



Off-Balance Comeback

An old standby is slowly regaining its good name.

AFTER NEARLY DISAPPEARING FROM the accounting map a few years ago, industry insiders say the use of off-balance sheet arrangements is making a return engagement among nonprofit providers looking to keep their balance sheets clear and their credit ratings up while still gaining access to needed capital and new equipment.

OBS financing has traditionally been used for equipment operating leases, sale/leaseback arrangements for certain real estate assets, as well as for some joint ventures, notes Jim Alexander, technical director for the Healthcare Financial Management Association in Washington, D.C. But in today's market, he says it's predominantly being applied to leases

for high-tech equipment and other short-lived assets.

Mark Sedlmeier, marketing leader for the equipment finance team at Chicago-based GE Healthcare Financial Services, agrees that the market has shifted away from the type of activity that gave OBS financing a bad name. "In the post-Enron environment we're seeing fewer of the creative off-balance sheet structures that were utilized in the past for some real estate and other low-tech assets," he notes. Instead, he says, more hospitals are turning to OBS financing to keep current with the latest technology.

"A lot of organizations right now are realizing that they're in business to provide healthcare and not necessarily in the business to own assets," Sedlmeier notes. "So in order to maintain their current state-of-the-art, cutting-edge reputation, some are just going to continually roll over the equipment."

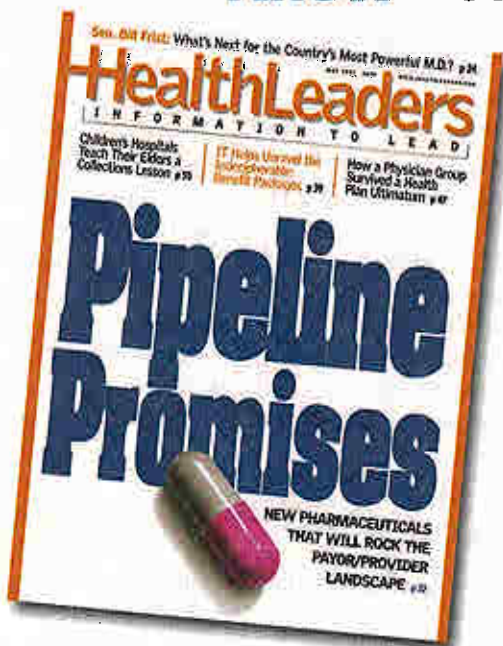
OBS arrangements, however, are not a ratings cure-all, especially when it comes to real estate. Those involved in assigning

credit ratings promise greater scrutiny of such deals to determine whether something that's listed as OBS should truly be considered on-credit, meaning that even though the financing doesn't appear on the balance sheet, they will still consider it as debt for the rating.

"If you have a core asset right in the middle of your campus, it doesn't matter if it's off-balance sheet because it's pretty clear that you wouldn't want your main competitor to have a medical office building right in the heart of your campus," notes Martin Arrick, managing director at Standard & Poor's in New York. "So there's a lot of consideration having to do with essentiality, location and branding."

But Arrick concedes that not all OBS arrangements will garner the same level of scrutiny. "If it's an operating lease for your phone system, then we're generally going to look at that as an operating expense," he notes. "But if you had \$50 million in debt and a \$200 million off-balance sheet lease for your computer equipment, then we'd want to talk about it." —BRAD CAIN

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