Financing for growth

When Dr. Satish Chandra decided to open his fifth full-service imaging center in upper Manhattan, the goal was to equip the clinic with state-of-the-art imaging equipment. But with a potential cash outlay of millions of dollars, Dr. Chandra was faced with shopping for both equipment and a way to finance it.

Kim Woofter, chief operating officer of Michiana Hematology Oncology’s Advanced Centers for Cancer Care, found herself in the same situation when her clinic began discussions with a local hospital to open a world-class cancer clinic. Woofter and her team had a noble goal of building a cancer center where patients could see all of their doctors – from radiology to oncology to radiation oncology – under one roof, but the plan called for more than $7 million worth of sophisticated diagnostic and treatment equipment that just wasn’t in the budget.

Both Dr. Chandra and Woofter knew that once their new clinics were open for business, they would bring in the revenue needed to cover costs, but the upfront cost of the latest and greatest technology seemed prohibitive.

“The joint venture (with the hospital) was a win-win for both Michiana Hematology Oncology and the hospital,” said Woofter. “We got an immediate referral base from the hospital, and our exclusive focus on cancer treatment enables us to offer innovative care. But one of the biggest hurdles to overcome was how to pay for new, state-of-the-art equipment, particularly since we needed the new equipment to generate the revenue to pay for it. It was the classic case of the chicken and the egg.”

Ultimately, both Dr. Chandra and the leadership team at Michiana teamed up with Key Equipment Finance, which made it easy for both organizations to obtain the equipment they needed to open their businesses. Michiana Oncology used an operating lease to acquire CT and PET scan equipment, a linear accelerator and more.

Dr. Chandra chose a Fair Market Value (FMV) lease for his new MRI system, CT scanner and mammography machine. The FMV structure provided lower monthly payments during the normal financing term to help reduce the burden on his new business. His finance arrangement also covered a portion of the construction of the building.

The benefits add up

A recent survey of Healthcare Financial Management Association (HFMA) members shows that a lack of budget is the single biggest hurdle to acquiring new equipment. Cash flow considerations and complicated approval processes are also barriers that prevent healthcare organizations from acquiring or upgrading equipment.

Industry-leading technology is a cornerstone of any modern surgery center. From EHR and practice management systems to diagnostic imaging and surgical robotics, technology is improving patient care, increasing throughput and helping healthcare providers adhere to regulatory guidelines.

At the same time, reduced reimbursements, the migration to ICD-10 and overall uncertainty in the healthcare industry has healthcare providers across all segments concerned about cash flow. Where do physicians find the funds to pay for the technology it takes to remain competitive? Equipment financing may be the answer.
Equipment finance options for healthcare providers

Finance “soft” costs, too – All types of equipment, including soft costs such as installation, training and maintenance, can be bundled into one finance package with predictable monthly payments spread over several years.

Maximize flexibility – In many cases, finance companies can build in extra flexibility to meet the specific needs of a surgery center or clinic. Michiana Hematology, for example, was able to defer its first payment for three months, enabling the cancer center to generate some cash flow in the new facility before the first payment was due. This also allowed the center to use the revenue generated from the new equipment to make the payments on that same equipment, and offered a cash management solution that gave investors a heightened sense of security.

“Coming up with a financing structure that met our needs was a collaborative effort between us and the people at Key Equipment Finance,” said Woofter. “The new center has been profitable since the first quarter, and some of that success is due to the equipment financing structure which helped us manage our cash flow from day one.”

Finding funding

Healthcare providers who are interested in exploring financing as a way to pay for technology have several options when it comes to finding a partner. The same survey of HFMA members shows that 29% of respondents rely on the equipment manufacturer to provide a financing option or to suggest a finance partner. Another 29% turn to their own bank for financing, and 27% seek out a third-party finance partner.

Regardless of which route a healthcare provider takes, it’s wise to do some research. Keep in mind, with FMV leases the finance company will technically “own” the equipment the practice relies upon to provide patient care.
Ask these questions

As a starting point, we recommend asking the following 10 questions before choosing a partner or signing on the bottom line:

1. How will we be using the equipment?
Determine how your practice will use the equipment and the length of time it will be needed. This will help determine the appropriate level of investment for a lease. To help decide if leasing is a profitable financing option, perform a simple cost/benefit analysis that compares the periodic leasing payment to the revenue you expect to generate from using the equipment.

2. How well does the equipment finance company representative understand my business?
Generally speaking, it is beneficial to work with someone who understands your particular market, regardless of the service you are seeking. This is even more crucial with regard to leasing. The equipment finance company’s understanding of market fluctuations and other factors that impact your business can greatly impact the successful outcome and desirability of a lease contract.

For one, leases can vary and lease customization that takes into account individual company needs and requirements such as cash flow, budget, transaction structure, and cyclical fluctuations are a key reason that businesses lease. As an example, seasonal businesses would require lease terms with the flexibility to miss one or more payments without a penalty during their low season.

It is also important for the equipment finance company to understand your business’s tax and cash flow requirements. For tax purposes, lease payments are an allowable tax-deductible overhead expense from corporate income. This eliminates depreciating owned equipment over five to seven years, in accordance with IRS schedules.

Residual rates—the value of the leased equipment at the end of the lease term—are another key reason to work with an equipment finance company knowledgeable about your market. When an equipment finance company has the knowledge and experience to set the residual accurately, they can provide you with the best possible lease payment schedule. Most importantly, the equipment financier can be considered a valued consultant, providing additional benefits through lifecycle asset management solutions.

3. What are the total lease payments and costs?
Asking this question will eliminate any future misunderstandings about the number of payments, the total monthly payment due, and any additional costs related to insurance, taxes and other charges. In addition, ask if there are additional costs associated with the lease that may occur during the course of the lease term, including late payment fees and other surcharges.

4. What happens if I want to change or end the lease early?
If you wish to terminate a lease earlier than originally contracted, it is important to remember to understand the terms of your agreement. A lease is a contract between two or more parties creating obligations for those parties, thus changes such as to terms or length of time requested after signing and not set forth in the original agreement could result in additional payments or charges.

On the other hand, a master lease, which controls later leases or subleases, is designed to facilitate changes in leasing needs, and is an option that many businesses choose. This type of leasing contract permits the leasing of certain assets and also enables the acquisition of additional assets under the same basic terms and conditions without negotiating a new contract, thus providing maximum flexibility.

5. What is my responsibility if the equipment is damaged or destroyed?
You should know your practice’s liability for the equipment you are leasing before you sign a lease agreement. This question will help you to determine whether you must pay for or replace lost or damaged equipment.

6. Do I have any other obligations for the equipment?
Find out if your equipment finance company will assume the costs for the equipment’s insurance, taxes and main-
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tenance. Be sure these conditions are clear and included in your lease agreement, and review these provisions with your equipment finance company representative. Also, determine if you prefer an option where the equipment finance company is required to handle installation, maintenance, asset management and tracking and other services or if these services are your obligation.

7 How can I upgrade or add equipment under this lease? Unless you opt for a master lease, additional equipment acquisitions will most likely require new leasing contract negotiations. Healthcare practices may well anticipate growth in the future and should negotiate an option to add equipment under original terms and conditions when structuring a lease program.

8 What are my options at the end of the lease? At the end of the lease, your options are to: (a) return the equipment, (b) purchase the equipment at fair market value or a nominal fixed price, or (c) renew the lease. Determining the option you will take and specifying it in the original lease agreement is important. If you choose to purchase at lease end, ask when you will receive the title.

9 What procedures must I follow if I choose to return the equipment? Find out whether you must return the asset to the equipment finance company, and what documentation and packaging materials are required upon its return. You will want to know who will pay for shipping or delivery and when the equipment must arrive at the equipment finance company after your lease ends.

10 Are there any extra costs at the end of the lease? In any contractual agreement, unforeseen fees and costs should be avoided whenever possible. In addition to the costs inherent at the outset and during the term of the lease, ask if there are any additional costs that could be incurred based on your account activity, such as late payments. Know when all payments, fees and costs are due.

The more questions you ask, the more information you will have in order to make an informed decision about lease financing. Knowing the right questions to ask will put you in the strongest position possible as you acquire equipment, so that you are able to focus on making strategic use of equipment at a time when businesses need every advantage possible to stay afloat and be competitive.

To learn more:

Contact Mark Hoffman at 248-840-2031 or mark.e.hoffman@key.com
Visit www.kefonline.com/business/healthcare.htm

Key Equipment Finance

Key encourages all clients to consult their tax, legal or financial advisor before entering into any equipment finance arrangement.

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