

THE JOURNAL OF PHYSICIAN-OWNED REAL ESTATE

Volume VI
PRESENTED BY CMAC PARTNERS

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SALE / LEASEBACK ALERT!

Windfall for Some Partners Leaves Other Partners Footing the Bill



Greg Warren
Managing Partner

I hate to admit it, but I am old enough to clearly remember The Steve Miller Band singing "Take the Money and Run". I just didn't know that it described the physician-partners who walk away from a debt obligation and leave the repayment for the rest of their partners or, worse, those that may be future partners.

The stage is set whenever a group of partners agrees to pay an above-market lease rate so that a REIT or some other buyer will pay a higher purchase price. The premise is simple. The buyer pays an increased purchase price in return for the seller agreeing to an increased rental rate over the lease term, which is often 15 years or longer. It

is likely that idea is flawed from the beginning, as an analysis would show that the present value of the increased rental payments is greater than the premium received. However, there are much greater problems that may occur that can have very serious practical, ethical or legal implications

The problem occurs when one or more of the selling members leave the practice (tenant) prior to the maturity of the lease. Let's remember that the retiring member received a premium payment in exchange for their promise to pay a premium rent over the term of the lease. However, when the member leaves the practice prior to the lease term expiring, that member is no longer repaying his or her portion of the rent premium that is still due. That partner or those partners have just ducked out from paying their portion of the tab that is due

(Continued on page 9)



Olympia Ortho Financing Goes from Very Good to Great

Follows Rothman Institute Precedent



Steve Pishko
Partner

In 2015, Stephen Curry broke the single season mark for 3 pointers by sinking 280. What is a body to do in 2016 after setting a mark like that in 2015? Set a new one, of course. How about 402?

When CMAC Partners took on the engagement from Olympia Orthopaedics, we thought "this must be what it feels like to be Steph Curry coming off a record 2015." Olympia had done a great job over the preceding years in negotiating with their bank to arrive at a very narrow loan spread and had shed their personal guarantees. Talk about a challenge!

A few months later, CMAC walked away from the closing feeling like Steph Curry

in 2016. The spread wasn't just bettered; it was demolished: a reduction of such impact that it would translate to interest savings of more than \$750,000 over the new loan term. Equally important, the refinancing significantly improved the cash flows to the partners.

The impressive outcome was a result of having a strong practice and combining that with the leverage that CMAC creates through its billion-dollar plus portfolio of healthcare loans it has secured. CMAC issued its RFP and negotiated simultaneously with nearly 20 prospective lenders before the final terms were concluded. The Olympia story of this year is reminiscent of the Rothman Institute report from the previous year. It is a clear reminder of just what can be accomplished using the combined strengths of two great organizations.

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Three Keys to Getting the Best Rates and Terms

Tips from a Banker: An Interview with CMAC's Director of Finance



Liz Allport
Partner

As CMAC is responsible for placing nearly a half billion dollars a year in medical real estate debt, we've had vast opportunity to determine what works best to obtain favorable loan terms. It comes down to three key items outlined below. These assume that we start with a good credit healthcare client. While an individual borrower may not have the same resources as does CMAC, everyone has some degree of these resources to apply.

1. Cast a Wide Net

In today's lending environment, we never know which lender is going to be most competitive. In one instance, it may be a small local lender that wants to make a big splash in the market and the next may be a large national lender looking for inroads into a new territory. We typically issue an RFP to over a dozen banks because we have the staff to handle communications and ne-

gotiations with all bidders simultaneously. A single borrower should put out an RFP to a minimum of 8 potential lenders.

2. Employ Leverage

A half billion dollars in annual placements carries significant weight. While a single borrower can't manage that kind of leverage, they can ensure that they are using all they have at their disposal. The greatest

leverage a single borrower has is the related depository business of the practice and the personal banking of the partners. By invoking that potential, the borrower has meaningful leverage to improve the real estate loan terms.

3. Utilize Data

By having access to hundreds of proposals from across the United States, CMAC

knows what the best deal terms look like and can direct the banks toward those benchmarks. Recently a proposal in Iowa helped impact a proposal from the same bank in Jacksonville, Florida to the substantial benefit of the Florida borrower (see Case Study, CSNF). Prior to that, the Iowa borrower's loan was improved using leverage from a previous deal with the same bank in Idaho. While a single borrower won't have the availability of that amount of data, they can exchange information with other groups which have recently financed to get a sense of what they have accomplished. The more data a borrower has, from similar borrowers both in their market and around the country, the better positioned a borrower is to negotiate meaningfully.

By focusing on these three items, we have seen some remarkable outcomes that far exceeded initial expectations. Using this "Three Key" approach on an individual basis will, without question, give single borrowers better results than they could otherwise expect.



Are Your Retiring Partners Stealing Your Equity?

They May Be If Your Swap Is Underwater

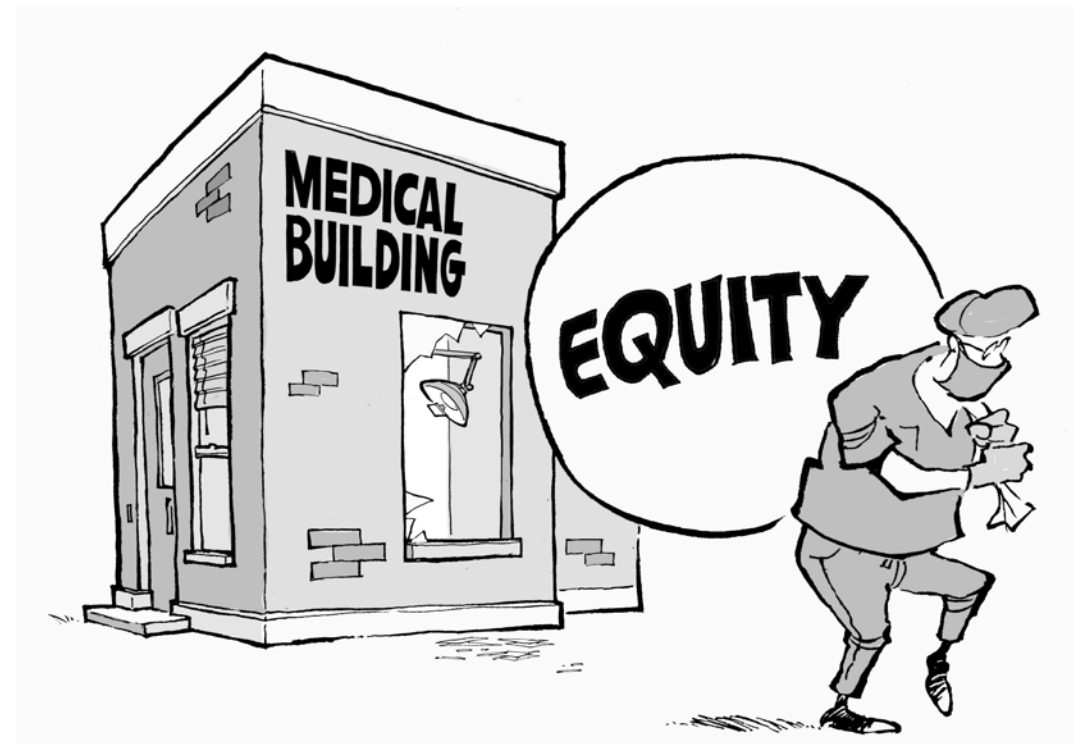
"THIS ARTICLE ORIGINALLY APPEARED IN AN EARLIER EDITION AND HAS BEEN BROUGHT BACK BECAUSE OF ITS TIMELY IMPORTANCE."

A North Georgia real estate LLC consisting of ten equal partners recently bought out three of the partners. Under the terms of the Operating Agreement, the property was appraised and the partners were paid their respective portions based on the equity available. The appraised value was \$10,000,000 and the remaining debt was \$7,000,000, leaving \$3,000,000 of equity. Each partner received \$300,000 (10% of the equity).

Sounds fair, right? Far from it. In this case, the outgoing partners received TWICE the amount that they would have realized

had the building been sold and the equity distributed. This occurred because the calculation of equity failed to consider the worth of the interest rate swap at the time of valuation. In this example, the interest rate swap had a Mark to Market (MtM) value of negative \$1,500,000. If the partners had sold the building for the appraised value of \$10,000,000, they would have had to repay the remaining debt of \$7,000,000 AND the termination of the swap of \$1,500,000. Each partner would receive \$150,000 from the sale as their portion of the equity... NOT \$300,000.

Not only did they overpay the retiring



partners a total of \$450,000, but each remaining partner was left with only \$85,714 in equity as opposed to \$150,000. If the buyouts had been calculated with the all-in value considered, each remaining partner would have retained his true equity of

\$150,000. This pitfall can easily be avoided by obtaining an MtM value from a reputable third party such as CMAC Partners. In this case, it's a reversal of the old adage which should now read "let the SELLERS beware".

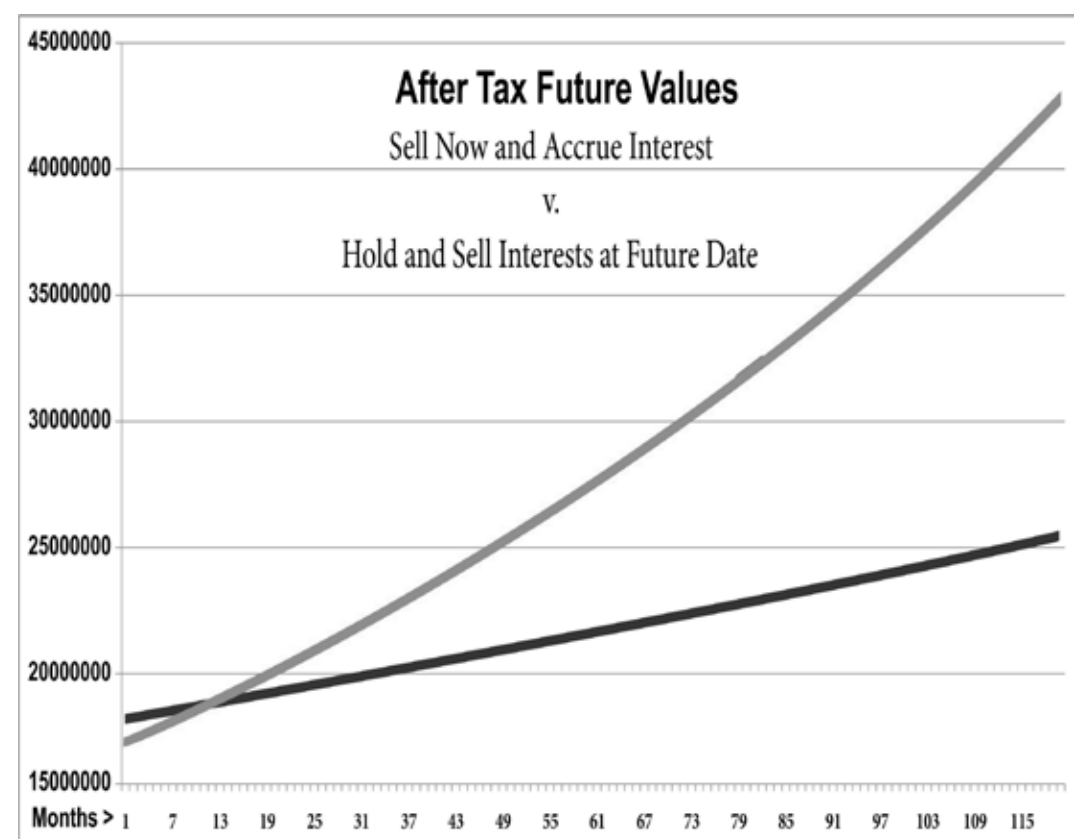
Sell v. Hold?

Model Gets High Grades from CPAs

A proprietary model that allows potential sellers to compare future after-tax cash values of selling versus holding physician-owned real estate has come into wide use with those looking to make better informed decisions. CMAC's "MedVest" model has received praise from CFOs and CPAs because of its versatility and ease of use. The model allows users to enter their own data and assumptions for factors that include items such as lease rates, annual escalations, taxes, depreciation, cap rate increases and reinvestment rates of return. In all, there are 23 variables that can be individualized. The MedVest algorithms permit users to continually adjust variables to test possible outcomes.

The MedVest reports (see example) do not advise on action but rather provide data so that groups can make the decision that is most appropriate for them. Often times, the right decision is different for different members. In those cases where certain members wish to divest and others wish to hold, MedVest assists in structuring a re-syndication and provides the revised outcomes for the remaining group.

MedVest reports were recently used by a large orthopaedic group in the Southeast to assist in its member's evaluations. It was found that MedVest could generate information immediately upon input that was taking highly-paid consultants weeks to turn out.



Understanding the Downside of Long Term Fixed Rates

Why Banks CANNOT be Unbiased

By JP Conklin, Pensford Financial



“Beware of Greeks bearing gifts.” The same may be said of banks bearing long-term fixed rates, an updated version of the Trojan horse. Make no mistake; it is difficult for a bank to be impartial when employing swaps to fix long-term rates. The longer the term, the more money the bank makes and that money is coming directly from the borrower’s pocket. A bank cannot be objective when the right choice for the borrower might mean a reduced profit to the bank.

Do Your Homework!

There are great tools available to create transparency and provide full information so that a borrower can make a fully in-

formed decision. The most basic of those is a sensitivity analysis that quantifies for the borrower the premium they are paying for each additional year of fixed rate assurance. Recently, a CMAC borrower was considering whether the group should fix its rate for 7 years or for 10 years on a \$15 million loan. The bank had quoted a rate for a 10-year fixed rate that was 0.45% higher than a 7-year fixed rate. In order to help in the decision, the Pensford Financial Group produced a sensitivity analysis that provided needed answers such as the fact that:

- **The borrower will pay \$437,084 in additional interest for the first 7 years in order to fix the rate now for the last 3 years. A form of an “Insurance Premium”.**
- **The bank made an additional profit of \$76,250 by selling a 10-year fixed rate instead of a 7-year fixed rate and, therefore, cannot be unbiased.**
- **If the borrower were to wait 7 years to fix the rate on the last three years of the loan, the 3-year fixed rate would**

need to have climbed by more than 1.70% above the currently offered 7-year rate before any savings would have been created from taking the currently offered 10-year fixed rate.

The question for the group then becomes one of “risk tolerance” and two basic questions must be considered.

1. **What is the likelihood that in 7 years time a 3-year rate will cost more than 1.70% above a 7-year rate today?**
2. **What is the probability that the group will still have this loan in place for those last 3 years? Will we have refinanced or sold the property?**

The bottom line is that there are no “right” or “wrong” decisions, there are only “informed” and “uninformed” decisions. The tools are out there, as well as the professionals to use them. Best advice: Make sure to look at the Financial MRI before cutting into a hedge. Not doing so may produce some unexpected and unwelcome outcomes (see Orthopedic Case Study below).

JP Conklin
Pensford Financial

Mr. Conklin is a Principal at Pensford Financial and a formerly headed the Los Angeles swap desk for Wells Fargo Bank. Pensford Financial serves borrowers across the country in development and execution of hedging strategies, including interest rate swaps, caps, and collars. Pensford also assists clients in the termination of hedges that include interest rate swaps, yield maintenance prepayments, and defeasance. Mr. Conklin can be contacted at jp.conklin@pensfordfinancial.com.

CASE STUDY

How a 20-Year Fixed Rate Cost an Orthopedic Group Nearly \$1,000,000

There was every reason to trust the banker. The practice had enjoyed a long-term relationship with the bank and one of its physicians sat on the bank’s local board. So when the bank recommended fixing the real estate loan for the next 20 years with an interest rate swap, the group felt comfortable.

Because of its comfort level, the group did not seek the assistance of a swap advisor to provide a sensitivity analysis of the hedge options or to negotiate the swap spread (hidden bank profit). Had the group been more informed and had its own advocate to represent them in this complex derivative transaction, they would have learned the following in comparing this with a 7-year fixed rate:

1. **The bank increased the actual cost of the swap by approximately .79% for its profit.**
2. **That .79% created \$458,500 additional profit for the bank / cost to the borrower (present value).**

3. **The cost of the 7-year swap would have been \$272,000.**
4. **The bank made an additional \$186,500 by selling the 20-year in lieu of the 7-year swap.**

While the contract contains a provision that allows the swap to be terminated by the borrower after 10 years, that provision only has value in the event of a termination. At the time of this writing the swap had a negative value of roughly \$1,645,000. However, the termination provision would bring that to just north of \$900,000.

In the above case, the bank stood to nearly double its profit, (the additional \$186,500) by selling a 20-year fixed rate instead of a 7-year fixed rate. That differential makes objectivity difficult. Had the doctors known all of the facts going in, they might have made a very different decision about paying a hefty sum to protect the rate for the final 13 years when there is a small likelihood that the loan will still be in place.

Moving Your Bank to the Bottom Line

The Wakeup Call – A CMAC Partners’ RFP



Nicole Rosica

It’s a recurring theme that makes our clients a little bit crazy. How, after an extended negotiation with their bank who may have won a bid and assured the borrower that they were as low as they could go, could they move so much lower in response to a CMAC RFP?

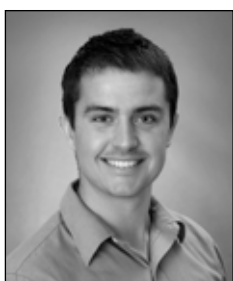
kets and bring the most aggressive pricing to that borrower’s local market.

The examples below represent borrowers who received improved offers from the incumbent bank after CMAC’s RFP and the amount of that improvement.



There are two keys that CMAC holds which are used on behalf of our clients to make the “lowest possible price” a starting point. Those keys are leverage and data. CMAC secured nearly a half billion dollars in financing last year exclusively in physician-owned real estate. That’s a big stick to wield on behalf of any medical group. Secondly, CMAC sees hundreds of proposals from every part of the country every month and uses those proposals to “globalize” the mar-

Group	Location	Additional Reduction from Incumbent Bank after CMAC RFP (bps)
Surgical Hospital and MOBs	Philadelphia, PA	77
Orthopaedic MOB	Olympia, WA	60
MOB	Lafayette, LA	100
MOB	Tyler, TX	154
MOB / ASC	Fresno, CA	93
MOB	Moline, IL	75
Surgical Hospital	Baton Rouge, LA	163
Multi Specialty Clinic	Lexington, KY	70



DID YOU KNOW?

Andy Johnson, Partner with CMAC Partners, at age 15, was ranked #32 in the United Kingdom in tennis for boys under 18!

Andy never got much better, was forced to earn his MBA and is now relegated to eking out a meager living as a partner at CMAC. Still, it is best to leave your wallet at home when walking on the court with Andy as your opponent.

Low Rates— Borrowers Beware

Three Ways to Prevent Being “Jobbed” by a Bank



Peter Kokins

In 1972, Steve Jobs was given a particularly difficult project by Atari who offered \$700 if he could reduce the number of chips required for a computer game. Because Jobs felt the assignment was a bit beyond his own capability, he reached out to his friend, Larry Wozniak, and offered to split the promised \$700 fee evenly. Wozniak so far surpassed expectations that Atari paid \$5,000 to Jobs rather than the \$700. Jobs said nothing to Wozniak and paid him \$350, which Wozniak thought was 50% of the fee. Wozniak didn't find out until years later and said he cried when he learned the truth.

The same thing is happening to a growing number of borrowers having fixed rates (not swaps) with banks. With the precipitous fall in rates over the last several years, banks are “jobbing” these borrowers by offering substantial interest rate reductions on current or terming loans. However, these reductions represent only a portion of what the borrower could receive in the open market with the bank pocketing the difference.

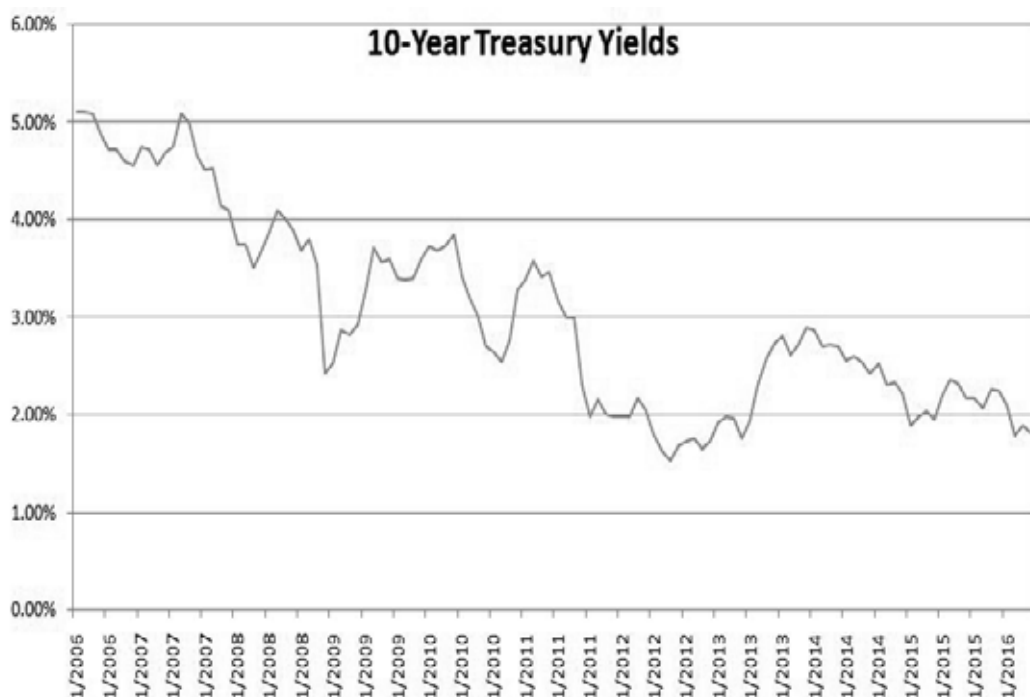
Consider the example of the Illinois-based medical group that had a \$15,200,000, 4-year old loan with a fixed rate of 4.95% with 6 years remaining. The group's bank came to them and offered to proactively drop their rate by 60 basis points (.60%) for a minor modification fee and a resetting of the prepayment penalty. The bank

pointed out that the reduction amounted to more than \$535,000 in interest savings and the borrower was thrilled; at least until the borrower learned that the same bank had provided a new loan to a different medical group at a rate that was yet another full 1% less, which would have resulted in an additional \$892,000 that the bank retained. The problem, however, was that the borrower could do nothing because the bank had just reset the prepayment penalty. When the borrower questioned the banker, all it received was some double talk regarding rate variations.

How then, as a borrower, are you supposed to know where the new market level should be and what you can do to avoid being “Jobbed” by your bank? There are three basic rules:

1. Vet the market by issuing an RFP to at least eight competitive lenders. Don't ever trust market data that isn't validated by a large number of market sources.
2. Don't reset the prepayment penalty! If you have been with a lender and the lender wants to keep your business, let the banker earn it. The bank's initial investment in you has been repaid.
3. Don't be rushed or bullied. The markets didn't get to these levels overnight and they aren't going to grow any quicker. Take your time to receive and evaluate the offers before making a decision.

By following these guidelines, you will be positioning yourself to take the fullest advantage in favorable market fluctuations and assuring yourself your full due.



The “Eyes” Have It

Ophthalmology Sets New Marks

Richmond, Virginia and Bettendorf, Iowa may have more in common than one might initially think. Both cities serve as home for two highly regarded Ophthalmology practices, and both made some notable improvements in their financing this last year.

Virginia Eye Institute (VEI) is headquartered close to the University of Richmond campus and has 24 providers. While the company enjoyed a good relationship with its existing banks, the leadership felt that best business practice should be maintained by revisiting the financing market. After speaking with similar practices around the country, VEI turned to CMAC. The group

owns four medical office buildings and had fairly disjointed financing across numerous loans. CMAC was able to secure a deal with one of the incumbent banks that resulted in a simplified structure at significantly improved rates and terms with no personal guarantees. The new loan also provided substantial cash out to the owners. The executive team and ownership were thrilled with the outcome and the management of what can sometimes be an arduous process: “Once again, thanks for the great work done on this project by your team. It's been a very good experience. Our doctors will be most pleased when we deliver their distribution checks at our partner meeting this Friday. They are all scurrying around trying to find



Personal Guarantees

THE REAL RISK



Andy Johnson
Partner

While most of us are aware of the most obvious reasons for loan default (not paying back the money), a more common risk of default comes with the breach of covenants. Many borrowers are routinely in default without even being aware and are putting themselves in harm's way. Personal Guarantees are the primary cause of such defaults.

Personal Guarantees generally include a requirement that updated personal financial statements be provided by each guarantor on an annual basis. Beyond the hassle factor for whoever is charged with the collection of these documents is the reality that at least one of the partners will invariably fail to submit financials on time. That is a technical default. While your local banker who has always serviced your account may turn a blind eye, that can change in an instant when the bank gets acquired or a regulator comes in to inspect documentation. Many loan documents don't have a “cure period”, so turning in late financials doesn't automatically end the default.

While the idea that a bank would call the loan based on this type of technical default sounds farfetched, CMAC has witnessed a spate of such actions by banks who may be looking for an excuse to remove or improve a loan that was added through acquisition

or that does not meet its current portfolio standards.

Personal Guarantees are just one of the many technical defaults to be aware of. Others such as loan-to-value (LTV) or Debt Service Coverage (DSC) ratio also trigger defaults. Consider the case of a doctor-owner in Fort Myers, Florida who was cited for a breach when his property's value declined below the specified LTV in the documents. The bank used this technical default to terminate the loan. Of course, the borrower could not come up with funds to immediately pay, so the bank offered a new loan at a much higher rate. In this way, the bank was able to legally increase the yield on a long-term client.

Another common technical default is not meeting the specified DSC ratio. Even with the most lenient DSC of 1.0x (every penny made that year can be distributed) may be inadvertently broken if a practice estimates net income when making year end distributions.

It is important not to leave yourself unnecessarily exposed to technical defaults. It's like having your head on the chopping block: even if you trust the person wielding the axe above you, it's an uncomfortable situation.



a way to spend it”.

Bettendorf, Iowa is one of the Quad Cities that also include Moline, Illinois, which is the home of ORA Orthopaedics. Based on ORA's experience with CMAC, ORA's CEO suggested that Eye Surgeons Associates in Bettendorf might also benefit as a CMAC client. Through CMAC, Eye Surgeons didn't merely improve its financing;

it set a new mark for competitive pricing across the country. By partnering with a bank eager to increase its medical market share, some of the skinniest pricing CMAC has ever arranged was secured for the ophthalmology practice. The bank was willing to forego its normal level of profitability in order to build a relationship with this well-established Eye Group.



**CMAC
Partners**

WE KNOW ORTHOPEDICS

Sierra Pacific Orthopedics
Fresno, CA

Rothman Institute
Philadelphia, PA

Texas Orthopedics
Austin, TX

The San Antonio Orthopaedic Group
San Antonio, TX

Hope Orthopedics of Oregon
Salem, OR

Moore Orthopedic Clinic
Lexington, SC

OrthoWilmington
Wilmington, NC

Fox Valley Orthopaedics
Geneva, IL

Carrolton Orthopaedic Clinic
Carrolton, GA

Orthopaedic Associates of Central Maryland
Baltimore, MD

Olympia Orthopaedic Associates
Olympia, WA

OrthoCarolina
Charlotte, NC

Orthopaedic Associates USA
Plantation, FL

Foot & Ankle Group of SW Florida
Fort Myers, FL

Louisiana Orthopaedic Specialists
The CORE Institute, Lafayette, LA

Orthopaedic Associates
Albany, GA

Orthopaedic Specialists of the Carolinas
Winston-Salem, NC

Azalea Orthopedics
Tyler, TX

Tulsa Bone and Joint
Tulsa, OK

Kennedy-White Orthopaedic Center
Sarasota, FL

Arkansas Surgical Hospital
Little Rock, AR

Raleigh Orthopaedic Clinic
Raleigh, NC

OrthoTennessee
Knoxville, TN

Carolina Orthopaedic Specialists
Hickory, NC

Orthopedics Center of Florida
Fort Myers, FL

Athens Orthopaedic Clinic
Athens, GA

Triangle Orthopaedic Associates
Durham, NC

Bone and Joint Group
Clarksville, TN

Low Country Ortho and Sports Medicine
Charleston, SC

Alabama Orthopaedics
Mobile, AL

Orthopaedic Associates
Fort Walton Beach, FL

North Carolina Surgical Hospital
Durham, NC

Tampa Bay Orthopaedics
St. Petersburg, FL

Orthopedic Physicians of Anchorage
Anchorage, AK

Orthopedic Associates
St. Louis, MO

Lafayette Surgical Specialty Hospital
Lafayette, LA

Augusta Orthopedics
Augusta, GA

Palm Beach Orthopaedic Institute
Palm Beach, FL

D1 Sports Training
Columbus, OH

Bayside Orthopedics
Mobile, AL

Fowler Sports Medicine and Orthopaedics
Tuscaloosa, AL

ORA Orthopedics
Moline, IL

Wooster Orthopedics & Sports Medicine Center
Wooster, OH

Tallahassee Orthopaedic Center
Tallahassee, FL

PRIMECARE EMERGENCY CENTER

Sugarland, TX

\$2,900,000

**Arranged SBA financing for 90%
LTC start-up costs including
build-out, equipment, and line
of credit for a new, freestanding
emergency room operator**

AUSTIN REGIONAL CLINIC

Kyle, TX

\$6,700,000

**Reduced loan spread with existing
lender on two medical office
buildings without personal
guarantees**

OLYMPIA ORTHOPAEDIC ASSOCIATES

Olympia, WA

\$17,275,000

**Locked in a 10-year fixed rate of
3.045% on a real estate loan with
no personal guarantees which
dramatically reduced interest
expense and the monthly payment**

EYE SURGEONS ASSOCIATES

Bettendorf, IA

\$7,000,000

**A non-recourse 10-year loan was
secured with a new bank at a fixed
rate of 3.06%**

MOORE ORTHOPEDIC CLINIC

Columbia, SC

\$25,000,000

Refinanced existing medical office building and arranged financing for a new medical office building at 100% LTV/LTC

CANCER SPECIALISTS OF NORTH FLORIDA

Jacksonville, FL

\$17,500,000

Refinanced existing debt on medical office buildings above 85% LTV while reducing the fixed rate by almost 1.50%

VIRGINIA EYE INSTITUTE

Richmond, VA

\$18,000,000

Refinanced 4 loans for medical office buildings with an incumbent lender at significantly reduced pricing with no personal guarantees

AZALEA ORTHOPEDIC

Tyler, TX

\$9,000,000

Consolidated all of the related real estate debt with one of the incumbent lenders with a 15-year loan that has no prepayment penalty while pulling out over \$3 million of cash out



CMAC Partners

WE KNOW MEDICAL

Ophthalmology

Retina Consultants of Southern Colorado Colorado Springs, CO	North Carolina Eye, Ear, Nose & Throat Durham, NC	Eye Associates of Colorado Springs Colorado Springs, CO
Ocala Eye Surgeons Ocala, FL	Eye Associates of Boca Raton Boca Raton, FL	LaserVue Orlando, FL
Eye Institute of West Florida Largo, FL	St. Louis Eye Surgery and Laser Center St. Louis, MO	Huntsville Laser Center Huntsville, AL
Ophthalmology Consultants St. Louis, MO	Bay Eyes Cataract and Laser Center Fairhope, AL	Eye Center of North Florida Panama City, FL
Visual Health Lake Worth, FL	Laser & Surgery Center of the Palm Beaches Palm Beach Gardens, FL	Eye Specialists of Mid-Florida Winter Haven, FL
	Virginia Eye Institute Richmond, VA	The Eye Clinic of Florida Zephyrhills, FL
		Eye Surgeons Associates Bettendorf, IA

Hospitals

Arkansas Surgical Hospital Little Rock, AR	The NeuroMedical Center Surgical Hospital Baton Rouge, LA	Lafayette Surgical Specialty Hospital Lafayette, LA
Catholic Health/St. Francis Hospital Colorado Springs, CO	Rothman Orthopaedic Specialty Hospital Philadelphia, PA	Ohio Valley Surgical Hospital Springfield, OH
Springhill Medical Center Mobile, AL	The Breast Cancer Center at Physicians Medical Center Houma, LA	Heritage Park Surgical Hospital Sherman, TX

Cardiology

Florida Heart Group Orlando, FL	Orlando Heart Orlando, FL	CardioVascular Associates Birmingham, AL	Southern Cardiovascular Gadsden, AL
Northeast Georgia Heart Gainesville, GA	Abilene Cardiology Abilene, TX	Savannah Cardiology Savannah, GA	Pima Heart Tucson, AZ
Sutherland Cardiology Clinic Memphis, TN	Alabama Heart & Vascular Medicine Tuscaloosa, AL	Clearwater Cardiovascular Clearwater, FL	

Multi-Specialty Groups & MOBs

Austin Diagnostic Clinic Austin, TX	The Doctors' Clinic Salem, OR	The Oregon Clinic Portland, OR	Austin Regional Clinic Austin, TX
Valley Medical Center Lewiston, ID	Northeast Georgia Diagnostic Clinic Gainesville, GA	Medical Care PLLC Elizabethton, TN	
Audubon Medical Office Building Colorado Springs, CO	The Lexington Clinic Lexington, KY	Black Warrior Medical Center Tuscaloosa, AL	

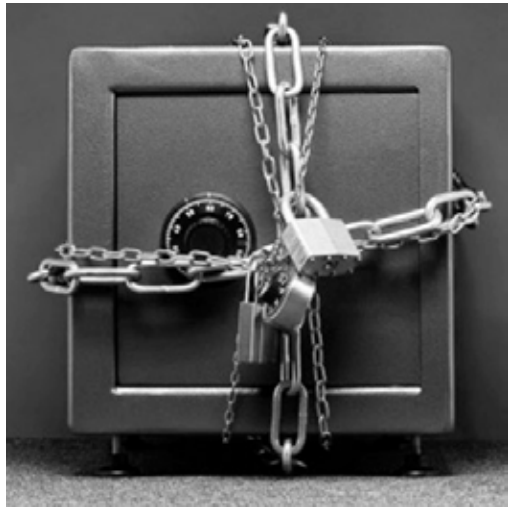
Surgery Centers

Hilton Head Surgical Hilton Head, SC	Same Day Surgery Center Zephyrhills, FL	Palmetto Surgery Center Columbia, SC
TLC Outpatient Surgery Lady Lake, FL	Surgery Center of Southern Oregon Medford, OR	Hollywood Surgical Center Hollywood, FL
Southpoint Surgery Center Jacksonville, FL	Surgical Solutions Covington, LA	Blue Water Surgery Center Port St. Lucie, FL

ASSET PROTECTION

Creating Operating Agreements to Assure Continuity

By Michael Okaty and Pamela Brown



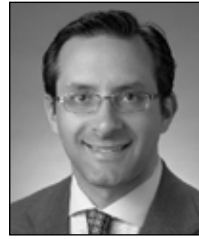
New physicians entering medical practice, physicians retiring from medical practice and the general migration of physicians from one practice to another raise many practical issues. One very important but often overlooked issue is the ownership interest in physician entities and the real property that such entities own. Unfortunately, these issues are often not addressed until an issue arises, and the path to resolution can be difficult and frustrating for all parties involved.



Pamela Brown
PBrown@foley.com

In light of the fact that medical professionals generally cannot limit personal liability for malpractice through corporate ownership, asset protection planning is fundamental. The separation of real es-

tate assets from the core medical practice business is a key method of doing so. The creation of these entities and the structure to accomplish such separation includes the proper entity structuring format as well as a proper lease agreement that serves to maximize physician protection.



Michael Okaty
MOkaty@foley.com

The disparity of ownership between physician-owned real estate entities and operating entities (for example, founding physicians own the real estate but new physician partners do not or owners change over time as physicians enter and exit the partnership), and the issues that such disparity may generate, can be avoided at the outset by careful and thoughtful drafting of the shareholder or operating agreements that govern the physician-owned entities. Current shareholder and operating agreements which are deficient in such relevant provisions can be revised as well to ensure that the existence of any disparities are properly managed. Properly drafted provisions that guide and manage the ingress and attrition of physicians in private practice will serve to avoid any potential conflict and contentiousness among partnering physicians. If there are any doubts whether your own operating agreement properly addresses those issues, the best time for a legal review is probably right now.

Michael Okay is a senior partner with Foley and Lardner, a law firm highly regarded for its Health Care Law and Real Estate expertise. Michael Okay is the Managing Partner for Foley's Orlando office and Pam Brown is an Associate in Orlando specializing in real estate.

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SALE / LEASEBACK ALERT!...

on the premium received. That partner's portion of the rental premium is now going to be paid by those remaining in the practice. That means the remaining partners' original benefit from the incremental sales value will be mitigated or eliminated by the portion of the premium they now pay (through the practice) on behalf of the partner(s) that "took the money and ran". It is likely that the increased rent will cost the remaining partners more than they received in the first place.

Beyond the issue of the original partners is the valid concern of new partners who may question why the practice is paying an above market rent. Moreover, some attorneys feel strongly that the practice is obligated to disclose the over-market rent when recruiting a new physician with the expectation of a partnership. An astute doctor contemplating partnership will see that his or her income would be diminished by that rental premium.

Although there are methods of re-equalizing the benefits and obligations attached to an above market sale / leaseback, the best thing that a group can do is to recognize that whatever premium they receive will be paid back with interest to the purchaser over the course of the lease and to make sure that the sale / leaseback occurs at true market rates.

EXAMPLE

A group of 10 partners sell their 40,000 sf building at what amounts to a 6 cap. The market rent is \$20 psf but the partners agree to pay a lease rate of \$23 psf. That increases the rent / NOI by \$120,000 and increases the sales price by \$2 million. The lease is for 15 years with 2.5% annual increases. After 5 years, 2 of the partners retire from the practice and no longer share in the obligation to repay the inflated portion of the rent.

The Outcome

In this case, the partners who retire after 5 years will realize a gain of \$140,156 while those remaining for the full term will suffer a loss of \$17,952, a difference of \$158,108.

Coming to a Practice Near You

Groups to Ride CMAC Leverage on Purchasing Card Rebates

CMAC Partners is in the final stages of concluding an agreement with a national bank that will bring Purchasing Card rebates to levels rarely reached by independent groups or Group Purchasing Originations (GPO's). Members will see an improvement in rebate rates, more approved vendor payments, and significant increases in rebate revenue. Notices to potential participants will go out in the third quarter of 2016 with the program due to roll out shortly thereafter. Additional information can be obtained by contacting Steve Pishko at steve@cmacpartners.com.

What CMAC Clients Have to Say...



"CMAC brought us improved loan terms in 2012 but the partners did not want to consider a banking change at that time. True to their word, there were no fees. CMAC has continued to monitor the market for us and has recently provided us models that we can use in considering a sale / leaseback offer. Most helpful."

Blake Bentley, CEO
SportsMed Orthopaedic Surgery & Spine Center

"Thanks to the CMAC team for all your help. This transaction was a bit arduous because there were so many moving parts and I appreciate your advice and counsel in helping us work through all the issues."

Glenn Sumner, CEO
OrthoTennessee



"Thanks, great job. Clearly see the value of your services."

Mike West, CEO
Rothman Institute

"We used CMAC to help us with refinancing our building; it was very easy because they did all of the work. After several years of rent increases, a rent decrease was welcome news to our 20 physicians; we were able to do so because of the money that CMAC saved us in interest expense."

Dean Brown, CEO
Alabama Orthopaedic Clinic, P.C.



"The first two times that CMAC approached us, we went directly to our bank and got them to give us rate concessions. The third time, the bank told us we were at the absolute bottom... that's when CMAC showed us what leverage really meant. That same bank dropped its pricing to a level we could never have imagined. We would have saved substantial time and money had we gone with CMAC initially. They are truly an effective machine."

Scott Guyton, CEO
Former CEO of Orthopaedic Specialist of the Carolinas

"Your organization is very professional and helpful. I learned a lot working with you. Thanks again."

Dr. David Loewy
Eye Specialists of Mid-Florida, P.A.



"I have been a CFO for a long time and have greatly varied experiences but I had never heard of CMAC before and I was very impressed by the competence and professionalism of your group. Andy in particular was very responsive to any questions that I had and was incredibly helpful to me on this transaction. It was a very well run project and I think that we all benefited from working together."

Tom Foley, CEO
Olympia Orthopaedic Associates, PLLC

Idaho Urologic Facilitates Partner Buy-in After Answering Tax Issues

Using the same abundance of caution approach that they employ with their patients, the doctors that comprise Idaho Urologic in Boise, Idaho were looking for the most effective and safest method to ease the integration of new members into their real estate. (see photo on front page)

CMAC had recently secured non-recourse proposals for the group at a rate that was substantially improved from their previous financing and with a loan-to-value that would allow the group to pull out cash and reduce the equity piece to a manageable

number for new partners. That said, the partners were concerned over the tax implications on any cash that they received as a result of the refinancing. The group turned to its CPA who provided a clear answer that allowed the group to proceed with its plan to strip out equity with the refinance. While the details of that answer are provided in an adjacent article, the bottom line is that cash that resulted from the refinance would continue to be tax deferred under the conditions detailed but money received as a result of a sale of a partner's portion to a new partner would be taxable.

It's A Doggone Good Year for CMAC



Nicole Rosica

Fajita Friday, our weekly luncheon ritual at CMAC, is getting a little more crowded. The company kicked off 2016 with two new additions to the team in order to keep pace with increased business while continuing to provide clients with top-quality services. Nicole Rosica brought her talents to beef up the back office and is charged with the production of financial modeling and banking negotiations. Cliff Marvin joined the CMAC family on the sales side and added another Tom Brady fan to the office mix. In addition to two full-time team members, we are expanding our market expertise by bringing on local representatives in specific market areas.

New faces and a growing client base also sparked a change of scenery and a healthier, more productive office environment. In April, we moved to a larger office in Winter Park, Florida to accommodate our growth. Team members love the furriest addition to the office – our German Shorthaired Point-

er/Jack Russell, Inga! Our favorite rescue canine keeps us positive and relaxed, and makes sure we share our snacks.

Inga practices her down dog position to join in for weekly Yoga during Monday lunch breaks, where the whole team gets ready to take on the week ahead with rejuvenating stretches. Studies have shown that pets in the workplace and exercise lower stress and boost productivity, allowing CMAC to do more for our clients. Looking ahead, CMAC plans to introduce its newest client service, a nationwide commercial credit card consortium to maximize purchase rebates and reduce practice expenses. It's an exciting time to be a part of the CMAC Team!



Cash-Out at Refinancing The Tax Implications for Borrowers

By Peggy Runcorn, CPA and Partner, Eide Bailly LLP



Peggy Runcorn

The state of the current real estate market, combined with low interest rates, creates a favorable environment for many commercial property owners to cash out on the appreciation and equity of their properties through refinancing. However, refinancing with a cash-out option comes with certain tax implications to be considered, particularly for partnerships.

Distribution of Refinance Proceeds – Taxable Gain or Tax Deferred

Cash-out refinancing allows partners who are not wanting to sell their partnership interest, or partnerships not wanting to sell the property, a chance to convert some of the value of the underlying real estate investment to cash. Generally, there is no taxable gain when a current cash distribution is received by a partner, as long as the cash received does not exceed the partner's tax basis in the partnership. In this case, a current distribution is one that does not terminate a partner's interest in the partnership.

If the distribution of the refinance proceeds does not exceed a partner's tax basis, the taxable gain is actually tax deferred. This is a favorable result in the year of the distribution. Partners should, however, keep in mind that the gain will ultimately be recognized when the property is sold or when the partnership interest is sold or liquidated by the partner. This event may potentially happen many years down the road, and the early cash distribution of property appreciation or equity may leave the partner short of cash when it comes time to pay the tax.

Interest Tracing Rules

A debt-financed distribution occurs when a partnership receives loan proceeds from a refinancing and distributes some or all of the borrowing proceeds to its partners. The IRS has put in place interest tracing rules that require the recipient of

the borrowed proceeds (not the entity that made the distribution) to "trace" the use of such distributions. The use of the distributions will determine how or if the associated interest expense on the loan proceeds is deductible for tax purposes.

Each partner receiving a debt-financed distribution will need to trace how their distributions were spent according to the following categories:

- Investment activity expenditures.
- Passive activity expenditures, such as rental real estate.
- Trade or business expenditures.
- Personal expenditures.

Example: Partnership A owns a commercial property subject to a \$5 million existing mortgage. The partnership would like to refinance the property for \$7 million. After refinancing and paying off the \$5 million existing mortgage, Partnership A distributes the remaining \$2 million to the partners.

Partner 1 takes his share of the \$2 million and uses it to purchase a retail commercial property. This is a passive rental real estate activity expenditure and the allocated interest expense paid by Partnership A on the debt financed property would be allowed as a deduction by Partner 1 (with some limitations) against the income from the retail real estate activity.

Partner 2 takes his share of the \$2 million and takes a month long vacation with his family to an exotic island. This is a personal expenditure and no interest expense deduction would be allowed to Partner 2 for the allocated interest paid by Partnership A on the debt financed property.

For transactions involving a cash out refinancing, you should consult with your tax advisor to discuss the implications as they apply to your situation.

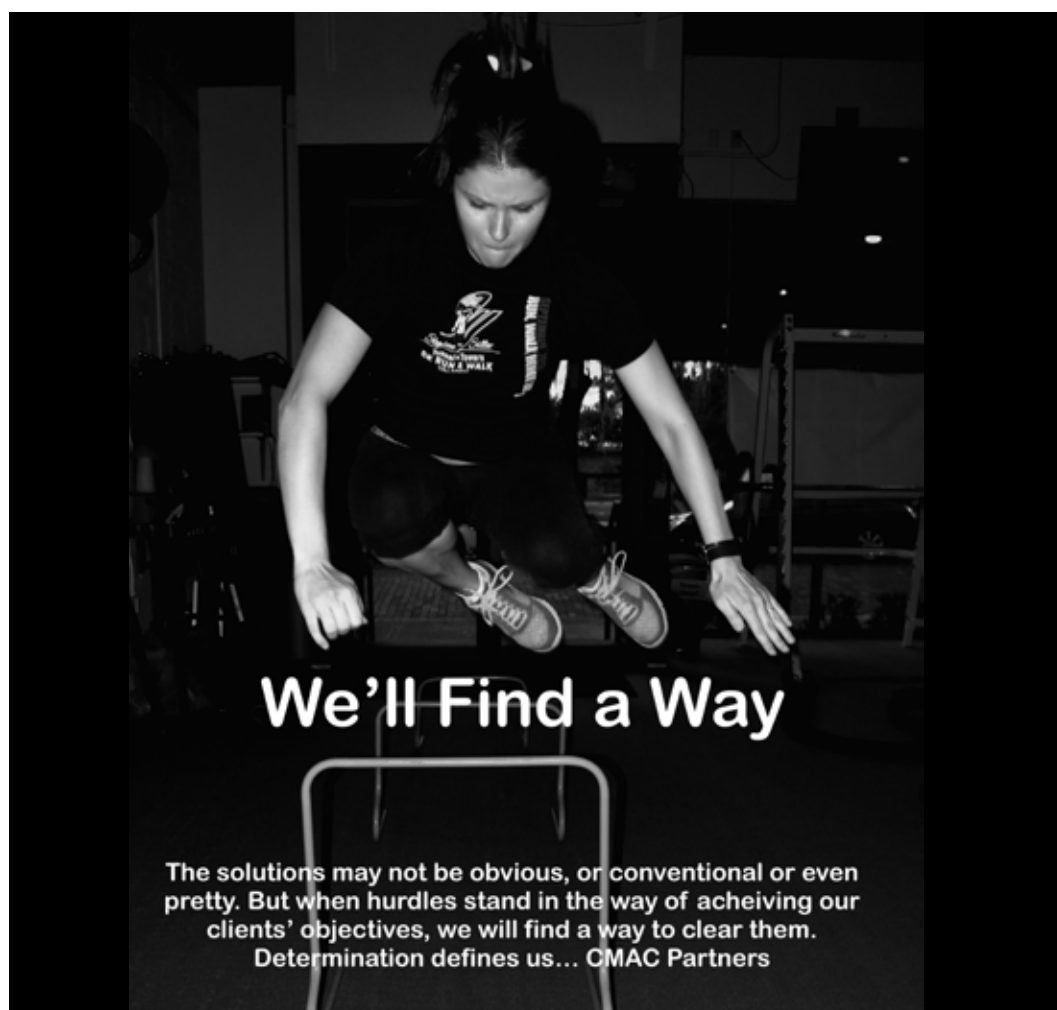
People on the Move

Karl Stein - The long time CEO of Raleigh Orthopaedics has announced his retirement... almost. Karl will stay active by heading up the latest development project while Sean McNally will step into Karl's vacancy.

Scott Guyton - Is now heading up Tennessee Urology Associates in Knoxville. Scott relocated from Winston Salem some time after his orthopaedic group joined OrthoCarolina. Look for Scott at LUGPA in Chicago this year instead of AAOE in San Francisco.

Andy Laverghetta - Has seen the light and taken the reigns of Southeastern Retina Associates based in Knoxville. Andy formerly headed the Florida Heart Group which integrated with The Florida Hospital.

Mary O'Brien - The former CEO of Fox Valley Ortho in Geneva, IL, Mary retired last year to move closer to family, where she is an active volunteer in her community. She spends her time traveling the globe, enjoying time with her grandchildren, and staying involved with AAOE. Look for her at the next AAOE event!



THE GIVING PAGE

The Best Part of Business... Being Able to Give Back



CMAC is pleased to report that it has continued in its support of TAPS, a program focused on supporting the surviving family members who have lost their loved one in the service of our country. CMAC announced its initial pledge of \$10,000 to this organization which it continues to fulfill.



The mission of the David Phinney Foundation for Parkinson's is "to help

those living with Parkinsons to live well today." They achieve that mission through programs, information and tools that give those with Parkinsons the way to find victories in what the rest of the population takes for granted. The foundation was formed and is headed by Davis Phinney who was the USA's most decorated cyclist in history before being afflicted with Parkinsons. CMAC is pleased to be able to continue to fund its \$10,000 pledge to help this worthy cause.



CMAC Joins in Raising \$7,500 for Canine Companions



CMAC was happy to answer the call this year and act as a sponsor for the Workout 32789 Circuit Breaker to raise money for Canine Companions, an organization that provides service dogs to the disabled at no

charge. *Sirena Madden and Steve Pishko represented CMAC in this wonderful annual event.* We look forward to participating again this coming year

Hope For a Heart



Sirena Madden

A 16-year old boy has been waiting for a heart replacement for nearly a year. The last months have been spent in the hospital. His name is Marc Grant and every day he weakens a bit more and the doctors are becoming concerned that he is losing his will and giving up hope. Medicine can do only so much and medicine has been stretched to its limits. Spoiler alert... this story has a happy ending!

There is an organization in Orlando by the name of New Hope for Kids. It works with children who have to cope with the untimely death of a parent or sibling. It also works with sponsors and grants wishes to those children with shortened life expectancies. Marc Grant was one of those children. CMAC Partners was one of those sponsors.

CMAC Partners' Sirena Madden teamed up with local high school volunteer, Nicole Isaacson, and they were soon introduced to Marc and his family during Marc's second two month stint in the hospital. Marc's parents were exhausted by their time away from home but knew that hope was all they had while waiting for Marc's new heart.

During Sirena's routine visits, Marc, who is non-verbal, would show pictures of himself, his family and the special dog that he had hoped he might someday have as his own. It was the Portuguese Waterdog that he had seen in the magazines and newspapers. It was the same breed as the First Family's dog. Hey, if it was good enough for the President... Marc showed us hundreds of pictures of Portuguese Waterdogs, and when it came time to declare his wish, there was no hesitation. Marc communicated through his mother that having a Portuguese Waterdog was a wish worth the wait. After many visits, a bond between the CMAC team and Marc had grown. We knew granting Marc's wish would not only bring joy and happiness during this difficult time, but we also knew it would bring hope.

After months of searching with still no hope in sight we received news that Marc's heart no longer had the ability to pump without the help of a machine. Every day that had passed without a new heart became a day of uncertainty. CMAC became doubtful of our ability to grant Marc's

wish in time which seemed to only push our team to work harder. Within weeks of Marc's placement on the machines, we located the perfect companion for him: a black and white Portuguese Waterdog, just like the pictures he had collected. On May 4, 2015, Marc was granted permission to leave his hospital room with a doctor by his side so he could meet his new best friend. Marc cried in excitement, as we all did, and within minutes he started to communicate to his mother that his new best friend would be named "Hope". Marc's family and doctors sensed a renewed spirit and a resolve to hold on for the elusive heart. Finally, just a few weeks later, hope became reality.

For Sirena, Nicole and CMAC, this became much more than a philanthropic gesture. This became personal. We were happy to be with Marc and family as he returned home November 2015 with a new heart and his new best friend.



Sirena crawls to the finish line while Steve accepts his medal (Show Off!)



Empowering Your Bank to Better Rates



Cliff Marvin

"It's the ABSOLUTE BEST we can do". That was the plaintive cry from a frustrated Colorado Springs banker when first approached by CMAC about lowering its pricing and increasing its LTV

for a group of ophthalmology specialists who were developing a \$15 million MOB. The banker (we'll call him Mark) informed CMAC that his price and LTV was not merely the "best in town" it was also "the best his bank could do anywhere". That's when CMAC went to work, supplementing Mark with a high-powered blend of data on his own bank. We pointed him to a CMAC closing with his bank in Birmingham, Alabama where his bank had provided 100% financing at a lower spread. We also informed him of a CMAC closing with his bank that would take place in Fort Worth, Texas later that month with a higher

LTV and lower spread.

With this "new-found" muscle, Mark went back to his own bosses and walked away with improved terms that he was able to implement in Colorado Springs. He not only helped the CMAC client but was now in a position to take additional deals that he might have otherwise lost.

This method of bank empowerment is used successfully in conjunction with the RFPs that CMAC issues. Banks will invariably produce more aggressive pricing in geographic areas where they are fighting for market share. When you are fortunate enough to have data from those areas, it can be ethically shared with members of the same bank to make sure that they have the same advantages as their colleagues. Presenting the local borrower as a national CMAC client is generally sufficient to empower that banker and pull the most competitive market's pricing.



CASE STUDY

Cancer Specialists of North Florida

Andy Johnson
Partner

The old adage that "knowledge is power" may have no more meaningful application than when it is applied to bank loans. In particular, when it means taking the knowledge of what a specific bank may be offering

in a particularly competitive part of the country and empowering other branches throughout the country to be just as aggressive by sharing that knowledge. Each CMAC closing provides new data from which to push the ever-evolving boundary of favorable financing terms.

A perfect example occurred with the Cancer Specialists of North Florida (CSNF) in Jacksonville. In this instance, a national bank had recently closed a real estate loan for a CMAC ophthalmology client in Iowa at an exceptionally low loan spread of less than 1% over 30-day Libor. CMAC sent out an RFP to a number of banks in North

Florida in hopes of securing more favorable terms than the existing financing. However, with this particular national bank's appetite in mind, we made sure to connect the North Florida bankers with their colleagues in Iowa so they could discuss the terms of the recent closing. Sure enough, this information empowered the North Florida bankers to provide exceedingly aggressive terms (5 basis points below the same bank's sub L+1.00% spread on the Iowa deal). A new lower pricing benchmark was set and CSNF had a proposal in hand that would result in materially lower rates than their current loans.

However, it was not quite as simple as it might have been. The appraised values meant that the Loan-To-Value on the new financing was going to be above the bank's approved maximum of 85%. Undeterred, the bank made policy exceptions and took assignment of the previous bank's swaps and blended a portion of the negative value into the new interest rates as opposed

to adding them to the loan amounts. This meant that all of the debt could be refinanced without any cash out of pocket from the physicians.

Recognizing trends, sharing informa-

tion, applying leverage and seeking solutions are sometimes all needed at once to produce outcomes that would otherwise never be available.



CMAC Partners

Top Row from Left:

*Peter Kokins,
Cliff Marvin,
Liz Allport,
Greg Warren*

Bottom Row from Left:

*Nicole Rosica,
Sirena Madden,
Steve Pishko,
Andy Johnson*