



MedBlog

A health and medicine blog with Cindy George and Todd Ackerman

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September 04, 2009

Baylor defaults on bonds, outlines corrective plan

Budget-strapped Baylor College of Medicine has defaulted on financial covenants associated with bonds issued over a nearly 10-year period, a development that could prompt creditors to force it to pay its debt.

Baylor filed [notice](#) of the default with the [Municipal Securities Rulemaking Board](#) as a result of a drop in the school's unrestricted net assets as of June 30. The filing gave no monetary amounts, but the school's latest interim report shows a drop in unrestricted net assets from \$905 million on March 31, 2008 to \$376 million on March 31, 2009.

In an e-mail to college staff last month, Baylor interim President Dr. William Butler emphasized that "this is a technical covenant default, not a payment default." The 1999, 2007 and 2008 bonds involve the college's [stalled hospital and clinic project](#) and other facilities.

"With the drop in the securities markets around the world, the size of Baylor's endowment fund dropped like that of every other institution," Butler wrote after [Modern Healthcare magazine](#) contacted the school about the matter. "Because of this drop, Baylor's unrestricted assets are down a large percentage over last year."

Butler's e-mail outlines the college's corrective action plan: hiring a management consultant - [Navigant Consulting, Inc.](#); adopting a revised budget aimed at improving operating results; engaging in discussions with other parties concerning a possible joint undertaking to complete, own and/or operate its hospital and clinic project; and its [discussions with Rice University regarding a possible merger](#).

Wall Street ratings house Standard & Poors is hoping to schedule a meeting with Baylor about the development sometime this month. Analyst Carlotta Mills downplayed the default, noting that the endowment drop is not unique to Baylor and that its credit providers have given the college waivers through September. She said Baylor is working on securing waivers for a longer period.

The default notice said Baylor "intends to continue the corrective actions described above or other action until it re-establishes compliance with its financial covenants," but added that "there can be no assurance that any such action will be successful."

Posted by [Todd Ackerman](#) at September 4, 2009 12:03 PM
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Are those endowment numbers real? A drop from \$905 million to \$375 million would have to represent one the largest endowment drops for a academic institution, far beyond what most universities have seen. That is a bigger story than breach of covenants. A one year drop of that scale almost seems criminal in the amount of risk taken on by a non profit endowment.

Posted by: JK at [September 5, 2009 05:46 PM](#)

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