NOTE: These articles were published under my former name, having been written before my transition.

THE BOND BUYER

THE DAILY NEWSPAPER OF PUBLIC FINANCE

Wednesday, July 22, 1998

Bondholders May Challenge Hospital Groups' Planned Sale

By David Hoffman

As details of a tentative deal between the **Allegheny, Pa., Health, Education, and Research Foundation** and **Vanguard Health System** Inc. became known yesterday, experts said there is a good chance it may not become reality — and that may be good for bondholders.

Questions concerning bankruptcy proceedings encompassing the parent company and four of its subsidiaries have led some analysts to believe the deal may be challenged. And a second major for-profit health care company said late yesterday it remains interested in bidding for at least some of AHERF's assets.

Uncertainty over the future of the proposed deal lead **Moody's Investors Service** yesterday to downgrade two AHERF subsidiaries — **Allegheny General Hospital** and **Forbes Health Systems** — even though they are not included in the bankruptcy or the sale. Moody's also downgraded bonds issued for the AHERF's **Graduate Obligated Group** and underlying ratings for the **Delaware Valley Obligated Group**.

The tentative deal announced Monday

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AHERF Bankruptcy Could Cost MBIA

By Jake Ulick.

Allegheny Hospital Group's Deal May Be Challenged by Bondholders

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calls for AHERF to sell its nine Philadelphia-area hospitals to Vanguard for $502 million. In connection with the bankruptcy filing, the foundation also secured an additional $150 million of financing as debtors in possession.

The deal drew immediate criticism because the sale price of the hospitals covers only a portion of the $1.3 billion in debt amassed by the nonprofit hospital system's eastern Pennsylvania operations. About $605 million of that total is owed to bondholders, $497 million to suppliers, and $200 million to the system's western facilities.

Local interest groups in Philadelphia are reportedly asking the Pennsylvania Attorney General to review the deal.

Jim Mitchell, a vice president with **Ziegler Securities** said he believed the deal as structured could cost bondholders because they might not get first crack at revenues from the hospital sale.

"I think they could be potentially hurt buy it," Mitchell said. "If this thing were a straight deal without bankruptcy, the bondholders would be looking at something around par."

Mitchell said he suspected AHERF declared bankruptcy instead of selling its hospitals straight out to the for-profit Vanguard system because the nonprofit would not have been able to afford such a deal.

"If they were to sell the facility to a for profit, which would make the bonds taxable, the bonds would have to be called at some premium," Mitchell said. "I think the bankruptcy may be a strategic move to get around some of that language."

Entering into bankruptcy, however, also gives bondholders and others a chance to challenge the deal with Vanguard. A trustee will likely be appointed to determine whether Vanguard is the highest cash offer, observers said.

"I think this is just round one," Mitchell said. "I think there's going to be a boundholder committee formed to go in there in force, probably hire a common counsel, who will go in and plead in front of the court saying, 'we're the debtors here, we lent all this money and we should have a say on who [the hospitals] are sold to.'"

Tenet Healthcare Corp. has expressed its interest in AHERF's Philadelphia-area hospitals, and rumors have been circulating that other nonprofit systems would be interested in them.

"We are still interested in the market and we are intending to monitor the situation there." said **Harry Anderson**, a spokesman with Tenet. "We're going to be actively following that situation, but whether or how that may play out, it's just to early to know."

Gregg Miller, a partner with **Pepper Hamilton** LLP, agreed that there may be a challenge to the proposed deal, but stopped short of saying bankruptcy had left bondholders holding the bag.

Miller said that by filing for bankruptcy, AHERF may have been acting in its own interests, but it also managed to bring order to a chaotic situation that may have otherwise left bondholders groping for straws.

"The bondholders would have preferred that this whole situation be solvent as opposed to insolvent, but once it gets into insolvency, it's probably a fair statement that the only good rational way to handle it is through a bankruptcy proceeding," Miller said. "That establishes some uniformity of treatment among creditors."

Traders such as **Ken Meiselman** of **J.B. Hanauer & Co.**, however, said they are taking a wait-and-see attitude. He said AHERF bonds had stopped trading since news of the sale was announced

"Everybody's trying to figure out the situation," Meiselman said. "I think in a day or two you'll see some trading on [AHERF bonds], but you'll have a wide range of what they're worth."

Moody's director **Lisa Goldstein** said the rating agency downgraded $648 million in AHERF's bonds yesterday — including debt sold for AHERF's stronger Pittsburgh-area facilities — based in part on the same concerns over the future of the tentative deal.

"At this point I think it's entirely uncertain as to how the bankruptcy proceedings will go," Goldstein said. "There is significant uncertainty as to the degree to which the entities that did not file bankruptcy could be brought into the proceedings."

Miller said it was a distinct possibility that bondholders could drag those hospitals not included in the bankruptcy, into the proceedings by using the argument that they had established there connection to the other hospitals through money they had loaned to them. ❑

Critical Condition

Hospitals and operating units involved in the Allegheny Health, Education, and Research Foundation's bankruptcy filing:

Allegheny University Hospitals, East

Allegheny Bucks County

Allegheny Elkins Park

Allegheny Hahnemann

Allegheny MCP

St. Christopher's Hospital for Children

Allegheny University Hospitals, Centennial

Allegheny City Avenue

Allegheny Graduate

Allegheny Parkview

Allegheny University of the Health Sciences

MCP/Hahnemann School of Medicine

School of Health Professionals

School of Nursing

School of Public Health

Allegheny University Medical Partners

Source: AHERF

Former AHERF Investors Relieved

By Ivan Cintron

*Institutional investors who hold the various bonds issued by **Allegheny Health and Educational Research Foundation**-owned hospitals are taking a cautious view of the agency's bankruptcy filing, according to several buy-side sources*

filing. The credits were issued by the **Philadelphia Hospitals & Higher Educational Facilities Authority**, with a 7% coupon maturing in 2001.

Strickland noted the fund had "north of $3 million" of the Graduate bonds, but sold near-

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N.J. Budget: Schools to Get $10B

Governor's Plan to Fix Poor Districts

By David Hoffman

TRENTON — **New Jersey** would spend almost $10 billion on school construction over the next eight years — much of it raised through bond sales — under the $21.25 billion budget Gov. **Christine Todd Whitman** unveiled here yesterday.

The budget also includes a plan to commit $750 million of bond proceeds and $250 million of pay-as-you-go capital spending to the state's cash-strapped **Transportation Trust Fund**. The money will allow the fund to continue to take on new projects.

But the school construction program is the largest capital commitment in the spending plan. The program would get under way in the next year with $1.17 billion of spending.

According to budget documents, the state would raise $785 million of that by selling appropriation-backed bonds. Although the issuing agency was not specified in the budget, lawmakers in the past have recommended selling bonds for school construction through the state **Building Authority**.

Revenues supporting the bonds in the first year would include $11.9 mil-

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Whitman Proposes New Bonds for School Construction Work

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lion from the tobacco settlement, $50 million from dedicated cigarette tax revenues, $63 million from state lottery proceeds, and $4.5 million from the fund for free public schools.

Money from the state's portion of the tobacco settlement used to back the bonds, however, would grow to about $100 million annually by fiscal 2002, Whitman said in a statement.

Whitman's proposal is in response to a New Jersey Supreme Court order that the state fix dilapidated facilities in its poorest school districts and begin construction by this spring. Whitman's proposal would spend $5 billion for the poor districts, and $4.4 billion for all other school districts.

The school construction program appeared to get a warm reception from lawmakers.

"Obviously, the issue of bonded indebtedness is a serious one, but we have to improve our schools," said Assembly Minority Leader **Joe Doria**, D-Hudson.

Assemblyman **Richard Bagger**, R-Middlesex, chairman of the Assembly's budget and appropriations committee, agreed, saying he did not believe issuing more debt was a problem, especially in light of a debt-reduction plan that is also included in the budget proposal.

Senate Majority Leader **Donald DiFrancesco**, R-Union, however, said that while he supports the school-funding proposal, all of the details have not yet been worked out. DiFrancesco said that the senate's legislative staff was still working with the Assembly staff to try and come up with a bill palatable to both houses.

The disagreement between the Senate and the Assembly is largely over how much money the state's poor districts should get. Last year, Collins proposed his own school-funding legislation that some lawmakers said would be considered unconstitutional because it did not provide enough aid to the poor districts.

According to the governor's plan to replenish the Transportation Trust Fund, the state would issue $580 million of new bonds backed by an increased appropriation from the state's general fund. The trust fund has historically sold bonds backed by dedicated revenue streams, including the state's gas tax. However, those funding sources are no longer sufficient to support new debt.

The new bond proceeds would be combined with proceeds from $170 million of bonds issued last year under the Statewide Transportation Bond Fund. An additional $250 million would be provided on a pay-as-you-go basis for capital improvements.

Gov. Christine Todd Whitman's proposal is in response to a New Jersey Supreme Court order that the state fix dilapidated facilities in its poorest school districts.

In addition to those bonding plans, Whitman's budget includes a proposal to help New Jersey hospitals cope with an increasingly bad financial landscape. Many of the state's hospitals are experiencing financial problems, especially those in urban areas, and a handful have been downgraded by the rating agencies.

Whitman's $172 million plan to help the state's hospitals includes $30 million — $15 million of which is tobacco money and the rest of which is in federal matching funds — to make sure nearly every New Jersey hospital receives assistance in helping to pay for charity care. In addition, the plan calls for $50 million to provide partial reimbursement for medical providers who weren't paid due to two recent health insurance company bankruptcies.

Finally, Whitman's budget contains a proposal to create a new Debt Retirement Fund. The fund would be used at the discretion of the treasurer to strategically reduce New Jersey's outstanding debt. The fund would be replenished as part of the annual budget process, tied to a formula that maintains a healthy surplus in the state's rainy-day fund. ❑

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THE DAILY NEWSPAPER OF PUBLIC FINANCE

Thursday, July 9, 1998

N.J. Waste Disposal Is Causing Financial Worries for Counties

By David Hoffman

Union County may be addressing the financial problems that plague its solid-waste facility, but most other **New Jersey** counties are saying they can not do the same — and unless the state comes up with a plan to help them out soon, they could be in financial trouble.

Many of those counties said they are upset at the slow speed at which state lawmakers are working to resolve the solid-waste issue. The Legislature broke for summer recess before resolving the issue,

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Counties Worry That New Jersey May Not Provide Bailout for Trash Bonds

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and is not expected to return until the end of the month.

In the meantime, the **Union County Utilities Authority** announced it will issue about $308 million in bonds this summer as part of a deal to refund the authority's existing debt.

The deal is made up of various types of bonds. **Moody's Investors Service** rates the deal's senior lease bonds Baa2, and **Standard and Poor's** rates them BBB. The deal's environment investment charge bonds are rated AA-plus by Standard & Poor's.

The repayment of debt for the state's solid-waste facilities was jeopardized after the U.S. Supreme Court ruled that a state law requiring private haulers in each county to bring garbage to a designated disposal facility was unconstitutional.

Without the guaranteed flow of garbage — and revenues from haulers who paid the counties to dispose of it — plants whose disposal costs are above-market face the risk of defaulting on the debt.

Union County's action has made some counties nervous that the state may get the idea that they can foot the bill, or at least a portion of it, on their own without much state intervention.

The various counties which have built solid-waste facilities, however, said such an idea is unfounded because each county is different, said **Kim Whelan**, the financial adviser for **Mercer**, **Burlington**, **Gloucester**, **Cape May**, and **Camden** counties.

"Union County is a special circumstance because they had a situation where, based on the contract they worked out, and because they had a vendor that was interested in purchasing the facility, that transaction worked," Whelan said.

Whelan said that unless something is done, Camden County could start to experience problems by the fall. The authority there will probably be forced into a technical default because they will have to tap their debt reserves to come up with additional money, she said.

The Warren County authority may also be forced into a technical default unless something is done quickly, said **John Carlton**, executive director of the county's **Pollution Control Financing Authority**.

"We will be drawing on our debt service reserves by the end of the summer, and we consider that to be a technical default on bonds," Carlton said. "There should be enough money [$9 million] in our debt service reserves to make our next series of payments, so I think the real questions will hit next summer."

Carlton and Whelan said their counties could not go the route Union has because they are in a much more precarious position. Camden and Warren are closer to cheaper waste-disposal facilities in Pennsylvania, and in Warren's case, it is a very small facility, which is an unattractive candidate to be bought by a private company.

Richard Dovey, president of the **Atlantic County Utility Authority**, said officials in the county have considered refinancing the bonds used to pay for the construction of its facility as a general obligation of the county, but will only do so as a last resort.

"As a fallback, county government had seriously considered refinancing our debt and backing it. However, the preferred solution is to get state backing," Dovey said. "You can't pursue that route until there's a decision."

Although there appears to be little consensus on the state level on how the solid-waste debt issue should be resolved, most counties appear to be lining up behind Gov. **Christine Todd Whitman**'s proposal.

Under Whitman's plan, the state would forgive $122 million in loans it is owed by the counties and would pay them an additional $46 million in grants. The state would also use $20 million allocated in the current budget to help pay off the debt.

Whitman's plan also allows counties to impose environmental investment charges on residents or haulers to help cover the debt costs.

The inclusion of the EICs in Whitman's plan is important to many counties who feel it needs to be included to establish legislative intent. The fees are being challenged by waste haulers, but with state backing counties say they have a better chance of surviving.

There are other proposals being debated in the Legislature, but there doesn't appear to be a single front-runner.

A Senate proposal being sponsored by Sen. **Henry P. McNamara**, R-Bergen, would pay for 50% of the $1.3 billion in loans used to build the waste facilities, but some counties say that is not enough. ❑

S&P Changes Outlook on Two N.J. Counties

By David Hoffman

Two **New Jersey** counties saw their ratings outlook sag this week due to the possibility they will have to pay debt service on debt sold to build state-mandated solid-waste disposal facilities.

Revenues from waste-disposal fees that were originally expected to repay the debt on such facilities were jeopardized after the U.S. Supreme Court ruled a state law requiring haulers to bring garbage to a designated disposal facility was unconstitutional.

As a result, **Standard & Poor's** Monday revised the outlook on its AA-minus rating for **Gloucester County** from stable to negative, affecting approximately $138 million in debt issued by the county, the **Gloucester County Improvement Authority**, and the **Gloucester County Utility Authority**.

The rating agency revised its outlook on those bonds in connection with an AA-minus rating it gave $25.4 million in general obligation bonds expected to be sold this week for capital projects unrelated to the landfill.

Unless the state devises a plan to help pay off the landfill debt, Standard & Poor's said the county's general obligation pledge could be called upon to pay off the revenue bonds issued by the improvement authority.

If the county has to pay the debt service on the bonds and support the authority's operations, it could place pressure on the county's $95 million general fund budget, Standard & Poor's said. The county has indicated that if that happens, it may raise property taxes.

Gloucester County is not the only county to have had its rating effected by the solid-waste issue. Standard & Poor's issued a similar analysis yesterday with regard to **Union County**.

Although it rated $79.37 million of environment investment charge bonds expected to be sold later this month AA-plus, the agency gave those bonds, and the rest of the county's AA-plus debt, a negative outlook, citing the same reasons it gave for the action in Gloucester.

Union County's bonds are part of $308 million in debt expected to be issued this month as part of a refinancing deal analysts say reflects an effort to address financial problems plaguing county-owned solid-waste facilities. ❑