a foundation and an 110,000 member Medicaid Health Maintenance Organization. The district had \$1 billion in operating revenues in fiscal 2007, excluding bad debt expense, according to Fitch.

Jeffrey Timlin, vice president and portfolio manager for Sage Advisory Services in Austin, said the district will pay a penalty for bad timing, but that the price of

escaping the auction-rate trap is clearly worth the price.

"They were paying fees to get into that structure, they're paying fees to get out of that structure, and now they're going to be paying higher rates," he said. "They did this in August, and now they're having to redo it? This should have been redone in five years, not five months. So, that tells you how ill-opportune the timing was."

The fact that the district is reoffering its bonds during a flood of refinancings is also a disadvantage, Timlin said.

"You have a lot of people coming to the door at once," he said. "That puts more pressure on the supply at the back end of the curve. And we're also hearing increasing concern about inflation."

Another limitation in marketing the bonds is the planned conversion from taxable to tax-exempt, he said.

"That's kind of a unique structure that I don't see hitting the market that often," he said.

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