Funding Sources for FQHC Capital Projects:

Updates on New Markets Tax Credits and HRSA's Loan Guarantee Program

CAPITAL LINK

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Capital Link

- Launched in 1995, nonprofit, HRSA national cooperative partner
- Offices in CA, CO, FL, LA, MA, MO, and WV
- **Over $1.1 billion** in financing for at least **230** capital projects
  - **Direct assistance** to health centers and complementary nonprofit organizations in planning for and financing operational growth and capital needs
  - **Industry vision and leadership** in the development of strategies for organizational, facilities, operational and financial improvements
  - **Metrics and analytical services** for measuring health center impact, evaluating financial and operating trends and promoting performance improvement

Today's Topics

- Utilization of the HRSA Loan Guarantee Program
- An Introduction to the Federal Treasury's New Markets Tax Credit Program
- La Clínica Health Center's (Oakland, CA) Capital Financing Experiences
- Capital Related Resources

Steps to Capital Project Success

- Strategic Planning
- Financial Strength
- Operational and Clinical Excellence
- Assessing Market Opportunity
- Developing a Business Plan
- Leadership and Project Planning Expertise
- Identifying Capital Sources

HRSA Loan Guarantee Program
- LGP -

HRSA Loan Guarantee Program For 330 Funded Health Centers

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- Defined: *…contractual obligation between the health center, Federal government, and private creditors—such as banks and other commercial loan institutions—that the Federal government will cover 80% of the health center's debt obligation to the creditor(s) in the event that it defaults.*
- Utilizing a LGP reduces the risk the lender is taking in the borrower
- For approximately 20 years HRSA has made available a LGP guaranteeing loans made by non-federal lenders to eligible Health Center Program awardees for the construction/expansion, alteration/renovation and modernization of health center medical facilities. [renovation portion of budget may be limited to 1/3]
- USDA Rural Development also has a LGP for rural businesses that FQHCs have utilized - but we won't be addressing this program today

HRSA Loan Guarantee Program For 330 Funded Health Centers

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- Program can only be used by 330 funded health centers; can not be used by Look-alikes.
- Federal guarantee on 80% of the principal amount of loans made by non-federal lenders for the construction, renovation and modernization of medical facilities owned and operated by Section 330 health centers
- May be a limit on percentage of principal used for refinancing
- Credit enhancement like the HRSA LGP can help a non-Federal lender to approve a loan application they may have otherwise not approved
- Has been combined with NMTC but can not combined with tax exempt bonds
- While there has been no limit on loan size, the HRSA LGP has typically guaranteed loans for projects of $5 - $7 million or more.

Revised HRSA Loan Guarantee Program for 330 Funded Health Centers

Revised HRSA Loan Guarantee Program for 330 Funded Health Centers

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- Congress recently put $20 million dollars into a subsidy for loan loss reserve for the HRSA LGP so now the HRSA LGP can guarantee up to about $890 million of new loans.
- HRSA is currently working to streamline its administrative and documentation processes and anticipates a spring 2019 roll-out.
- The revised LGP may be the only capital resource available to health centers through HRSA for the foreseeable future.
- We hope other federal funding sources like Market Tax Credits and the USDA's community facilities program will continue to be available.

Revised HRSA Loan Guarantee Program for 330 Funded Health Centers

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- HRSA LGP applications are accepted year-round
- If interested, you should consider and gather the following:
  - Type of construction activity (i.e., new construction, renovation, new site, replacement facility);
  - Total project cost; Sources and Uses
  - Financing needs and potential lender(s); and
  - Timeline and status of project planning and financing.
- https://bphc.hrsa.gov/programopportunities/loan-guarantee-program.html

If You are Planning or Even Considering A Capital Project in the next 12 Months

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- Be proactive by getting started on the creation of a business plan - In most cases, if you ask for a loan you will need a business plan regardless of whether you also seek a HRSA Loan Guarantee as a credit enhancement
- Reach out to your HRSA Project Officer
- Go to a CDFI or your preferred or community bank with your business plan and make your best case
- Don't hesitate to check out **Capital Link's** website and/or contact us for guidance – we have been a resource for FQHCs for 20 years

New Markets Tax Credits
- NMTCs -

NMTC's: Background & Overview

- Federal program authorized in 2000 and renewed repeatedly since 2006
- To date over $54 billion in investment authority allocated to approximately 1,105 awardees, called "Community Development Entities" (CDEs) – due to repeat awards, there are about 325 distinct CDEs who have won
- Program was renewed for 5 years (2015 – 2019) with additional $17.5 billion in investment authority
- Between 2003 and October 2018, $49.2 billion in direct NMTC's investments have been made in businesses (leveraging over $80 billion in total capital investment); $4.7 billion not yet closed

NMTC's: Community Health Centers

- Health center capital projects are a highly desirable asset type for NMTC's investors
- Geography: CHCs are usually located in qualified low-income census tracts which are considered to be "severely distressed" due to higher poverty and/or lower median family incomes – rural census tracts are also desirable
- Mission: CHCs provide multiple positive community benefits – positive health outcomes, economic impacts, other related services
- Compliance: CHCs seen as low-risk for violating NMTC's regulations, e.g. non-qualified businesses or uses
- Financial Stability: healthcare is seen as stable and growing industry that can support long-term debt (often needed as part of the NMTC's financing structure)

NMTC's: Benefits

- "Gross NMTC's Equity Investment" includes transaction costs + a portion of dollars that usually don't need to be repaid after 7 years (the project cost subsidy)
- Investors purchase NMTC's in exchange for tax benefits – investors get their ROI from their tax benefits over time
- Subsidy/ "Net Benefit" from NMTC's roughly **20-25% of total project cost**
- Can be used with a variety of financing sources including the HRSA LGP and tax exempt bonds (you can mix almost any capital source with NMTC's)

New Markets Tax Credit Program

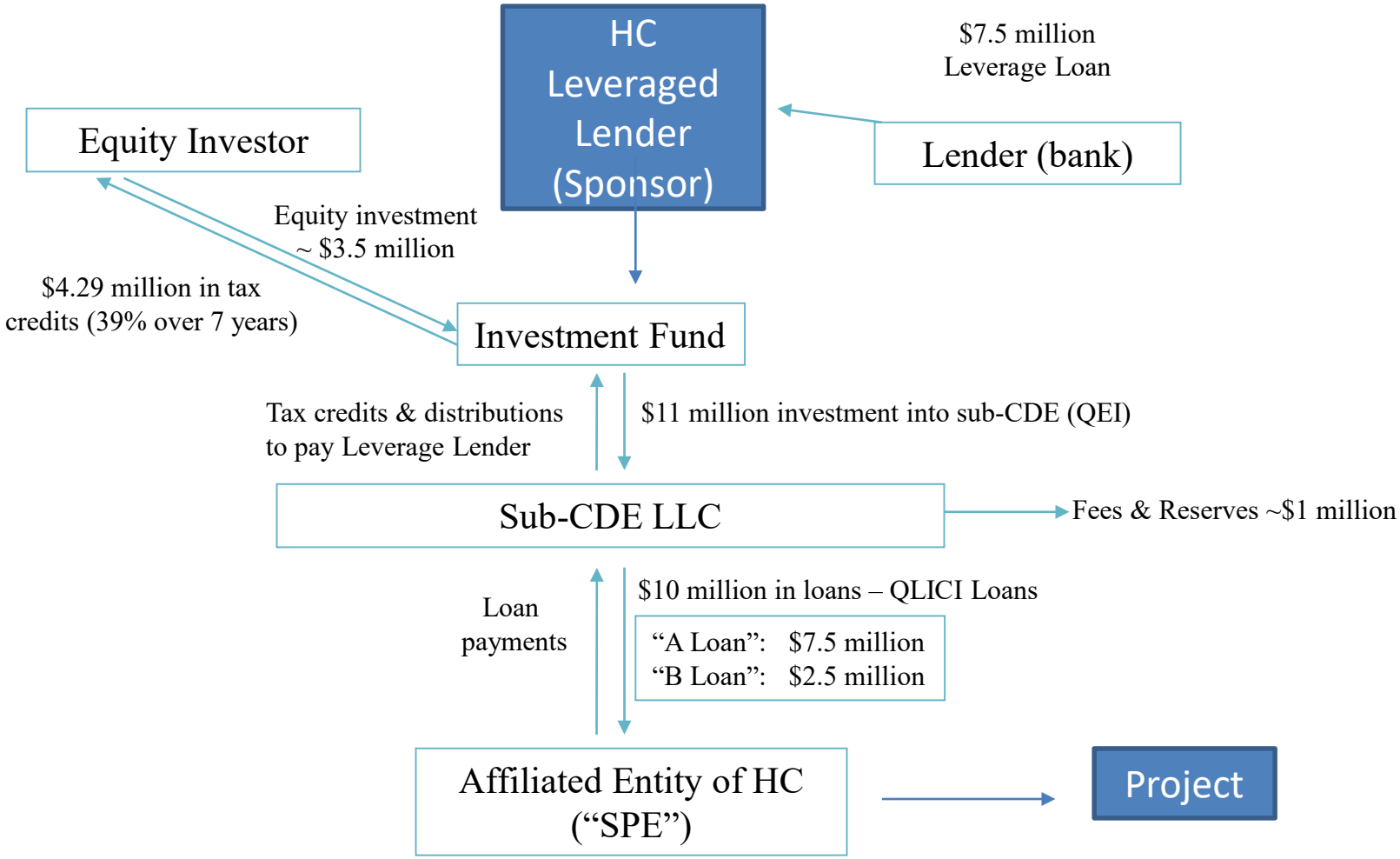
- "Debt" that isn't repaid after 7 year compliance period
- "Effectively ultimately equity disguised as debt"
- 20% to 25% of total project cost = NET BENEFIT
- Finding a Community Development Entity (CDE)
- Application and Awards
- Timing ("shovel ready")

NMTC's: Challenges

- Complex structures
  - Three tiers of financing, with multiple parties
  - No two NMTC deals look exactly alike (despite efforts to streamline)
  - Takes longer to close than you (or anybody else) think
  - High transaction costs (but the NMTC related costs don't come out of the HC's pocket); many expert advisors needed
- Compliance: reporting requirements for 7-year period
- Takes great coordination & patience!

NMTC Hypothetical FQHC Project

Assumes $10 Million in Project Costs



SPE pays below 2% interest-only for 7 yrs; Loan A refi after 7 years; Loan B extinguishment of debt in YR 8

How Does Your Project Qualify?

- Basic Eligibility
  - Look up census tract by street address – various mapping tools
  - Median family income of tract must be equal to or less than 80% of AMI (Area Median Income); or
  - Poverty rate of households within tract must be equal to or greater than 20%
- Severely Distressed (the bar that **most projects** need to reach)
  - Poverty rate greater than 30% or
  - Median family income less than 60% of AMI or
  - Two of a list of 17 other criteria such as "Medically Underserved Area"
- Targeted Populations Rule (very difficult to qualify)
  - There are some exceptions to geographic eligibility but due to the complexity for qualifying it's better to discuss on a case by case basis

How Do NMTC's Get To Your Project ?

- Community Development Entities (CDEs) Apply for Tax Credits
- Get "**Pitch Package**" in front of CDEs, Investors, and Lenders
  - 8 year financial projections for underlying HC operations in new site; Sources & Uses; preliminary NMTC leveraged structure for discussion purposes
  - Project budget well formulated; feedback from contractor
  - Project Summary: Site control, design development, evidence of 'shovel readiness', estimated construction time table; estimated permit timeline environment/city/other); key project management (including NMTC advisors); list of positive community impacts including jobs created
  - Business Plan
- Underwriting and Closing Process (can easily take 4 months or more)

Combining the Best Financing Sources

Financing Structure Considerations Can Mean ***Significant*** Project Cost Differences Over Time

Example

A New $10,000,000 Health Center Project

Conventional Bank Loan

- Loan is 80% of project value: $8,000,000
- Interest rate is 6% with 15 year amortization
- Where will the remaining $2,000,000 come from?
  - Sale of existing building?
  - Hospital contribution?
  - State (opportunity zone grant)?
  - Capital Campaign / local foundations?
  - Other Government grant ?
  - Cash the HC can afford to invest ?

Conventional Bank Loan

Source Funds:

Bank Loan…….$8,000,000
Other……$2,000,000
Total……$10,000,000

Annual Debt Service (P&I)……$810,103

Bank Loan with NMTC

- NMTC "net benefit" approximately 25% of project budget
- $2,500,000 subsidization from NMTC's Program
- Bank loan for the balance reduced to $7,500,000
- The NMTC subsidy can leverage many other capital sources, not just bank loans

Bank Loan: NMTC, Interest Only

Sources of Funds:

Bank Loan.....$7,500,000
NMTC.....$2,500,000
Total.....$10,000,000

Annual Debt Service.....$791,971 During 1st 7 yrs
Then.....$759,471

Tax-Exempt Bonds

- With other options
- NMTC
- State issuing municipal authority
- Private purchase by bank

Tax Exempt Bonds and NMTC's

- NMTC net benefit approximately 25% of project cost - $2,500,000
- TE Bonds for the balance - $7,500,000
- Interest rate – 4.0 % (fixed 10 years); 15 YR AMORT

TE Bonds Leveraged with NMTC's

Sources of Funds:

TE Bonds.....$ 7,500,000
NMTC.....$ 2,500,000
Total.....$10,000,000

Annual Debt Service.....$709,474 During 1st 7 yrs
Then..... $665,724

Program Related Investment and NMTCs

- NMTC subsidy approximately 25% of project budget: $2,500,000
- PRI Loan for the balance - $7,500,000
- Interest rate of 3.0%
- 40 year term
- PRI investments/loans further the tax exempt missions of a foundations; interest rates may be even lower

Foundation PRI and NMTC

Sources of Funds:

Loan .....$ 7,500,000
NMTC.....$ 2,500,000
Total.....$10,000,000

Annual Debt Service.....$365,936 During 1st 7 yrs
Then.....$322,186

New Market Tax Credits - Summary

- "Gross Tax Credit Equity Investment" includes transaction costs + a portion of dollars that usually don't need to be repaid after 7 years (the project cost subsidy)
- Investors purchase NMTCs in exchange for tax benefits – investors get their ROI from their tax benefits over time
- Subsidy/ "Net Benefit" from NMTCs roughly 20-25% of the project cost
- Can be used with a variety of financing sources, credit enhancement and certain other tax credit programs

La Clínica de La Raza Inc.
Oakland, CA

Overview of La Clínica

- Founded in Oakland, CA, in 1971 by students & community activists
- Federally Qualified Health Center (FQHC)
- Began in Fruitvale District in Oakland, CA and expanded across Alameda, Solano, and Contra Costa Counties
- Medical, dental, vision, behavioral health, health education services

La Clínica
a california health+ center

Overview of La Clínica

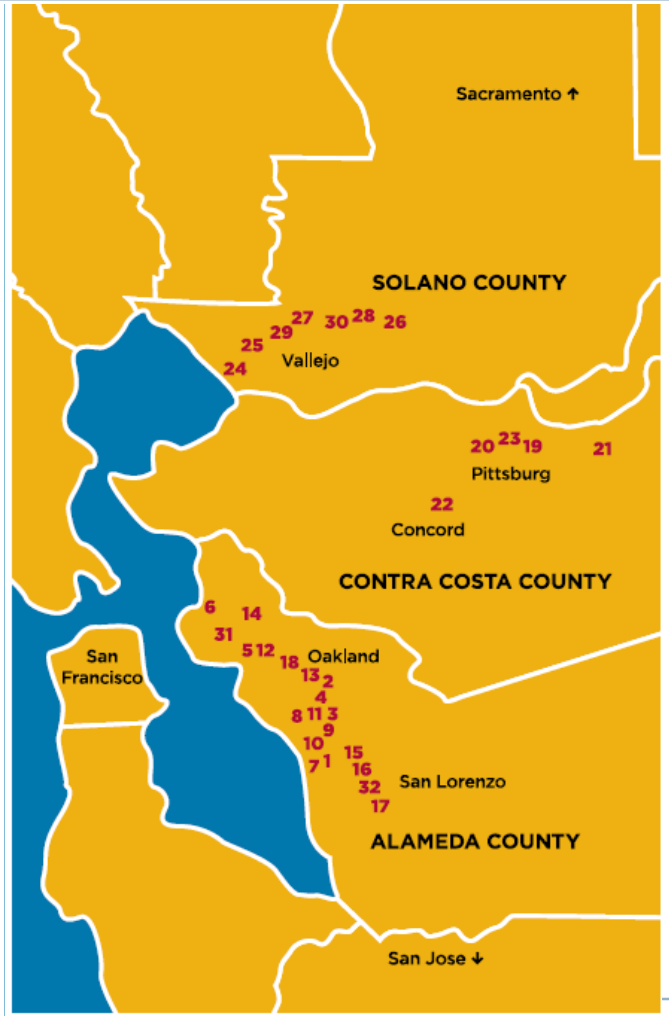
In CY 2017:

- 86,884 served
- 360,570 visits
- $100M budget
- 874 FTE employees

Vallejo Medical 2017

La Clínica
a california health+ center

La Clínica Locations

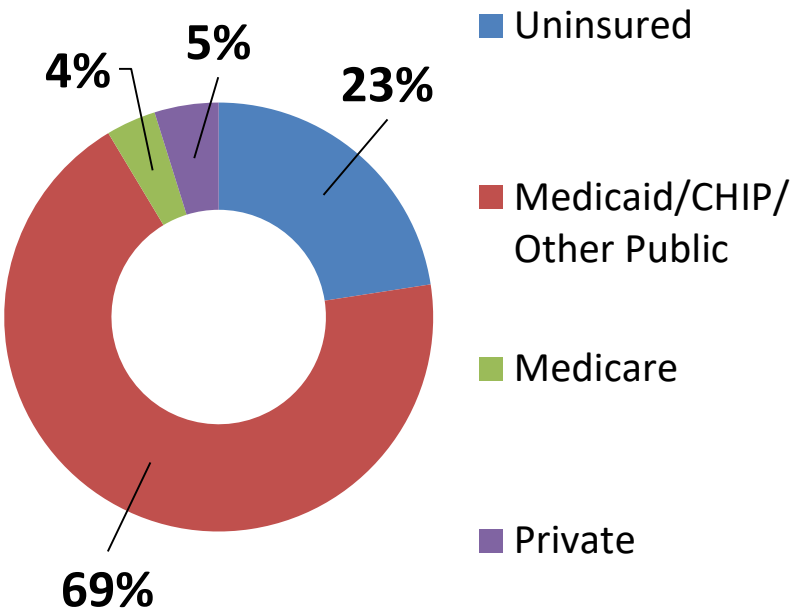


- 35 service locations in three counties in San Francisco Bay Area, including:
  - Stand-alone primary care facilities
  - Clustered campus settings
  - School-based health centers
  - Mixed-use complexes

La Clínica
a california health+ center

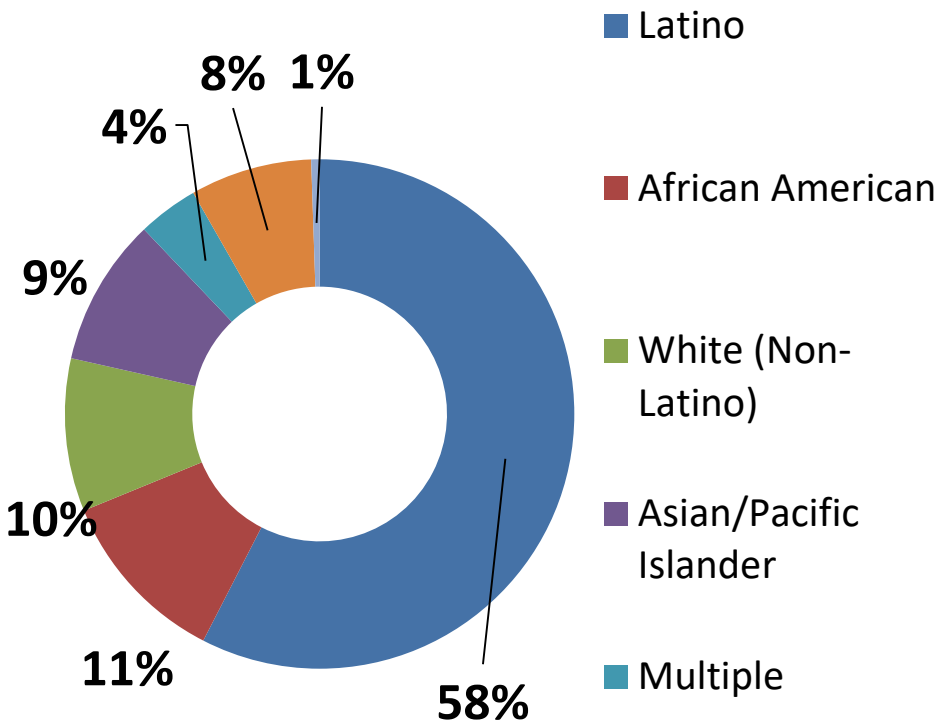
Patient Demographics: All Sites

Primary Insurance Coverage



UDS, 2017,
N=86,884

Race and Ethnicity of La Clínica Patients



La Clínica
a california health+ center

La Clínica Major Capital Projects

Fruitvale Transit Village
2003 – 40K sf ; $14.2 M

San Antonio
2009 – 16K sf ; $10M

Monument
2012 – 17K sf;
$10.6 M

Latest Project in Vallejo
Site for Construction

Proposed Expansion: Vallejo

- 26,000 square feet
- Relocation and Expansion of existing medical clinic and dental clinic
- Expand service capacity – 6,000 to 15,000 patients
- 24 exam rooms (LC Vallejo has 14 currently)
  - Additional rooms for consultation, group visits, special procedure
- 16 dental operatories (LC Vallejo Dental has 5 currently)
- Classroom/conference room areas, staff break areas, and offices for administration, health education, patient enrollment
- Additional Service Enhancements: optometry service, telehealth capacity, teaching (e.g., internships, rotations, residencies) capacity
- Construction to begin December 2018 / Projected to Open in January/February 2020
- Total Projected Cost: $19M

Rendering of Proposed New Facility

MATERIALS/COLORS:

ALUMINUM FRAMED STOREFRONT

La Clínica
a california health+ center

La Clínica – NMTC Experiences

- Health Center Preparation for Project and Financing
- Health Center Staff Contributions to Processes
- Roles and Responsibilities of Partners/Consultants
- Coordination between Health Center and "Everyone Else"
- Financing Benefits to Health Center

Timely Activities and Resources

Timing and Preparation:

- HRSA LGP Roll-out Spring 2019
- NMTC
  - Next NMTC Allocation: Expected to be Released Late 2018/Early 2019
  - Next NMTC Application: Expected during Summer 2019

Related Resources:

- ***Strategic Planning for Capital Project Success*** **webinar - December 19, 2018** **http://www.caplink.org/events/upcoming-webinars**
- *Preparing for a Capital Project: Are You Ready?* (publication: http://www.caplink.org/resources/publications)
- *Creating a Healthcare Facility that Supports the Patient-Centered Medical Home* (publication: http://www.caplink.org/resources/publications)
- *Spotlight On Capital Resources: New Markets Tax Credits series* (publications: http://caplink.org/resources/publications#NMTC)
- *Capital Project Financing Resources* (publications: http://www.caplink.org/resources/publications)
- *Selecting the Right Capital Project Financing* (publication: http://www.caplink.org/resources/publications)
- *Capital Funding Options for Rural Community Health Centers* (publication: http://www.caplink.org/resources/publications)

Questions?

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