



Keys to Successful ASC Financing

By Boyd Faust, CPA, and Mavis Williams, CPA

When it comes to financing your future ambulatory surgery center (ASC), there's no substitute for preparation. The lenders you're talking with will want to see that you've thought through and planned out the details of your future ASC. In addition, they'll also want reassurance that you're confident in your facts and figures and that you've really done your homework.

In an effort to prove to your lender that your surgery center will be a financially viable and sound investment, we recommend that you look at financing as a process with several key steps.

Understand your cash needs. Before requesting financing from a lender, you must first know what type of cash needs you have and when these cash needs must be met. Cash needs by type include leasehold improvements, equipment, furniture and fixtures, inventory and working capital. In terms of timing, it's important that you lay out your estimated cash draws by month or quarter period, and note their corresponding uses. Whatever you do, do not skimp on your working capital projections. It's easy to underestimate the amount of cash needed for the center to operate while waiting on payor contract negotiations, and to overlook the additional lag once contracts are negotiated. Your financial projections will be a key part of your cash flow homework and will be closely scrutinized by the lenders for the assumptions you have used in them.

Anticipate other key lender evaluation points by accurately and thoroughly profiling your project. Lenders consider all kinds of factors that could pose a risk to your center and its ability to make its anticipated profits. They want to make sure your center has the cash flow required to service its debt adequately in the future — and it's your job to convince them.

Your profile should include key risk items, such as the following:

Specialty and insurance payor mix: What type of cases will be performed at the center? Are you spreading your risk out over more than one specialty? Be prepared to support why cases will be coming to the center and how much revenue they're going to bring in. And don't forget to factor in the new Medicare reimbursement rates.

The number of investor and non-investor physicians participating in the center and their anticipated case volumes: Lenders want to see a solid base of physician investors committed to the center's long-term success. They understand that the ASC industry is competitive and that doctors have numerous facility options.

Restrictive covenants (non-competes): Are there any non-competes in the physician operating agreements? If so, what are the terms? Lenders want to see that the physicians are committed to performing their cases at your ASC vs. someone else's. All of these factors impact your center's stability and potential future revenue.

Payor contracting: Are you considering an out of network strategy? This can be a risky approach since lenders know that the center will experience rate compression in the future.

Management team: Lenders want to see a positive track record for the center's management group. How experienced are they? Have they successfully developed ASCs in the past?

Size: Lenders want to ensure that the facility has been sized properly. Many even have their own benchmarks to determine this. Be prepared to defend your size decisions and the center's anticipated future capacity and growth plans.

State legislation: Have you considered the regulations in the state where your ASC will be located, and anticipated the potential impact of upcoming legislative changes?

Future syndication: Have you planned for additional physicians to join your ASC in the future? In particular, have you set aside treasury stock and a dilution plan to accommodate growth of your ASC?

While many of these are general factors used to determine whether or not to finance a surgery center, lenders do differ. These points

may not be equally important to every lender you consider.

Pick the lenders you want to work with. Be sure to include lenders you've worked with previously, as well as national lenders that regularly finance ASC development projects. I find that I'm often pleasantly surprised by the terms local institutions are able to offer. This is usually due to a previous working relationship the lender has with one or more of the ASC's owners. Remember that relationships still count, even in a business as complex and costly as ASC financing.

You will need to develop a package of information to help the lenders tailor their financing proposals to your specific ASC project. This will usually include, at a minimum, supporting materials such as the financial projections, a brief summary of the project, the operating agreement, the facility lease, and the ownership structure. If you're constructing a new building, it may have an ownership structure that's different from the operating company of the ASC. In addition, you may have more than one lender involved to help finance other items such as the center's medical equipment.

Evaluate all of your lending options. We recommend constructing a simple matrix to help you compare terms. Doing so will help you determine lender differences, strengths and weaknesses, and make choosing the best financing company for your project less stressful. Here are a few key terms to consider:

Equity contribution required: You probably already dealt with this early in the process. On average, lending institutions ask for 20 percent of the project's cost to be funded by the owner's capital contributions.

Guarantees and debt covenants: How much of the loan is personally guaranteed by the individual owners, and how long will this guarantee stay in place? This timing is often referred to as the "burn off." Usually, a debt service coverage ratio must be met for a period of time. Also, make sure you're aware of the exact calculations of the financial ratios that are required (i.e., DSC pre- or post-distributions).

Determining the most beneficial and cost-effective way to finance your ASC project can be time-consuming and tricky.

That's why it's important that you take your time, examine your options and do your homework.

And don't be afraid to ask for help.



Rates and draw down periods: Loan structures can vary depending on whether they allow for an "interim funding" period or whether the loan commences upon loan closing. This is important to understand in determining when your monthly payments will begin as well as when your interest rate actually locks in for each credit facility. The working capital line will often have different rates and terms than the rest of the financing. Additionally, lenders will have different requirements on how and when working capital funds can be drawn.

Payment schedule: This will require you to estimate when the center will open. Try to negotiate an escalating payment schedule that coincides with the ramp-up of the center's operations. For example, during the draw down period, lenders may require that only interest be paid. In addition, for the first six months after opening the center, lenders may have a payment holiday or interest-only payment period before beginning full payments. These payment terms are key to cash flow projections when considering the specific market you're entering and your ability to secure payor contracts. Since unforeseen problems happen, make sure you understand your lender's flexibility in case there's an unexpected delay in the opening of your center.

We recommend that you and your surgery center partners agree on the importance of various terms prior to receiving your lender proposals. Sometimes, personal guarantees can have a higher importance than the rate of interest or vice versa.

Determining the most beneficial and cost-effective way to finance your ASC project can be time-consuming and tricky. That's why it's important that you take your time, examine your options and do your homework. And don't be afraid to ask for help. Colleagues who have gone through the same process will be able to offer advice, along with your state and national ambulatory surgery associations. Whatever path you decide to take, remember that there are people, organizations and resources available to support you. Good luck, and don't go it alone. □

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