

USPRA

Annual Conference

Capital Formation and Financial Planning for
Behavioral Healthcare Organizations

Community Health Facilities Fund
May 2008

www.chffloan.org

The Community Health Facilities Fund Assists Behavioral Healthcare Organizations With Capital Formation and Financial Planning

- **Community Health Facilities Funds (“CHFF”)**
 - Established in 1991
 - Sponsors: NCCBH and USPra
 - Funded by a PRI from The Robert Wood Johnson Foundation
 - Governed by a 5 member Board of Directors
 - Experts in behavioral health and/or finance

- **Financial Services Offered**
 - Direct lending for facilities projects and IT projects
 - Purchase, renovation or construction of real estate
 - Purchase, licensing and installation of IT systems
 - Financial Advisory Services for Capital Formation
 - Strategic Financial Planning Services

— Strategic Financial Planning

Since 1991, CHFF Has Assisted Behavioral Healthcare Organizations Obtain About \$125 Million In Capital For Facilities Expansion or Refinancing

- CHFF has purchased or guaranteed tax-exempt bonds:
 - 30+ loans with par value in excess of \$130 million
 - Behavioral healthcare providers in eleven states
 - Loans ranging from \$200,000 to \$8 million
- As financial advisor, CHFF has structured and served as financial advisor on tax-exempt bond financings including:
 - Alternatives Inc. (Whitinsville, MA)
 - Colorado West Mental Health (Colorado)
 - Progressive Housing (Peoria, Illinois)
- Currently engaged in several engagements to assist organizations in financial and capital planning related to future growth of the organization

— Strategic Financial Planning

Conflicting Views Of Financial Performance Expectations From Key Stakeholders Can Create Confusion For Financial Planning

- Key Stakeholders may have very different perspectives:
 - Mission View
 - Corporate View
 - Funder's View
 - Lender's View
- The Source Of Conflicting Views:

The "Nonprofit" Versus The "Corporation"

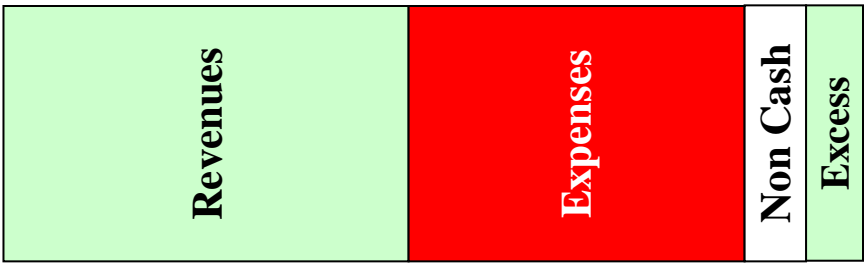
The Nonprofit Mission Is 'Why' We Are In Business
The Corporation Is "How" We Are In Business

Often, One Gets Emphasized At The Expense Of The Other

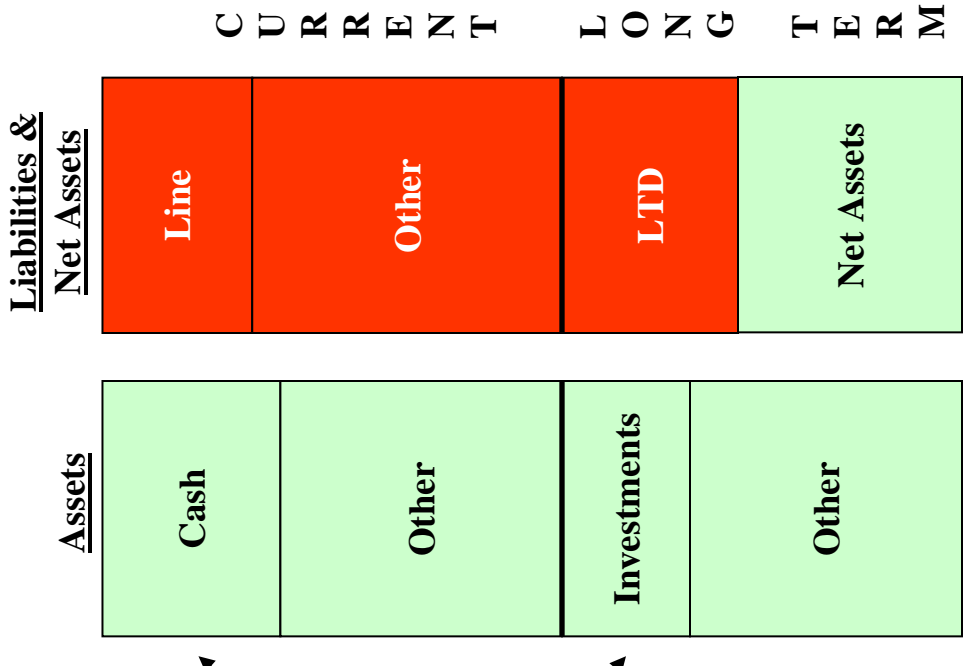
— Strategic Financial Planning

Mission View: No Excess, No Cash, No Investment. All Resources For The Mission.

Income Statement



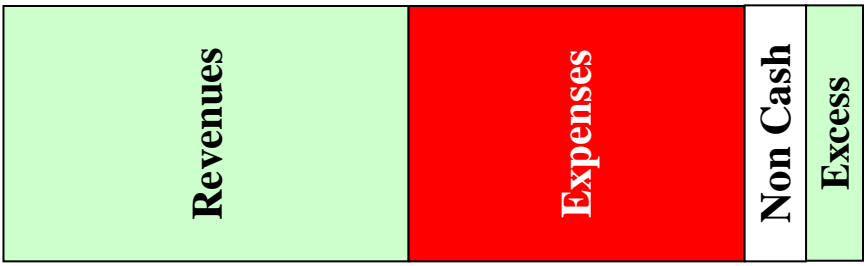
Balance Sheet



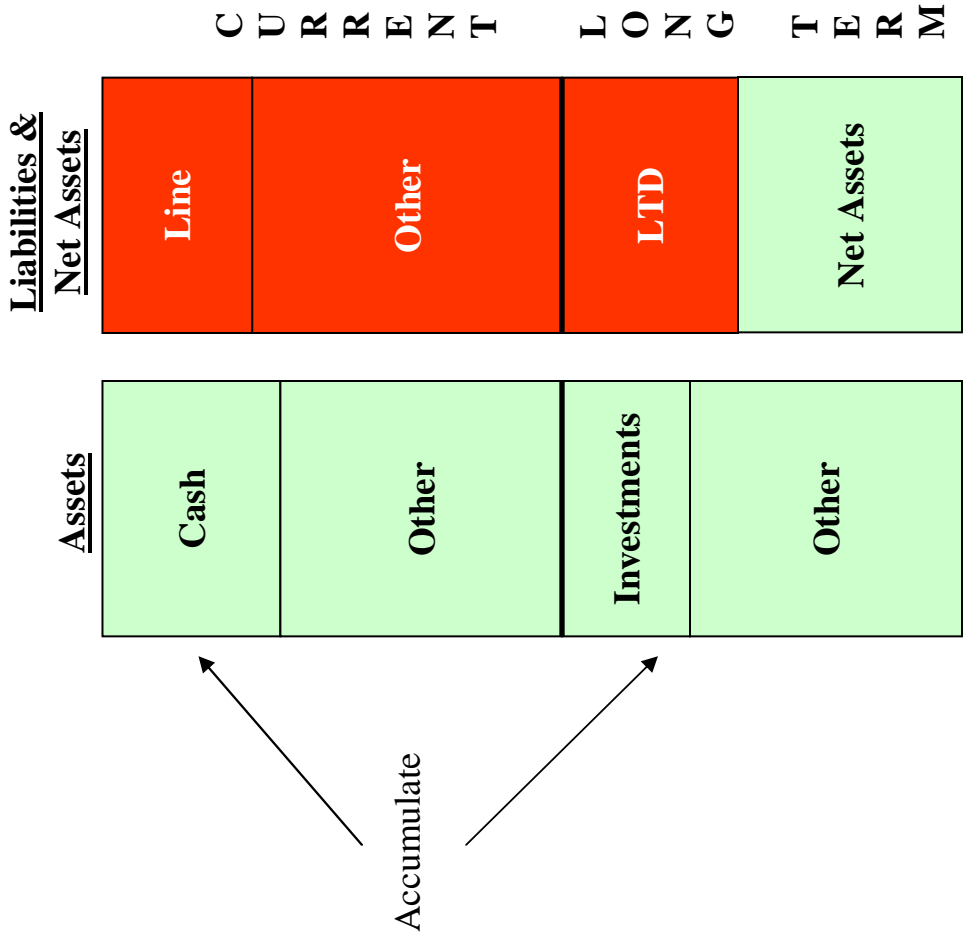
Strategic Financial Planning

Corporate View: No Excess Can Be Too Large, Can Never Have Enough Cash and Investments.

Income Statement



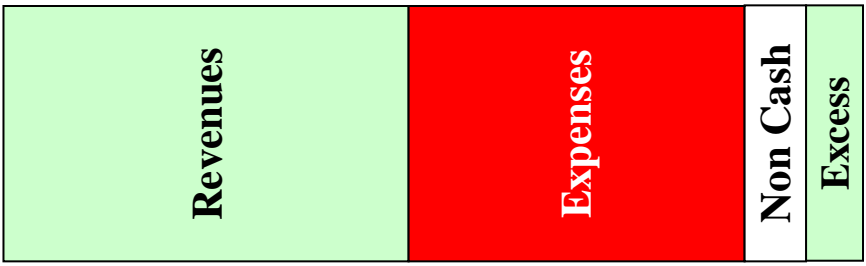
Balance Sheet



Strategic Financial Planning

Funders View: The Most Service For The Least Amount Of Money.

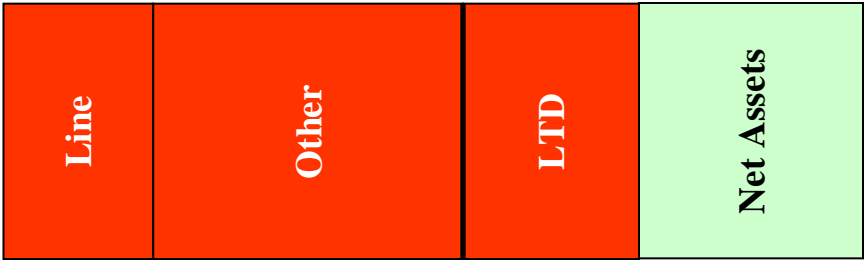
Income Statement



If You Are Making Excess, We Need To Lower Your Rates

Balance Sheet

Liabilities & Net Assets



Assets



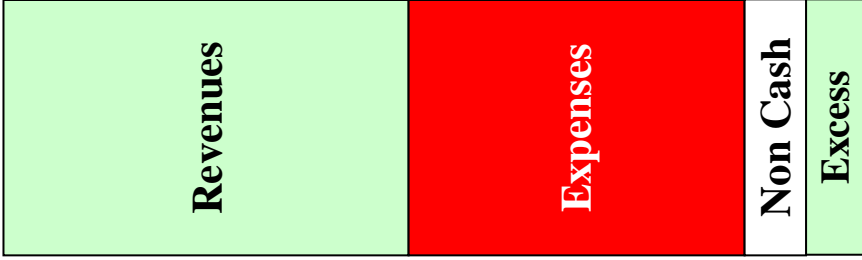
If You Have Any, You Don't Need Ours

C U R R E N T L O N G T E R M

— Strategic Financial Planning

Lenders View: Consistent Excess, Net Asset Growth, And Ability To Repay Debt.

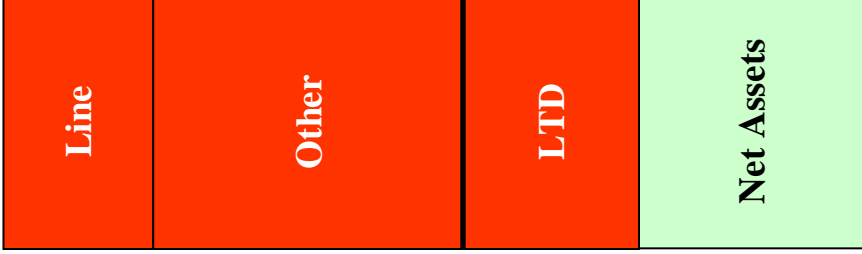
Income Statement



Consistent, Not Necessarily Large

Balance Sheet

Liabilities & Net Assets



Assets



Enough To Operate Comfortably

Enough To Fund Future Needs

C U R R E N T L O N G T E R M

— Strategic Financial Planning

How to Reconcile Different Views?

Quantify The Financial Needs Of Your Organization

- What Do You Need To Stay In Business?
 - What Is The Time Horizon For Your Corporation's Life and for your Capital Planning?
 - What Are The Predictable Operating Risks Of Your Business?
 - What Assets Do You Need To Replace?
 - What New Assets Do You Need To Stay In Business?

- What Do You Need To Grow?
 - Working Capital
 - Long Term Assets

— Strategic Financial Planning

What Is The Time Horizon For Your Corporation's Life And For Your Capital Planning?

- Corporation Time Horizon
 - One Year ?
 - Five Years ?
 - In Perpetuity ?

- Capital Planning Time Horizon
 - Match Capital Needs over the Life of the Corporation to the Capital Sources Available
 - For Discussion Purposes - Five Years

— Strategic Financial Planning

What Are The Predictable Operating Risks Of Your Business?

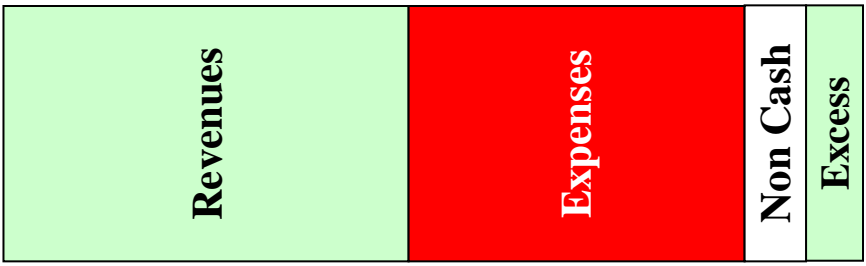
- Loss Of Contracts / Revenue Sources
- Reduced / Flat Rates
- Flat Revenues With Increasing Expenses

Quantify These Risks To Your Organization

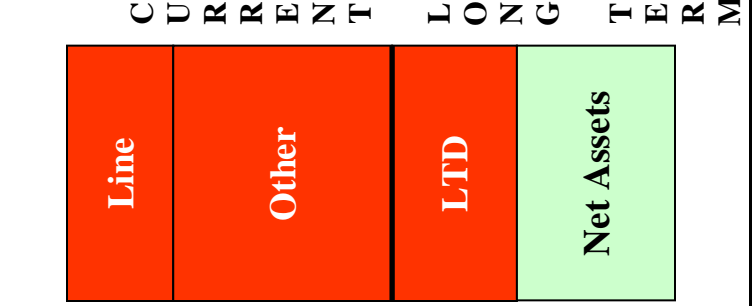
— Strategic Financial Planning

Over The Next 5 Years, You Want To Be Able To Generate Enough Cash To Cover The Predictable Risks Of Your Business.

Income Statement



1. Add Additional Cash Necessary To Cover Predictable Risks



Balance Sheet

Assets
Liabilities & Net Assets

Strategic Financial Planning

What Assets Do You Need To Replace or Update?

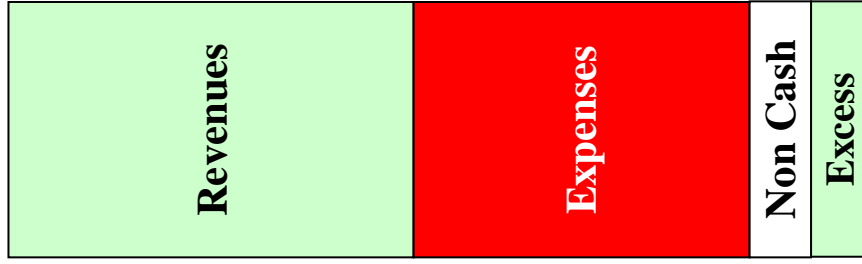
- Renovate/Replace Buildings
- New Equipment
- New Computers/Software
- New Phone System

Quantify These Replacement Needs For Your Organization

-
- Strategic Financial Planning

Over The Next 5 Years, You Want To Be Able To Replace Existing Assets.

Income Statement



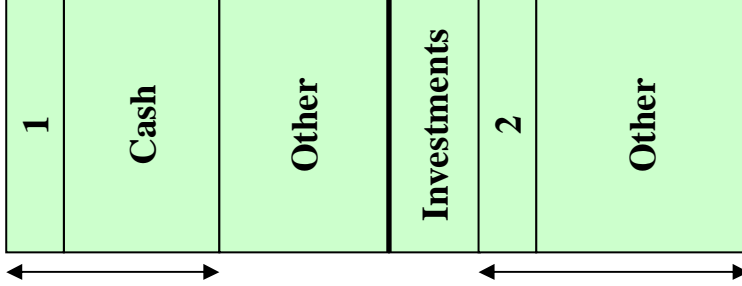
Balance Sheet

Liabilities & Net Assets

Assets

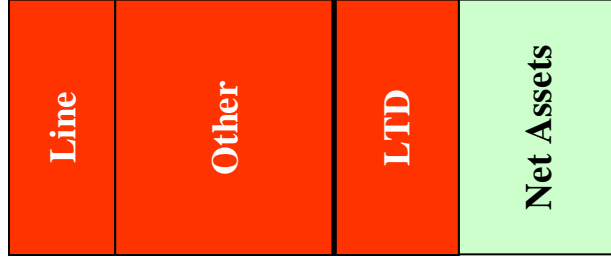
1. Add Additional Cash Necessary To Cover Predictable Risks

Cash



2. Replace Old Assets

Replace Assets



C U R R E N T L O N G T E R M

Strategic Financial Planning

What New Assets Do You Need To Stay In Business?

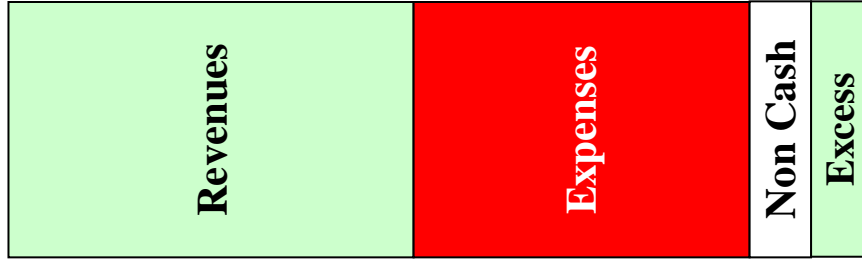
- Information Technology Systems
 - Hardware
 - Software
- New / Renovated / Expanded Facilities

Quantify These New Asset Needs For Your Organization

-
- Strategic Financial Planning

Over The Next 5 Years, You Want To Be Able To Acquire New Assets You Need To Stay In Business.

Income Statement



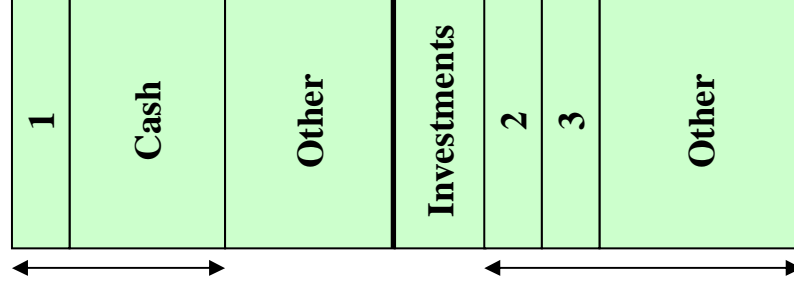
Balance Sheet

Liabilities & Net Assets

1. Add Additional Cash Necessary To Cover Predictable Risks

Cash

Assets

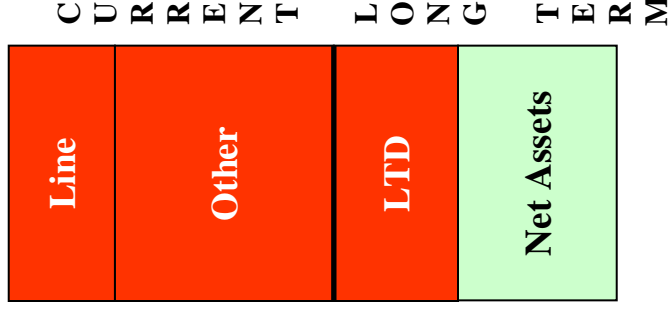


2. Replace Old Assets

Replace Assets

3. Add New Assets

New Assets



C U R R E N T L O N G T E R M

— Strategic Financial Planning

What Are Your Working Capital Requirements For Growth?

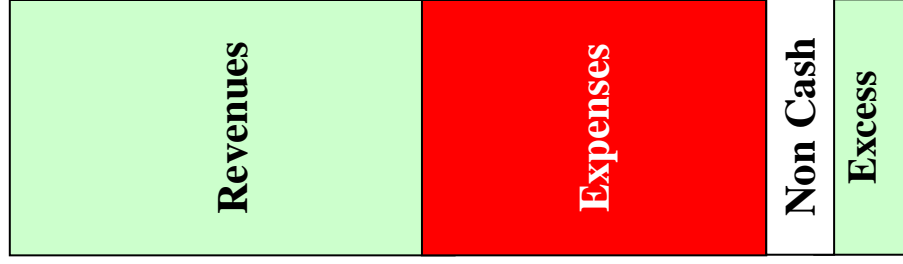
- Salary For New Staff
- Benefits For New Staff
- Supplies
- Revenue Lag

Quantify the Working Capital Requirements For Your Organization

— Strategic Financial Planning

Over The Next 5 Years, You Want To Generate Working Capital Requirements For Growth.

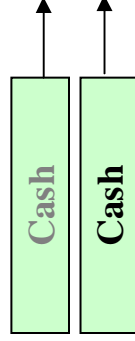
Income Statement



Balance Sheet

Liabilities & Net Assets

1. Add Additional Cash Necessary To Cover Predictable Risks

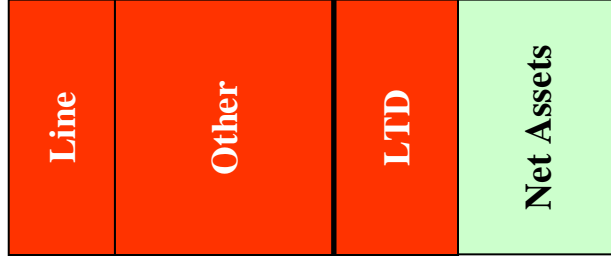
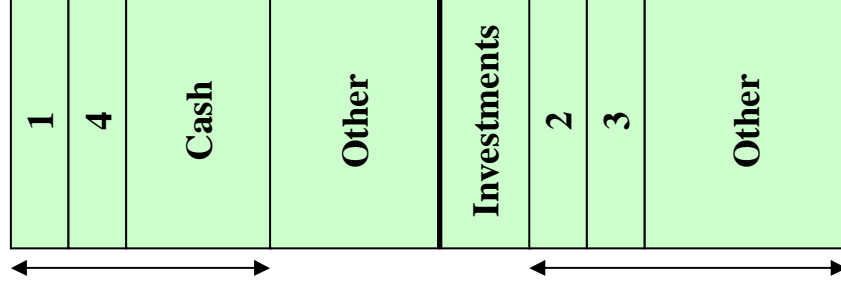


4. Add Additional Working Capital For Growth

2. Replace Old Assets



3. Add New Assets



— Strategic Financial Planning

What Are Your Long Term Asset Requirements For Growth

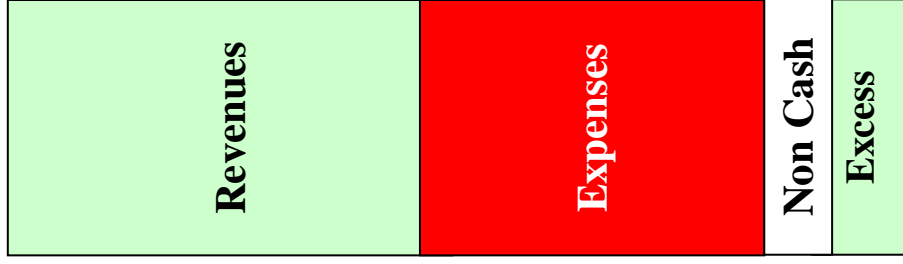
- New Buildings
- New Equipment
- New Computers/Software
- New Phone System

Quantify These Long Term Asset Requirements For Your Organization

— Strategic Financial Planning

Over The Next 5 Years, You Want To Generate Long Term Asset Requirements For Growth.

Income Statement

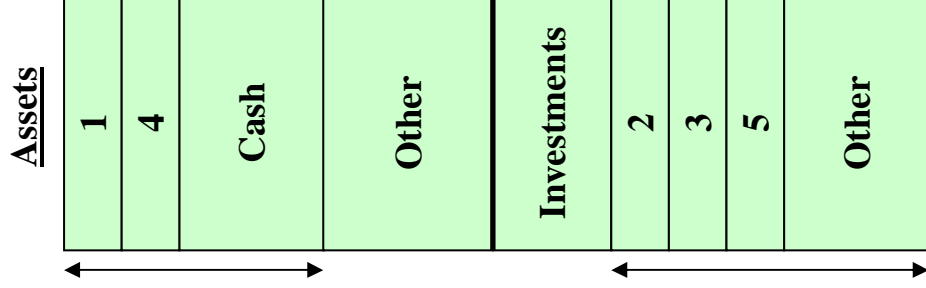


1. Add Additional Cash Necessary To Cover Predictable Risks
 - Cash
 - Cash
4. Add Additional Working Capital For Growth

2. Replace Old Assets
 - Replace Assets
3. Add New Assets
 - New Assets
 - Growth Assets
5. Add Growth Assets

Balance Sheet

Liabilities & Net Assets



C U R R E N T L O N G T E R M

— Strategic Financial Planning

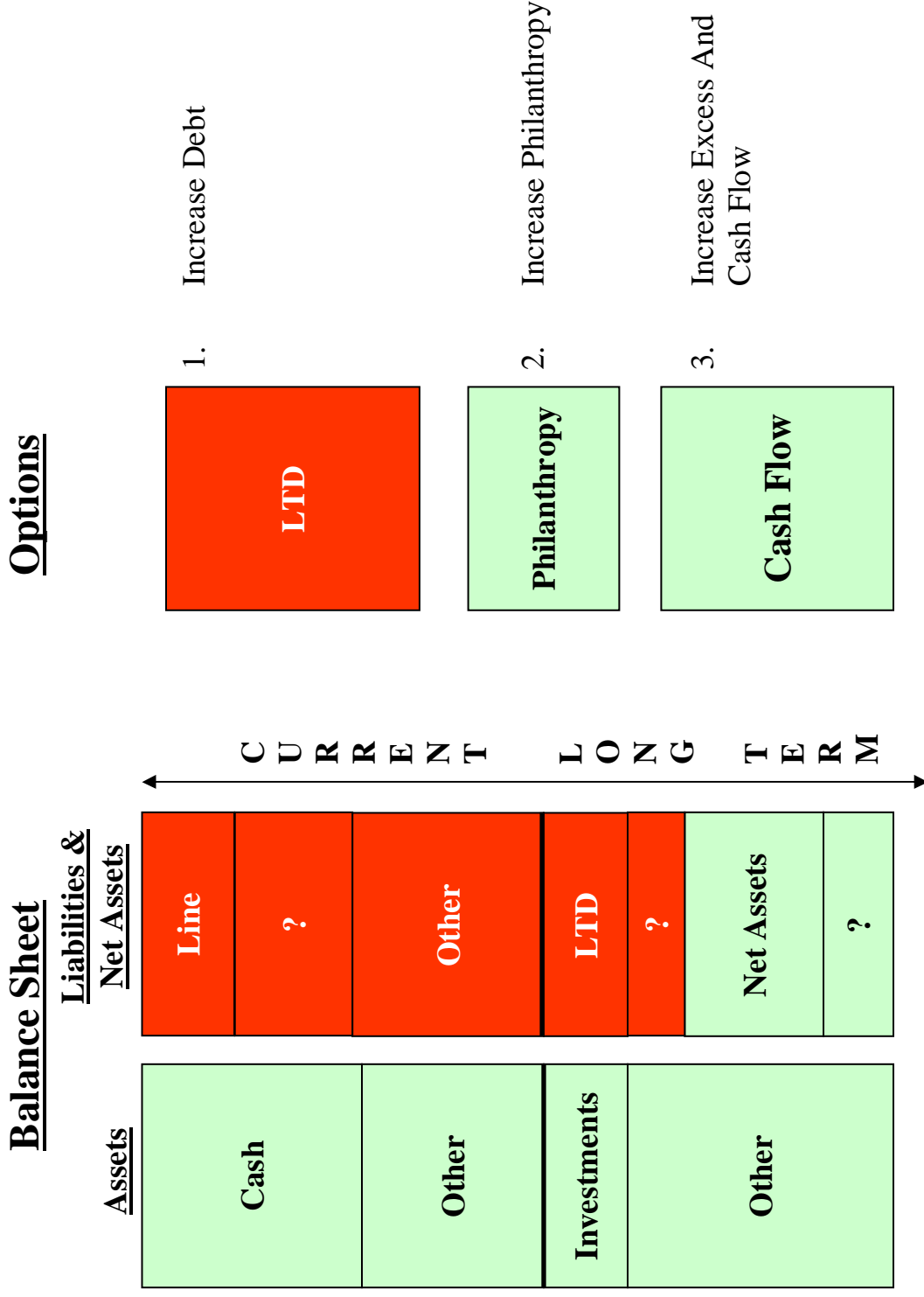
How Do You Pay For These Requirements?

Three possible sources to fund these requirements:

- Excess Income (“Profit”)
- Debt (Loans and/or Bonds)
- Philanthropy and Fundraising

— Strategic Financial Planning

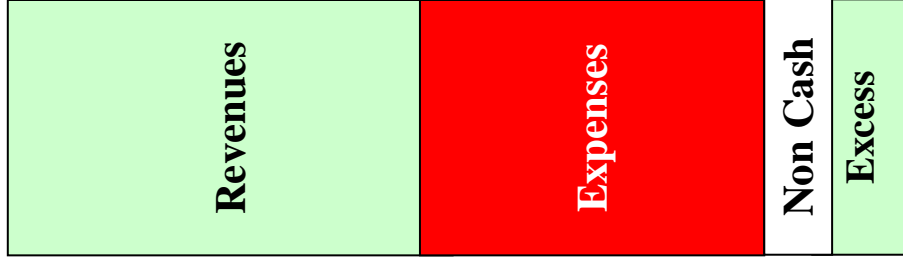
You Want To Determine The Best Options For Addressing Your Organization's Future Requirements.



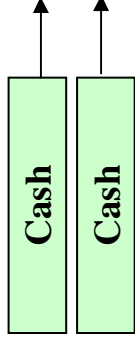
Strategic Financial Planning

Financial Planning Begins To Reconcile The Stakeholders Conflicting Views Of Your Financial Statements By Quantifying The Financial Needs Of The Corporation.

Income Statement



1. Add Additional Cash Necessary To Cover Predictable Risks



4. Add Additional Working Capital For Growth

2. Replace Old Assets

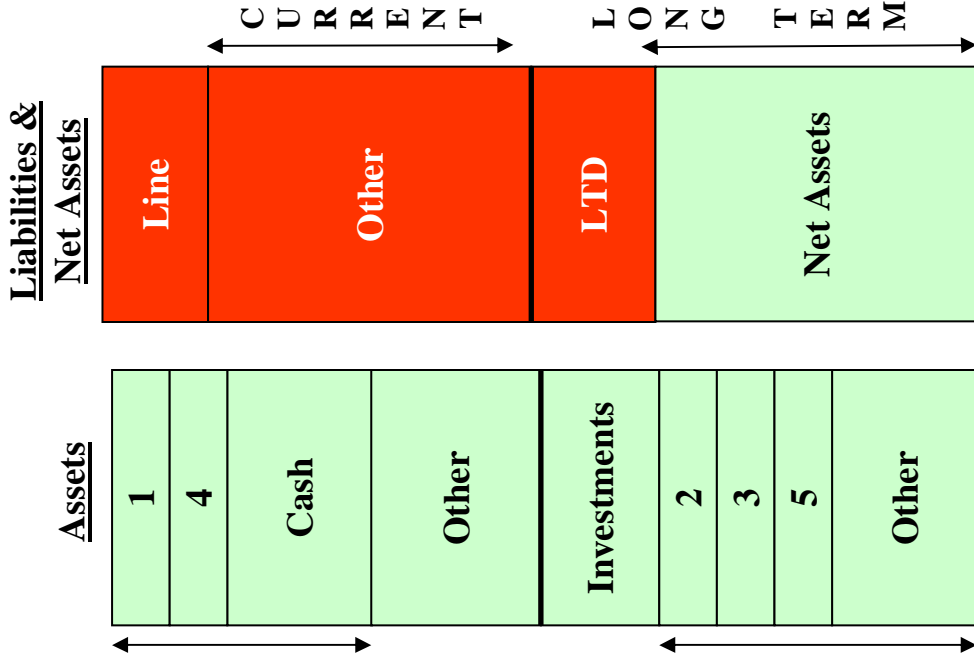


3. Add New Assets



5. Add Growth Assets

Balance Sheet



Excess Increases Net Assets

Strategic Financial Planning