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*Feature*

**Keeping the Back Burner Front of Mind: Maintaining Your Credit Profile Between Debt Financings**

Organizations that do not have immediate capital plans should understand how their actions today can affect their borrowing ability months and years down the road. Leaders who monitor the stew that is the credit profile, and all of the various financial ratios and other ingredients that go into it, should always keep an eye on the back burner.



Most elements of the credit profile, which determines debt capacity and the long-term cost of borrowing, are generally actively monitored as part of good business strategy. But this does not diminish the importance of considering good business strategies – and any decision's potential implications, good or bad -- in the context of future credit ratings. Monitoring the back burner requires monitoring quality, cash and staff issues. It also requires the ability to articulate any decisions that affect (or affected) these areas, even if that decision was made by prior leadership. The long-term transmission of institutional memory will influence an organization's long-term borrowing ability.

**Quality is Key**

Service organizations are seeing a proliferation of campaigns for quality in service and accountability, and the financial markets take

note. External reports from state or other agencies, as well as internal reports, often provide actionable commentary. Act on them. Show creditors strategic efforts to improve quality, and you show them the discipline and commitment that they need to see to understand you as a competitive, financially reliable facility.

Internal reports can be a good indicator of organization and commitment. Lenders will look back to see if leadership has availed itself of reports to make good decisions. Warning signs could be a nursing home that wants to expand, but failed to track the origins of admissions over time and lacks good market share projections. Lenders also look for current reporting standards – offering April hospital discharge data in response to a July request for information may send them a red flag.

## Consider Keeping Cash

Cash and operating margin are everyday operations concerns. Beyond strategic operating plans, organizations should consider how changes in their overall balance sheets can affect future borrowing ability.

Many organizations, particularly nonprofits, are wary of taking on debt, but spending down cash reserves now can hurt future borrowing capacity. If you know you have a large project on the far horizon, consider borrowing to complete near-term projects so you can maintain your liquidity and obtain lower borrowing costs on the larger project. Organizations should constantly evaluate their cash positions to determine whether to spend, and whether the organization has too much cash on the balance sheet.

Review options to manage existing debt, particularly if interest rates have moved. You might consider refinancing a few years ahead of a major project to save and build more cash; this strategy can be coordinated to allow for financial flexibility for future construction plans.

## Don't Stiff the Staff

How often do you meet with staff? Do they participate in key decisions? If employees suggest or request changes, remember to consider them in the context of the credit profile and long-term plans. Strong physician relationships are key for hospitals, particularly small facilities whose operations and referrals may depend on a small core of providers. In long-term care communities, the balance sheet can be affected by reliance on agency or contract nursing, which can be less efficient and more expensive than having employees on staff.

Look inward at management performance and satisfaction, also. Good board governance is always viewed well by the capital markets, and high turnover in upper-level positions can create the perception of (and actual) instability.

## Do Good. Explain Well.

Finally, be sure that leadership, whether of a hospital or senior living community, apartment complex or school, can articulate the organization's strengths and explain any weaknesses. This becomes particularly important within organizations that have leadership transitions either at the management or board

level. New leadership should understand prior years' financial situations and be able to explain any dips or improvements in performance. For example, when one year of Golden Valley Memorial Hospital in Missouri's credit review showed a drop in revenues, its leaders were able to explain that the drop correlated with the purchase of a physician's clinic that let the hospital offer needed services and improved physician relations.

Senior management is always trying to maximize operations—perhaps not to enhance the credit profile, but it is a side effect, and one that should be noted. The ability to afford long-term debt is determined by decisions made over the long term. Considering your operational decisions in that context will help you monitor that back burner and prepare you and future leadership to emphasize every strength and explain every decision that could affect your image in the capital markets.