Financing Progress

LANCASTER POLLARD

EDUCATION SESSIONS FOR HOSPITALS

Lancaster Pollard offers free sessions year-round to hospitals, their boards, and health care organizations. The following topics are a small sample of the content we have provided on individual, state, regional and national levels, including conferences of the Healthcare Financial Management Association, American College of Health Care Administrators, Western Region Trustee Symposium, American College of Health Care Executives and the American Hospital Association, among others. We frequently co-present with hospitals of all sizes, and with representatives of HUD/FHA and the Federal Home Loan Bank.

To request a speaker, e-mail msherman@lancasterpollard.com or find a local Lancaster Pollard presenter at www.lancasterpollard.com/site.cfm/contact-us/find-nearest-office.cfm.

The New World of Financing for Community Hospitals

Any of the individual financing options discussed in this session can be offered as an in-depth "Diary of a Financing" featuring eligibility requirements, when the option is most and least efficient, behind-the-scenes discussions of the process, and best practices for use.

This session explores the evolution of financing options and the capital markets, explaining how legislation, interest rates and investor sentiment have impacted what debt financing methods are likely to be most efficient this year.

Topics to be covered include involving local banks in financing through private placements, bank-qualified bonds and the Federal Home Loan Bank's credit wrap, as well as the current practicality of agency financing including FHA-insured loans and USDA programs. We'll compare interest rates on the various options and discuss the opportunities available to combine options to create a custom debt structure.

- Learn how accessing capital has changed following recent market turbulence in terms of available options, investor sentiment and the cost of borrowing.

- Understand how to leverage local financial resources through the Federal Home Loan Bank and bank-qualified bond options, and how federal options such as FHA/HUD, USDA and other alternatives can provide affordable solutions.

- Review through case studies how hospitals that accessed capital during the financial turmoil did so, how they fared, and discuss what to expect from the markets in the near term.

Financing for Future Flexibility

Many hospitals are familiar with the concept of hedging investments against volatility. That the ongoing liquidity crisis has essentially forced hospitals to find ways to refinance or restructure formerly efficient long-term debt is calling attention to the importance of broader escape route strategies: of hedging not just investments but an entire financial structure against potential market movements. Hospitals should ensure that when they close on a financing, they leave a window open. Otherwise, they may find themselves paying much more interest than they anticipated or even in default, even though their own credit profile or balance sheet hasn't changed.

- Learn which market factors can move during a financing, why a hospital may need or choose to modify its financing structure, and how multi-tracking a financing can keep your project on track even if your initial solution falls through.

- Understand how debt covenants and prepayment penalties impact long-term financial flexibility and the affordability of future projects.

- Learn how bonds, letters of credit, reimbursement resolutions, swaps and other tools and vehicles can be structured to allow financial flexibility – and potential pitfalls if they're not.

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The Fallacy of Investment Portfolio Diversification

Hospitals often have false impressions of how well diversified their portfolios are and how well protected they are against market volatility. Given the demands of spending policies, minimum debt service coverage requirements and other portfolio obligations, hospitals should be as concerned with minimizing return volatility as with maximizing the absolute level of returns.

Asset allocation is the primary driver of return volatility, and while many portfolios appear to have diversified asset classes, correlation analysis often proves otherwise. This session explains a different way of looking at asset classes so hospitals can better assign them strategic purposes within a portfolio, and so better protect themselves against market volatility.

- Identify flaws in common investment diversification strategies, such as style boxes and alternative investment allocation, and why these flaws can lead to unanticipated investment losses. These flaws include style drift, high correlations, lack of transparency and others.
- Define various asset classes and explain why evaluating them in terms of qualities such as "equity-like volatility" and "fixed-income-like volatility" can provide a more accurate picture of diversification and so smooth portfolio returns.
- Learn how asset classes can be reevaluated and redeployed to serve strategic purposes such as hedging against interest rates, providing liquidity, providing income, etc.

Financial Benchmarking through a Nonprofit Lens: Keeping your Mission in Focus

Traditional benchmarks for judging financial and investment performance are grounded in for-profit philosophy. Mission-based goals, however, do not always equate with for-profit financial goals. Basing the financial plan on for-profit benchmarks may detract from the mission.

Nonprofit organizations are designed to operate perpetually, with no exit strategy, so financial goals and measurements must be structured to facilitate this long-term mission. This presentation offers a set of financial targets rooted in a nonprofit perspective, allowing health stewards to keep their focus on current residents and keep their mission strong for the future.

- Look at financial goals from a nonprofit perspective, understand the differences between for-profit and nonprofit benchmarks, and learn the benefits of striving toward financial goals derived from nonprofit philosophy.
- Participants will learn the how's and why's of building liquidity and how to better analyze fund balances.
- Participants will be able to evaluate, from a long-term mission perspective, such expenditures as investment in physical plant, debt, and liquid assets.

FHA Section 242: A financing strategy for larger hospitals

HUD's hospital mortgage insurance program (FHA 242) has seen a lot of increased interest, but many systems and larger facilities may see it only as a small-hospital solution. Yet the program contains several features that make it appealing for a multi-hospital organization's balance sheet, and also comparable in many ways to bond insurance, which had until recently been a financing option of choice for hospital systems.

Further, HUD has opened up its mortgage insurance program to be used to refinance debt. With many hospitals trying to exit troubled banking relationships, or acquire facilities opportunistically, HUD can be a very good option.

- Identify the financing issues facing larger hospitals that FHA 242 is best suited to solve, including a need for fixed-rate or long-term debt, limiting construction financing risk, non-risk-based pricing in a tricky market, and non-recourse financing that can strengthen a system's balance sheet to prepare for future projects.
- Learn what the HUD process is like, what time and administrative requirements it entails, and best practices to get to the closing table.
- Get up to date on the latest news regarding refinancing with hospital mortgage insurance.