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Feature

Renovation, Repositioning, Reinvention: Planning with BEARS

Keeping a property fresh and relevant requires the discipline of long-term planning to keep up with market demands within financial constraints. General property maintenance, however, sometimes is not enough. Organizations that expect to remain financially strong must make bigger changes periodically and have strategic plans to guide decisions to renovate, reposition or reinvent themselves.



Renovation is investment to keep existing property up to date. Repositioning changes the property to move toward a different market or adapt to a changing market, for example converting efficiency apartments to one-bedrooms or converting a hospital's inpatient beds to outpatient beds. "Reinvention" is a trendy term brought recently into the mix. It tends to imply adding grander, more expensive facilities, but its lack of a firm definition can make one wonder: if "reinvention's" outcome is undefined, are the organization's capital needs and goals themselves adequately identified?

Capital decisions have two extremes that can lead to the same outcome. Indulgent organizations with unrealistically

aggressive plans and overwhelming debt service risk being unable to financially sustain operations for the long term. They ultimately close.

Risk-averse organizations may limit renovations, eroding their competitiveness and leading to constantly declining censuses and revenues. They also ultimately close. How to find the right solution in a jumble of economics, personalities, market demand and high pressure pitches?

Identifying the motivations, temptations and limitations in every action is key to beginning with realistic expectations and making the decision that is right for you. Leaders and decision makers must then keep themselves and their teams grounded in reality and ready to take on necessary risks to fulfill market needs and demands – this before any paint colors are chosen and any golden shovel is thrust into the earth.

To keep your team on track, take advice from the **BEARS**:

- B**egin with the end in mind
- E**valuate your options realistically
- A**ssemble your team
- R**ecognize warning signs
- S**hare your information

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Begin with the End in Mind

It's a simple concept, but one that is often overlooked: organizations must identify goals before they can meet them. Understand your market and determine the scope of your project before you try to understand your financial capacity. A thorough market assessment will help you learn what is expected from you and what you can expect from the market. Without one, you cannot set realistic goals.

Market assessments are critical to capital planning, and they're not a place to skimp on funding. Spend the necessary money to hire an independent consultant that will show you honestly how you can best meet your market's needs. In the long run, you can save money by defining your projects more efficiently.

Evaluate your Options Realistically

Know your credit profile. Understand your organization's financial limits. Be realistic.

"Doing one large project may appear wise from the standpoint of combining the various components into one, in order to have the contractor set up only once and to complete one financing, but the operating risks can be substantial and far more expensive than doing several smaller construction projects and several smaller financings," says David Slack, executive vice president of the Aging Research Institute, who says many senior living organizations have bitten off more than they can chew.

"A phased approach to repositioning can allow an organization to take a well planned, and manageable, step at a time to make needed improvements. The project development work will spread out over a longer time frame, but the development activity can be held in balance so that it doesn't overwhelm the organization's ability to handle existing and new operating activities."

Know yourself, your leadership team and your board, as well. Recognize that emotion and the desire to leave lasting contributions can distort perception of the best solution, and learn to identify and handle personal temptation.

Assemble your Team

Know your development team members well, and recognize and understand their motivations. Consider hiring only those dedicated to your needs; avoid taking on a project that makes sense for their organization, but not

for yours. Work only with independent organizations and people you trust.

You may have access to a state database of service providers. Recommendations from colleagues also should help you choose your team. Your team should work well together, meet deadlines, explain your options and listen to your needs and concerns.

Recognize Warning Signs

Check yourself frequently during the capital planning process to ensure all decisions are grounded in reality.

Watch for internal and external warning signs:

- Is your balance sheet up to the project, or will you damage liquidity and impair your ability to meet operating costs?
- Do all of your decision makers agree? Should they?
- Can you justify every decision with accurate numbers and market expectations? Examples of unreasonable expectations would be basing a hospital's growth on going from 60% to 80% market share or focusing all growth on specialty services for which you lack physicians.
- Are you being pressured to make a certain decision?
- Do the capital markets support you?

"We would advise organizations to undertake only projects where they can get rated level debt, either on their own or with a credit enhancement," says Greg Hughes, Lancaster Pollard senior vice president. "If they cannot qualify for a credit enhancement and have to go to the unrated market, that would be a sign that perhaps they have overreached, and perhaps they should pull back their project planning."

Share your Information

Keep your decision-making team on the same page by keeping them informed. Large numbers can be intimidating, and they must be placed in context. Share your financial capacity and the options up front with all decision makers. A well-informed team will be more fiscally responsible and less likely to be influenced by high-pressure sales or emotional decisions. Keep your community informed, as well, so that media, political and residential influencers understand your needs and your goals.