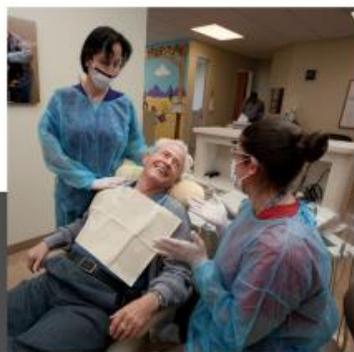




NATIONAL ASSOCIATION OF  

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Community Health Centers



**America's Voice for Community Health Care**



# NATIONAL ASSOCIATION OF --- Community Health Centers

## **America's Voice for Community Health Care**

### **The NACHC Mission**

The National Association of Community Health Centers (NACHC) was founded in 1971 to promote the provision of high quality, comprehensive and affordable health care that is coordinated, culturally and linguistically competent, and community directed for all medically underserved populations.

# HRSA's Loan Guarantee Program Explained

*Part 1 of Two-Part Webinar Training*

NACHC Webinar Series

Thursday, May 2, 2019

2:00 pm – 3:30 pm EDT

Allison Coleman, CEO, Capital Link

# Capital Link Overview

- Launched in 1995, nonprofit, HRSA national cooperative agreement partner
- Offices in MA, CA, CO, FL, MO, and WV
- **Over \$1.1 billion** in financing for **232** capital projects (about 10% of current health center facility space)
- We help health centers:
  - **Plan for Sustainability and Growth** - Market assessments; new service line feasibility; scenario modeling; business planning and forecasts; understand costs of existing and new services; plan for collaborations, mergers and acquisitions.
  - **Access Capital** - Tools, resources, training; direct one-on-one assistance to leverage capital from a variety of sources
  - **Improve and Optimize Operations and Financial Management** - Provide analytics, tools and training in using comparative data to improve performance
  - **Articulate Value** - Assess value and impact of health centers on communities, the health system and the economy

# Current Capital Needs of CHCs

- Repair or replace existing facility
- Expanded access
- Integrated services
- Team-based care
- New types of contracts → new staff → new space needs
- New services
- Collaborations to address SDOH
- Poll: What types of capital projects are you planning?

# What is the HRSA Loan Guarantee Program (LGP)?

- Originally authorized by Congress in 1997
- Congress appropriated new funding for the program in 2018, allowing HRSA to update and modernize the program to provide guarantees on **~\$900 million** in new loans to health centers
- Guarantee covers up to 80% of the principal amount of loans
  - Mitigates risk to lenders, allowing them to:
    - Make loans that they otherwise would not
    - Improve the terms and conditions they can offer to health centers



# Eligibility

- Borrower must be a Section 330-funded health center
- Many types of projects are eligible
  - “Medical facilities” operated by a health center
    - Interpreted broadly:
      - Any facility consistent with the health center’s scope of project (i.e. medical, dental, BH, substance use treatment, vision, enabling, pharmacy, administrative offices, call center, wellness services, PACE center, etc.)



# Eligibility, *continued*

- **Most costs are eligible:**
  - Land and building purchases
  - Renovation and new construction costs
  - Equipment and “fit out” costs
  - Limited refinancing of existing debt
  - Capitalizable pre-development costs
  - Financing and consultant fees
  - Capitalized interest during construction
  - Limited working capital during a start-up phase
  - Land and equipment, but only if part of a construction, renovation or modernization project
- **No maximum or minimum size**



# How might the LGP benefit your health center?

-  vs 
- Lower interest rate
  - Less cash to the lender = more cash for your program
- Longer fixed rate term
  - More certainty in a rising interest rate environment
- Higher Loan-to-Value Ratio
  - Lower up-front cash contribution to the project
- Lower collateral requirements
  - More assets unencumbered for other lenders
- More lenient covenants
- There's no fee for this guarantee!

# Deciding Whether to Seek a Guarantee

- Think like a banker!



- Poll: What types of risk are you facing?

# Example #1

**Your health center has experienced financial “ups and downs” in the recent past**

	2016	2017	2018	YTD 2019
Total Revenues	\$4,441,295	\$4,578,655	\$4,253,897	\$3,777,390
Total Expenses	\$4,506,934	\$4,462,311	\$4,596,180	\$3,714,874
Net Operating Income	(\$65,639)	\$116,344	(\$342,283)	\$62,516
Days Cash on Hand	20	30	2	8

## Example #2

**Your ability to repay the loan depends greatly on your center's ability to operate with a higher level of provider productivity than you have in the past**

	Now	%	In New Building	%
Provider FTEs	19		25	
Average Annual Patient Visits / Provider	2,402		3,003	
Average Revenue / Visit	\$247		\$249	
Total Revenues	\$11,272,586		\$18,725,842	
Total Expenses	\$10,821,683		\$17,672,859	
Net Operating Income	\$450,903	4%	\$1,052,983	6%
Add back Depreciation and Interest Expense			\$833,333	
Cash Available for Debt Service			\$1,886,316	
Annual debt service payments			\$1,604,852	
Debt Service Coverage Ratio			1.2	

## Example #3

### Your ability to repay the loan is predicated upon your ability to recruit and retain a significant number of new providers in a rural area

- An \$800,000 loan will allow you to add a 3,000 SF addition to your existing facility, to accommodate two more providers.
- The loan will add \$66,000 to your annual operating costs, which is affordable if you can recruit the providers
- But if recruitment is slower than expected ....
  - You could have operating losses, triggering a loan covenant default or a payment default

# Example #4

## The scale of your project is large as compared to your current operation

	2016	2017	2018
Net Income	\$375,611	\$286,357	\$565,023
Add Back Depreciation and Interest Expense	\$188,000	\$210,000	\$243,000
Cash Available for Debt Service	\$563,611	\$496,357	\$808,023
Adjust for 1.25 Debt Service Coverage Ratio	<b>\$450,889</b>	<b>\$397,086</b>	<b>\$646,418</b>
Debt Supported by Adjusted Cash Flow:			
@ 4% interest, 20 year amortization	\$6,127,726	\$5,396,523	\$8,785,037
@ 5% interest, 20 year amortization	\$5,619,071	\$4,948,564	\$8,055,802
@ 6% interest, 20 year amortization	\$5,171,659	\$4,554,541	\$7,414,368

## You are operating in an uncertain revenue environment



- Shift to value-based care/reimbursement
- Significant dependence on uncertain funding streams (340B, grant-funded programs, etc.)
- You are opening a new site or program and you aren't sure how it will turn out
- State policy environment not that friendly to health centers

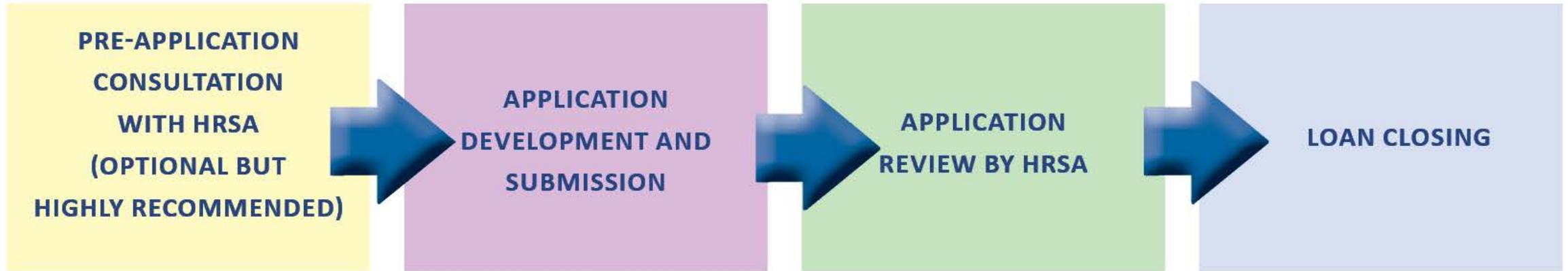
# Example #6

- **The appraised value of your project is likely to be less than the cost to build**

Scenario: No LGP	
Total Project Cost	\$6,000,000
Appraised Value	\$4,500,000
Max Loan Size - 80% LTV	\$3,600,000
Cash Required from HC	\$2,400,000

Scenario: With LGP, assuming adequate cash flow	
Total Project Cost	\$6,000,000
Appraised Value	\$4,500,000
Max Loan Size - 95% LTC	\$5,700,000
Cash Required from HC	\$300,000

# Process for Applying for LGP



# Pre-Application Consultation

- Not required, but highly recommended!
  - Gives you (and HRSA) an opportunity to gain a better understanding of the process and any special issues or requirements you may need to address with your specific project
- Process:
  - Send an email to [LGProgram@hrsa.gov](mailto:LGProgram@hrsa.gov), providing the following information:
    - Health center name and H80 Award Number
    - Anticipated Project Scope
    - Type of construction activity (i.e. new construction, renovation, new site, replacement facility)
    - Total project cost
    - Financing needs and potential lender(s) and
    - Timeline and status of project planning and financing

<https://bphc.hrsa.gov/programopportunities/loan-guarantee-program.html>

# Application Development and Submission

- To submit an application, you must have a loan commitment from a lender
- So “application preparation” really means completing all the planning processes you normally would to obtain a lender commitment:
  - ✓ Market Assessment
  - ✓ Site selection
  - ✓ Project team development
  - ✓ Program, staff and space planning
  - ✓ Architectural and engineering work
  - ✓ Project budget development
  - ✓ Business Plan development
  - ✓ Plan of finance and financial projections
  - ✓ Lender identification and negotiations



# Application Development and Submission, *continued*

- Health center must initiate the application, but the lender will also be required to submit information directly to HRSA
- Details still being finalized, but likely process is this:
  - Health center requests HRSA's consideration of a guarantee and submits loan commitment letter, outlining terms and conditions of the proposed loan, signed by health center.
  - Lender submits:
    - Lender's credit memorandum, together with the health center's business plan and financial projections used to underwrite the loan
    - A statement outlining the better terms and conditions the lender can offer as a result of the guarantee

# Application Review by HRSA

- HRSA expects to rely heavily on the lender's due diligence to streamline HRSA review process
- HRSA and its Lender Coordinator will review the lender's credit memo, acting similarly to a "Senior Credit Officer"
- Once a complete application is submitted, HRSA will generally make a determination of approval or disapproval within 60-90 days



# Loan Closing

- The lender will manage the loan closing, using the lender's standard loan documents and security agreements
- Appraisals and environmental reports will generally be required
- Required HRSA documents will be limited in number and in standard form
- The lender will manage the loan as it would any other loan, reporting periodically to HRSA regarding its status



# Available Technical Assistance

- As HRSA's National Cooperative Agreement partner, Capital Link can provide a range of technical assistance to health centers applying to the LGP
  - **Short duration assistance: < 4 hours**
    - General advice and assistance regarding eligibility and readiness; debt capacity analysis; risk evaluation; determination regarding whether to apply; work plan development; funding source identification; timeline considerations; eligibility for a range of funding sources, including NMTC
  - **Longer duration assistance: > 4 hours**
    - In-depth assistance: market assessment; site selection; program, staff and space planning; design consultation; business planning; financial projections; lender identification and negotiation; NMTC structuring and closing
      - While most longer duration assistance is fee-based, Capital Link has a limited pool of resources from HRSA to pay for certain services for LGP applicants
  - **New resources for LGP applicants will be posted here:**
    - <http://caplink.org/services/finance/hrsa-loan-guarantee-program>

## [www.capl原因ink.org/resources](http://www.capl原因ink.org/resources)

- Assembling a Capital Project Team
- Engaging Staff and Community in Defining Your Capital Project
- Creating a Dynamic and Useful Strategic Plan: A Toolkit for Health Centers
- Steps to Success: A Toolkit for Health Centers Navigating a Capital Development Venture
- Selecting the Right Capital Project Financing: A Guide for Health Center Staff and Board
- Creating a Business Plan for a Community Health Center Capital Project
- Creating a Facility that Supports the Patient-Centered Medical Home
- Debt Capacity Calculator
- NMTC Program Spotlights

# Questions?



# Next Session

## **Part II: HRSA's Loan Guarantee Program Q&A**

*Thursday May 16, 2019 2:00 pm – 3:30 pm EDT*

- Bring your questions about the HRSA Loan Guarantee Program and we will answer them in “real time”!
- Poll: What questions would you like us to address?

## Contact:

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