Capital Financing 101

National Council for Behavioral Health

Presenter: William O'Brien

January 28, 2020

PRIMARY CARE DEVELOPMENT CORPORATION

Member Support Services

You can always contact us with any issues you may have. We're eager to help.

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NATCON | 20 Kaleidoscope

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About PCDC

Primary Care Development Corporation (PCDC) is a national nonprofit organization and a *Community Development Financial Institution*.

We catalyze excellence in primary care and behavioral health through strategic community investment, capacity building, and policy initiatives to achieve health equity.

Catalyzing excellence in primary care to achieve health equity

TRANSFORM

We partner with health care providers to build capacity and improve services and outcomes

INVEST

We provide capital to integrate services, modernize facilities, or expand operations

ADVOCATE

We advance policy initiatives to bring resources, attention, and innovation to primary care

Our Impact

2,800
Organizations
strengthened

13,000
Jobs
created or preserved

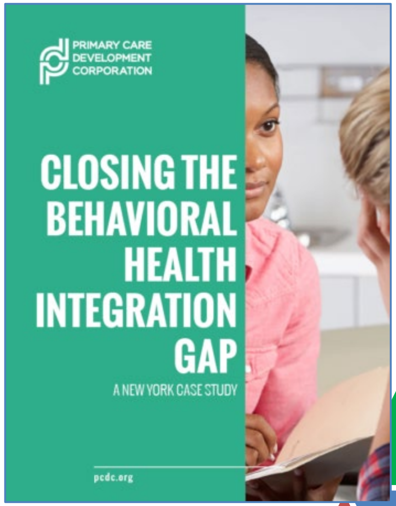
3.8M
Medical visits
added through expansion

1.1B
Dollars leveraged
in low-income communities

Behavioral Health and PCDC

- Primary care and behavioral health are fundamental access points
- Very real struggle for parity, sustainability between grants and funding cycles
- Strategic investment in behavioral health improves overall health

Behavioral Health and PCDC



Capital Investment

Advocacy

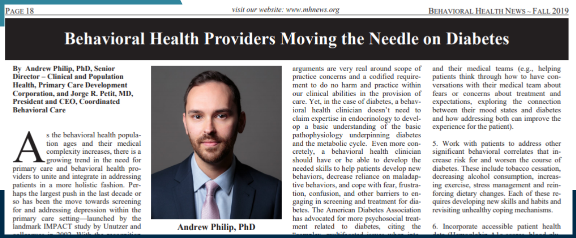
PCMH Accreditation

Clinical Training


MENTAL HEALTH WEEKLY
Essential information for decision-makers

Brief intervention reveals rapport between physician, patient

Among the presentations at this year's NATCON (National Council for Behavioral Health conference) was a ... and population health at Primary Care Development Corporation, told session attendees. The center has ... was played by Clarissa Aguilar, Ph.D., licensed psychologist and behavioral health consultant at the ...


PAGE 18 visit our website: www.mhnews.org BEHAVIORAL HEALTH NEWS ~ FALL 2019

Behavioral Health Providers Moving the Needle on Diabetes

By Andrew Philip, PhD, Senior Director – Clinical and Population Health, Primary Care Development Corporation, and Jorge R. Petit, MD, President and CEO, Coordinated Behavioral Care

As the behavioral health population ages and their medical complexity increases, there is a growing trend in the need for primary care and behavioral health providers to unite and integrate in addressing patients in a more holistic fashion. Perhaps the largest push in the last decade or so has been the move towards screening for and addressing depression within the primary care setting—launched by the landmark IMPACT study by Unutzer and ...

Andrew Philip, PhD

arguments are very real around scope of practice concerns and a codified requirement to do no harm and practice within our clinical abilities in the provision of care. Yet, in the case of diabetes, a behavioral health clinician doesn't need to claim expertise in endocrinology to develop a basic understanding of the basic pathophysiology underpinning diabetes and the metabolic cycle. Even more concretely, a behavioral health clinician should have or be able to develop the needed skills to help patients develop new behaviors, decrease reliance on maladaptive behaviors, and cope with fear, frustration, confusion, and other barriers to engaging in screening and treatment for diabetes. The American Diabetes Association has advocated for more psychosocial treatment related to diabetes, citing the ...

and their medical teams (e.g., helping patients think through how to have conversations with their medical team about fears or concerns about treatment and expectations, exploring the connection between their mood states and diabetes and how addressing both can improve the experience for the patient).

5. Work with patients to address other significant behavioral correlates that increase risk for and worsen the course of diabetes. These include tobacco cessation, decreasing alcohol consumption, increasing exercise, stress management and reinforcing dietary changes. Each of these requires developing new skills and habits and revisiting unhealthy coping mechanisms.

6. Incorporate accessible patient health ...

PRIMARY CARE DEVELOPMENT CORPORATION

Community Development Financial Institutions (CDFIs)

- Certified by US Treasury CDFI Fund
- Mission-driven financial institutions that take a market-based approach to supporting economically disadvantaged communities
- Generate economic growth and opportunity in distressed, low income communities (LICs)
- At least 60% of financing activities must benefit these communities
- Must maintain governing or advisory board where at least 20% of members work for organizations serving LICs
- 1000+ CDFIs nationally today, nearly $4 Billion of annual combined investments

PCDC FINANCIAL PRODUCTS

Traditional Financing

Flexible, customized capital to expand and transform primary care practices

Provider Recruitment and Retention

Enables organizations to recruit new providers or retain one or more staff through financing

Transformation Loan Fund

Allows organizations to transition to new models of delivery and payment, including EHR upgrades, physical integration and workforce expansion

New Markets Tax Credits

Low-cost financing with below-market interest rates, high loan-to-value ratios, and long loan maturities

Portfolio

- Over $265 million of Assets under Management
- Awarded $248MM through five NMTC allocation rounds
- Investments across 13 states
- Financing purposes:
  - Facilities: pre-development/site acquisition/construction/renovation/leasehold improvements
  - Permanent financing
  - Business acquisition
  - Technology
  - Staff investment
  - Debt refinancing / restructuring
- Historically high performance: $0 losses, minimal delinquency @ 1%

Paying for a project: What are the options?

- Grants, fundraising
  - Pros: Free money!
  - Cons: Difficult to get, time consuming, often insufficient to cover costs, often reimburse payments already made
- Government financing (federal/municipal bond, loan programs)
  - Pros: Typically low-cost, long maturities, low monthly payments
  - Cons: Difficult to get, time consuming, long maturities, restricted prepayments, limited availability, other restrictions
- Commercial Financing
  - Pros: Relatively fast (3-6 mos), may cover all project expenses
  - Cons: Lender "appetite," cost, prepayment penalties, hidden pitfalls (e.g., "no-interest" loans)
- CDFI Financing
  - Pros: Relatively fast (3-6 mos), flexible, mission-alignment, potentially low-cost
  - Cons: Possibly expensive, limited availability: amount, location, sector
- Tax-Credit Financing
  - Pros: Significant subsidies, low/"no" cost
  - Cons: Complex, highly competitive, significant restrictions, time consuming, expensive

Non-profits and debt

- Commercial debt is common tool for *for-profit* companies
  - Working capital
  - Construction
  - Mortgages
  - Long-term capital
- Less common for non-profit companies, especially BH providers
- Benefits:
  - Long-term capital: Accelerates a project
    - Debt + Donors = Practical partners
    - Creates disciplined performance monitoring
  - Short-term (working) capital: staffing, bridge to reimbursements

Preparing for a Loan: Qualitative Requirements

- Demonstrate community need: why the project is important?
- Demonstrate project development experience: who will manage the project?
  - Management team: organization leadership
  - External consultant(s): hands-on management
- Demonstrate Board and community support: where will the project be?

Preparing for a Loan: Quantitative Requirements

- Have a Strategic Plan:
  - Budget
  - Marketing
  - Operations
- Raise sufficient equity
  - 10-20% (important
  - Loan-to-Value (LTV) requirements
- Demonstrate cash flow
  - Debt capacity
  - Net income ≠ Cash Flow
- Demonstrate financial stability
  - 3-5 years history
  - Reasonable explanations for downturns
- Demonstrate reasonable expectations
  - 5-7 years of projections
  - Provide basis for growth expectations

Debt Capacity: How much can I borrow?

Key concepts for "debt-sizing":

- EBIDA: Earnings Before Interest, Depreciation, Amortization
  - A "proxy" for cash flow using the Income Statement: backs out non-cash expenses and adds back debt service
  - *Operating income + Interest Expense + Depreciation Expense + Amortization*
- Annual Debt Service: Principal + Interest in 1 year
- Debt Service Coverage Ratio (DSCR)
  - EBIDA / Annual Debt Service
  - 1.0x = Cash flow equals debt service one-to-one
  - 1.25x typical required ratio = cash flow = 1.25x debt service

The Language of Borrowing

- **Net Assets (equity)**
- Liquidity (access to $)
- **Days Cash on Hand**
- **Days Receivables**
- Current Ratio (current assets/current liabilities)
- EBIDA (Earnings Before Interest, Depreciation and Amortization)
- Leverage (debt)
- Debt Service Coverage Ratio (DSCR; measure of ability to pay P&I)
- Covenants (promises)
- Leverage ratio (debt / net assets)

Case Study: $500,000 loan

FINANCIAL SUMMARY

	FY2017
REVENUES	
Patient Service Revenue	$ 8,259,164
YOY Growth Before Revenues Below	*0.3%*
Non-Capital Grants, Contracts & Other	$ 3,416,734
Total Revenue	**11,675,898**
EXPENSES	
Personnel Services	$ 8,470,740
Other Operating Expenses	$ 3,415,016
Subtotal Operating Expenses	**11,885,756**
Earnings before Int, Deprec, & Capital Grants	**$ (209,858)**
Interest	$ 49,305
Depreciation	$ 413,477
Annual Operating SURPLUS (DEFICIT)	**$ (672,640)**
Restricted Public Support	$ (23,356)
Non-operating Revenue (Capital Grants and Investments)	$ -
Net Income	**$ (695,996)**

DEBT SERVICE AND BALANCE SHEET INDICATORS:	FY2017
Earnings Before Int. & Deprec.	$ (209,858)
EBIDA Margin	-1.8%
Annual Debt Service	$ 301,797
Coverage Ratio (EBIDA/Annual Debt Service)	**(0.70)x**

Current year performance does not support $500,000 loan request…

PRIMARY CARE DEVELOPMENT CORPORATION

Case Study: $500,000 loan

FINANCIAL SUMMARY

	FY2014	FY2015	FY2016	FY2017
REVENUES				
Patient Service Revenue	$ 6,921,701	$ 7,868,588	$ 8,233,799	$ 8,259,164
YOY Growth Before Revenues Below		*13.7%*	*4.6%*	*0.3%*
Non-Capital Grants, Contracts & Other	$ 1,116,696	$ 1,953,131	$ 2,501,106	$ 3,416,734
Total Revenue	**8,038,397**	**9,821,719**	**10,734,905**	**11,675,898**
EXPENSES				
Personnel Services	$ 5,508,293	$ 6,284,448	$ 7,310,605	$ 8,470,740
Other Operating Expenses	$ 2,143,690	$ 2,874,780	$ 2,860,621	$ 3,415,016
Subtotal Operating Expenses	**7,651,983**	**9,159,228**	**10,171,226**	**11,885,756**
Earnings before Int, Deprec, & Capital Grants	**$ 386,414**	**$ 662,491**	**$ 563,679**	**$ (209,858)**
Interest	$ 28,952	$ 27,683	$ 16,643	$ 49,305
Depreciation	$ 235,485	$ 306,461	$ 393,160	$ 413,477
Annual Operating SURPLUS (DEFICIT)	**$ 121,977**	**$ 328,347**	**$ 153,876**	**$ (672,640)**
Restricted Public Support	$ (25,619)	$ (26,644)	$ (22,929)	$ (23,356)
Non-operating Revenue (Capital Grants and Investments)	$ -	$ -	$ -	$ -
Net Income	**$ 96,358**	**$ 301,703**	**$ 130,947**	**$ (695,996)**

DEBT SERVICE AND BALANCE SHEET INDICATORS:	FY2014	FY2015	FY2016	FY2017
Earnings Before Int. & Deprec.	$ 386,414	$ 662,491	$ 563,679	$ (209,858)
EBIDA Margin	4.8%	6.7%	5.3%	-1.8%
Annual Debt Service	$ 124,264	$ 118,426	$ 134,161	$ 301,797
Coverage Ratio (EBIDA/Annual Debt Service)	**3.11x**	**5.59x**	**4.20x**	**(0.70)x**

…however, prior years' performance demonstrates stable operations…

Case Study: $500,000 loan

FINANCIAL SUMMARY

	FY2014	FY2015	FY2016	FY2017	P2018	P2019	P2020	P2021	P2022
REVENUES									
Patient Service Revenue	$ 6,921,701	$ 7,868,588	$ 8,233,799	$ 8,259,164	$ 10,052,838	$ 10,350,948	$ 10,649,058	$ 10,947,168	$ 11,245,278
YOY Growth Before Revenues Below		*13.7%*	*4.6%*	*0.3%*	*19.2%*	*3.0%*	*2.9%*	*2.8%*	*2.7%*
Non-Capital Grants, Contracts & Other	$ 1,116,696	$ 1,953,131	$ 2,501,106	$ 3,416,734	$ 4,796,861	$ 4,796,861	$ 4,796,861	$ 4,796,861	$ 4,796,861
Total Revenue	**8,038,397**	**9,821,719**	**10,734,905**	**11,675,898**	**14,849,699**	**15,147,809**	**15,445,919**	**15,744,029**	**16,042,139**
EXPENSES									
Personnel Services	$ 5,508,293	$ 6,284,448	$ 7,310,605	$ 8,470,740	$ 9,628,132	$ 9,628,132	$ 9,628,132	$ 9,628,132	$ 9,628,132
Other Operating Expenses	$ 2,143,690	$ 2,874,780	$ 2,860,621	$ 3,415,016	$ 4,737,607	$ 4,737,607	$ 4,737,607	$ 4,737,607	$ 4,737,607
Subtotal Operating Expenses	**7,651,983**	**9,159,228**	**10,171,226**	**11,885,756**	**14,365,739**	**14,365,739**	**14,365,739**	**14,365,739**	**14,365,739**
Earnings before Int, Deprec, & Capital Grants	**$ 386,414**	**$ 662,491**	**$ 563,679**	**$ (209,858)**	**$ 483,960**	**$ 782,070**	**$ 1,080,180**	**$ 1,378,290**	**$ 1,676,400**
Interest	$ 28,952	$ 27,683	$ 16,643	$ 49,305	$ 97,361	$ 96,406	$ 91,087	$ 80,435	$ 70,433
Depreciation	$ 235,485	$ 306,461	$ 393,160	$ 413,477	$ -	$ -	$ -	$ -	$ -
Annual Operating SURPLUS (DEFICIT)	**$ 121,977**	**$ 328,347**	**$ 153,876**	**$ (672,640)**	**$ 386,599**	**$ 685,664**	**$ 989,093**	**$ 1,297,855**	**$ 1,605,967**
Restricted Public Support	$ (25,619)	$ (26,644)	$ (22,929)	$ (23,356)	$ -	$ -	$ -	$ -	$ -
Non-operating Revenue (Capital Grants and Investments)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net Income	**$ 96,358**	**$ 301,703**	**$ 130,947**	**$ (695,996)**	**$ 386,599**	**$ 685,664**	**$ 989,093**	**$ 1,297,855**	**$ 1,605,967**

DEBT SERVICE AND BALANCE SHEET INDICATORS:	FY2014	FY2015	FY2016	FY2017	P2018	P2019	P2020	P2021	2022
Earnings Before Int. & Deprec.	$ 386,414	$ 662,491	$ 563,679	$ (209,858)	$ 483,960	$ 782,070	$ 1,080,180	$ 1,378,290	$ 1,676,400
EBIDA Margin	4.8%	6.7%	5.3%	-1.8%	3%	5%	7%	9%	10%
Annual Debt Service	$ 124,264	$ 118,426	$ 134,161	$ 301,797	$ 173,464	$ 129,211	$ 309,610	$ 320,894	$ 321,937
Coverage Ratio (EBIDA/Annual Debt Service)	**3.11x**	**5.59x**	**4.20x**	**(0.70)x**	**2.79x**	**6.05x**	**3.49x**	**4.30x**	**5.21x**

…and "downside" projections still indicate positive debt service capacity.

Project Financing: First / Next Steps

- Service analysis:
  - Needs assessments
  - Community consultation
  - Options for delivery (expansion, relocation, acquisition, alternative delivery)
- Project planning:
  - Working timetable
  - Project team (internal and external)
    - Board of Directors
    - Management team
    - Project manager
    - Contractor
    - Financing consultant (if applicable)
  - Budget
  - Corporate expectations
- Financing:
  - Preparation
    - Project narrative (5+1: who, what, where, when, why and how much $)
    - Corporate narrative (management overview, historical and projected financial performance)
    - Outreach: NatCon, state associations, CDFIs
  - Estimate debt capacity
  - Commence fundraising
  - Commence financing:
    - Government
    - Banks
    - CDFIs
    - Tax credit financing (e.g. New Markets Tax Credits)

Questions?

See you at NatCon 2020!

Thank You

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PRIMARY CARE DEVELOPMENT CORPORATION