



UNDERSTANDING PACE

PACE PROGRAM DEVELOPMENT CONSIDERATIONS:

Sources of Financing

The sources of financing available to and selected by a PACE organization will reflect the mission and size of the sponsoring organization, the need to offset initial operating losses as the PACE program grows, and the general availability of financing options for start-up businesses.

As an organization considers its financing options, it is useful to distinguish the asset-based financing that will be required from financing that is not asset-based:

Asset-based financing: This is financing that will go toward the purchase or development of an asset that can be used as collateral for the financing. For example, financing for the construction of a PACE center, which then becomes an asset of the PACE organization, would be asset-based.

Financing for Operating Expenses: This is financing for expenses associated with operating the PACE program for which there is no tangible asset (e.g., financing needed to cover staffing costs prior to the opening of the program or cover operating losses while the program grows). The ability to cover these loans is based on the program's financial projections for positive net revenues (i.e., operating eventually where revenues exceed costs).

Generally, financing terms for loans that are secured by an asset will be more favorable while loans for operating expenses are considered riskier, and therefore the loans for these expenses are more costly.

Charitable Gifts and Donations

For organizations with a mission of charitable care, foundations and individuals that share their mission may be willing to fund PACE start-up through charitable grants and donations. Historically, foundation and gift support for PACE start-up has been a significant source of funding for new PACE organizations. Charitable sources of funding can be particularly useful in funding the planning costs that go into a new PACE program and offsetting the operating losses the program will face as it grows. Planning costs and start-up losses often are the most difficult expenses to fund commercially, as they provide no asset to secure a loan.

Conventional Loans

Other costs associated with start-up that do provide an asset, such as vehicle purchase or facility construction, offer commercial lenders more security, as the asset may be liquidated to offset any default on the loan or investment. Thus, banks will offer conventional loans to build or purchase a facility and purchase vans for a van fleet. The terms of conventional loans (repayment time period, interest rate) available to a new PACE organization will vary based on market conditions, the organization's history, and the availability of assets as collateral for the loan. Organizations with a financial history, or with a sponsoring organization that has a financial history, will be assessed based on this when requesting a conventional loan. Start-up organizations without the backing of a parent organization will need to present a business and marketing plan to support their request for funding.

Guarantees

Guarantees by a related organization offer security and collateral. A guarantee may be limited to a part or all of the debt. Guarantees may "burn-off" as the PACE program moves from start-up to a stable operation, or when the program attains some prenegotiated benchmarks.

Construction Loans

Banks also issue construction loans, but these differ from general loans in terms of how their total amount is determined and how they are paid to the requesting organization. The value of a construction loan is determined by the assessed value of the property to be constructed. Construction loans provide periodic advances to support the costs of building the property. The duration of a construction loan usually is one to two years, with payment for the construction loan rolled into a larger, longer-term form of financing, such as a conventional loan or bond financing.

Tax-Exempt Bonds

Bonds represent a promise by the borrower, through an issuing authority, to an investor to repay a debt at a certain interest rate and term. State and local governments are authorized to issue a limited amount of tax-exempt bonds for nongovernmental purposes, such as PACE. Tax-exempt bonds exempt the holder of the bond from paying taxes on the interest received. When these tax-exempt bonds are issued for a nongovernmental purpose, they are issued through a variety of designated authorities, which may include: local governments, economic development authorities, hospital or health care authorities, housing authorities and educational authorities. Tax-exempt bonds issued by these designated authorities are backed by the organization receiving the proceeds from the bonds, not by the state or local government. Thus, the designated authority is acting primarily as a conduit through which the borrower can access financing via the issuance of tax-exempt bonds. Because tax-exempt bonds do not require a tax payment on the interest paid to the investor, investors are willing to purchase these bonds for a lower interest rate. The lower interest rate reduces the cost of capital to the PACE organization. The overall amount of bond financing that may be issued by a state and the type of financing is limited by federal tax code and state legislation. The PACE organization needs to be a qualified 501(c)(3) organization or a project undertaken by such an organization to advance its mission.

Related Housing Financing

A number of state and federal programs exist to provide advantageous financing for the construction of low-income housing and the development of assisted living projects. By incorporating these elements into the overall financing of a new PACE program, a sponsoring organization may be better able to obtain financing for the Elements of PACE start-up that do not generate an asset (e.g., development costs, initial operating losses). The connection with housing provides a considerable asset base, along with the PACE day center, to increase the total asset value of a project relative to the total loan value.

State Financing

In some cases, new PACE organizations may be able to obtain start-up funding from their state. States committed to expanding PACE services can direct funding to offset initial start-up operating losses as the PACE program grows its enrollment or support the costs of planning and development.



For additional information and assistance, visit the National PACE Association website at www.NPAonline.org or a technical assistance center to discuss options for constructing a business plan for PACE.