



Aligning Your Capital Project Financing Needs with Available Funding Sources: New Markets Tax Credits



CAPITAL LINK

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What We Will Cover Today

- NMTC background and overview; Applicability to CHCs
- How your project qualifies for the NMTC
- NMTC financing structures
- Costs and benefits for CHCs
- Leveraging grants and prior costs with NMTC
- Process of putting a NMTC deal together
- **Current Opportunity:** the 2017 round announcement 1st quarter 2018
- NMTC in jeopardy in new tax bill

NMTC: Background & Overview

- Federal program authorized in 2000 and renewed repeatedly since 2006
- To date \$43.5 billion in investment authority allocated to approximately 900 awardees, called “Community Development Entities” (CDEs) – due to repeat awards, there are about 325 distinct CDEs who have won
- Program recently renewed for 5 years (2015 – 2019) with additional \$17.5 billion in investment authority
- Between 2003 and 2016, \$45 billion in direct NMTC investments were made in businesses and these NMTC investments leveraged over \$75 billion in total capital investment

NMTC: Community Health Centers

- Health center capital projects are a highly desirable asset type for NMTC 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 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 financing structure)

NMTC: Benefits

- “Tax Credit Investment” represents dollars that don’t need to be repaid
- Investors purchase NMTCs in exchange for tax benefits – don’t require any cash return on investment
- Subsidy from NMTCs equates to roughly 20-25% of total project cost
- Loans are usually structured with interest-only payments for 7 years
- Can be used with a variety of financing sources, credit enhancement and certain other tax credit programs (HTC)

NMTC: Costs

- 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 worth it when you consider subsidy)
- Compliance: reporting requirements for 7-year period
- Takes great coordination & patience!

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 Medium 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
- Targeted Populations Rule (more difficult to qualify)
 - Census tract MFI must be lower than 120% of AMI and
 - At least 50-60% of income derived from patients that are <80% of AMI and/or
 - Employees or owners of the “business” are low-income individuals

How Do NMTCs Get To You?

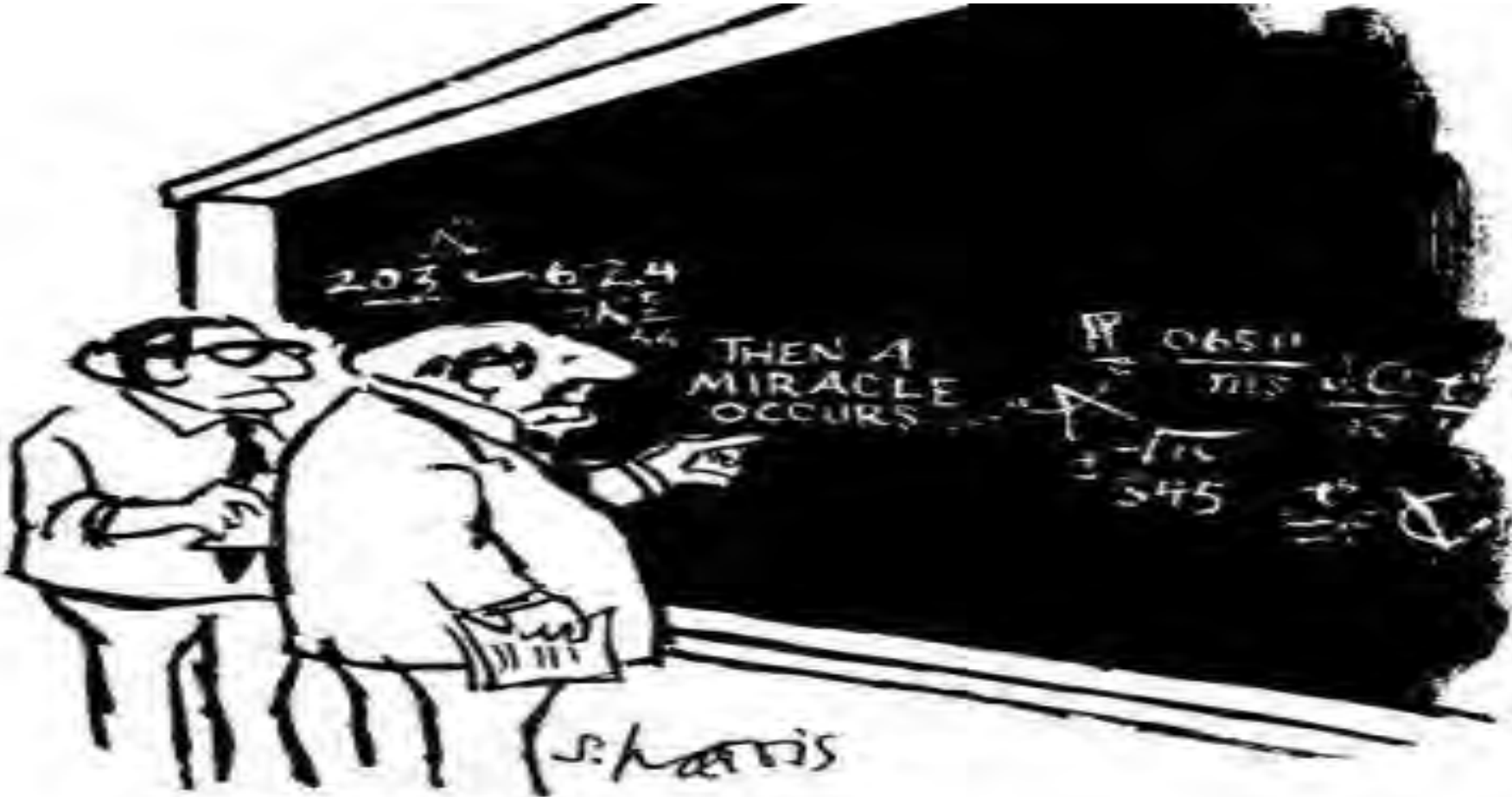
- Community Development Entities (CDEs) Apply for Tax Credits
 - “allocations” of tax credits awarded by the CDFI Fund, usually on annual basis
 - CDEs define type of uses, geography, highly distressed %, projects anticipated
 - Each allocation represents the amount of total project investment that can be used to generate NMTCs for tax credit investors (actual tax credit amount is 39% of the allocation)
 - CDEs are motivated to deploy allocations quickly, to qualify for next round
- Getting your project in front of CDEs, Investors, and Lenders
 - Business plan/financial forecast for underlying CHC operations in new site
 - Site control, design development, and other evidence of ‘shovel readiness’
 - Project budget well formulated, with feedback from a contractor
- Underwriting and Closing Process



How Do They Work?



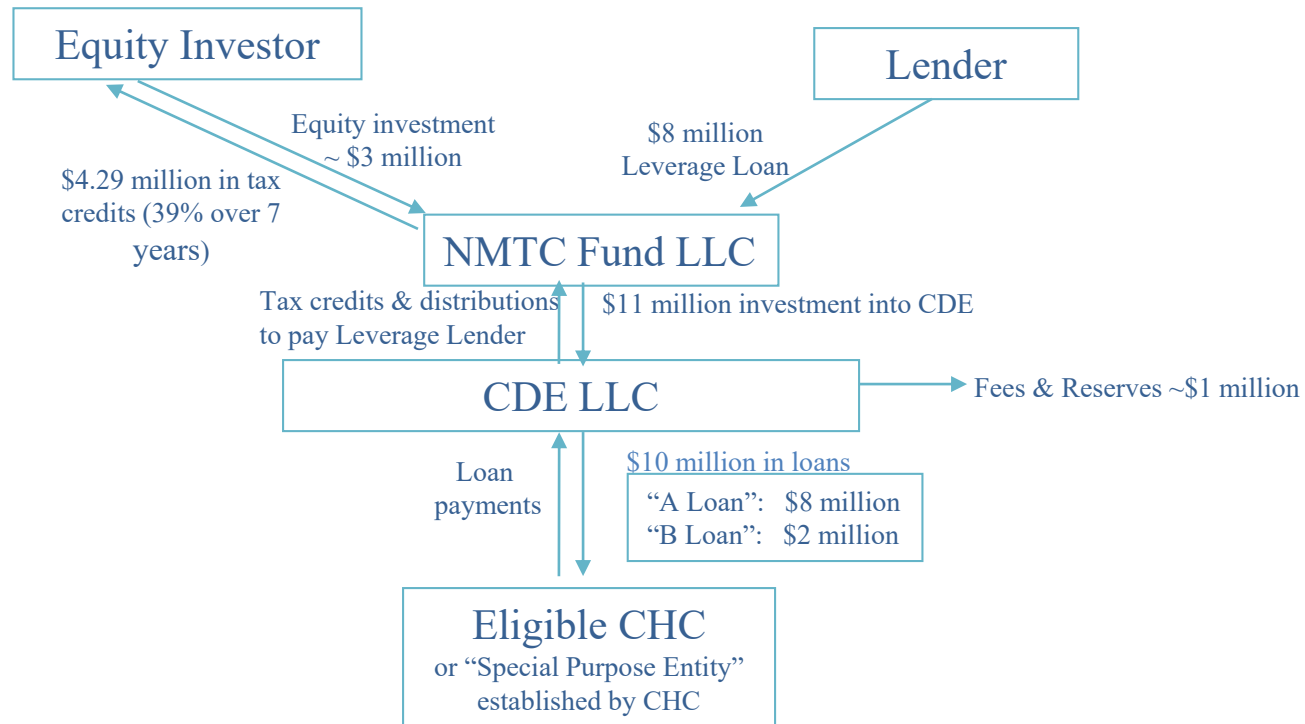
NMTC Magic!



"I THINK YOU SHOULD BE MORE EXPLICIT HERE IN STEP TWO."

NMTC Hypothetical CHC Project

Assumes \$10 million in Project Costs

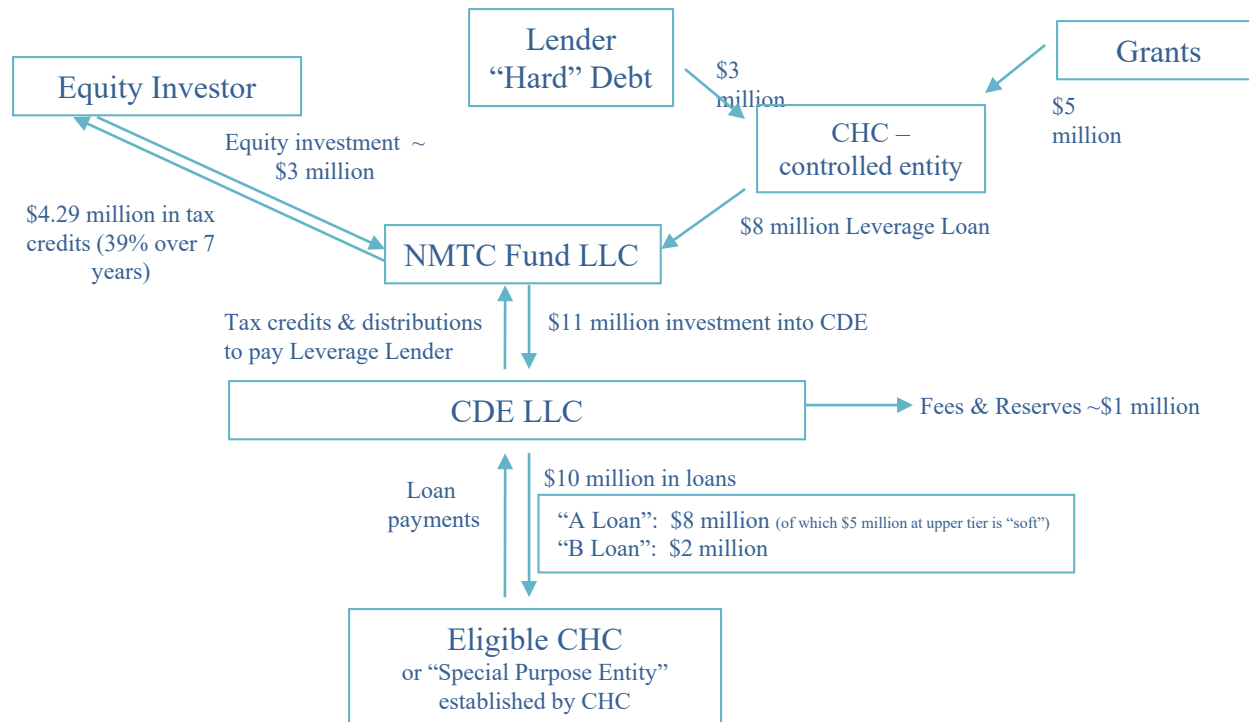


Weighted Average Cost of Capital ~ 5.2% in current market; ~\$520,000 interest-only for 7 yrs; refi \$8 million after 7 years

Leveraging Grant Funds through NMTC

- Grant funds can be “lent” through the NMTC structure
 - Health center acts as a leverage lender, converts grant to a loan
 - Doing so replaces “hard debt” with “soft debt”
 - Maximizes value of grant by generating NMTC equity investments on grant dollars
 - Lowers financing costs for CHCs
 - HRSA capital grants can be used in this way, via utilizing a bridge loan mechanism
- Requires permission from HRSA

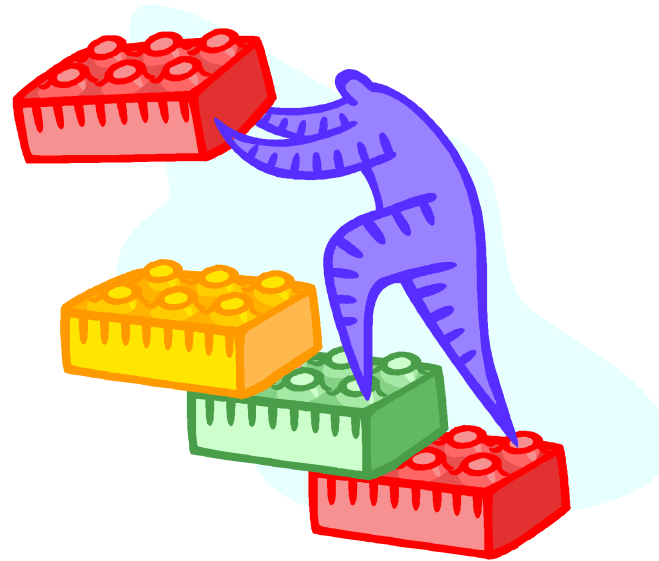
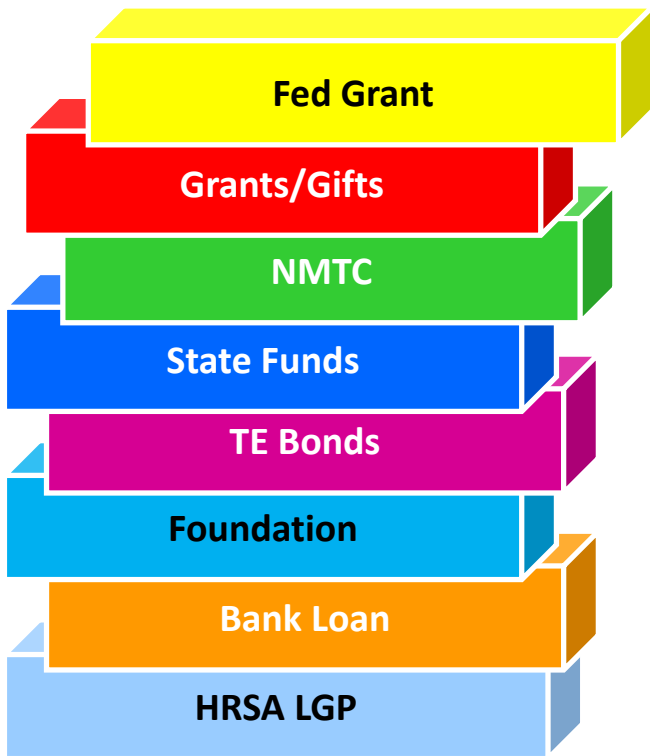
Leveraging Private Grants through NMTC



Weighted Average Cost of Capital ~ 2.5% in current market; ~\$250,000 interest-only for 7 yrs; refi \$3 million after 7 years

NMTC with Other Debt and Enhancement Sources

- Health Centers have also combined a variety of other funding sources with NMTC
- Flexibility has its rewards!
- Let's look at some examples



Conventional Bank Loan

- Loan is 80% of project value: \$8,000,000
- Interest rate is 6.5% with 25 year amortization
- Where will the remaining \$2,000,000 come from?
 - Sale of existing building?
 - Hospital contribution?
 - State?
 - Capital Campaign?
 - Government grant (HIIP)

Conventional Bank Loan

Sources of Funds:

| | |
|----------------|--------------------|
| Bank Loan..... | \$8,000,000 |
| Other..... | <u>\$2,000,000</u> |
| Total..... | \$10,000,000 |

Annual Debt Service (P&I).....\$655,032

Bank Loan and NMTC

- NMTC investment approximately 20% of project cost
- Bank loan for the balance - \$8,000,000 interest only for 7 years – same rate
- **\$2,000,000 in “free” money!**

Bank Loan: NMTC, Interest Only

Sources of Funds:

| | |
|----------------|--------------------|
| Bank Loan..... | \$8,000,000 |
| NMTC..... | <u>\$2,000,000</u> |
| Total..... | \$10,000,000 |

Annual Debt Service.....\$520,000

Tax Exempt Bonds

- With NMTC
- State issuing authority
- Private purchase by bank
- Tax Exempt Bonds are targeted to be eliminated by current tax bill!

Tax Exempt Bonds and NMTC

- NMTC investment approximately 20% of project cost - \$2,000,000
- TE Bonds for the balance - \$8,000,000 *interest only* for 7 years
- Interest rate – 3.9% (fixed 10 years)
- **No need for additional financing**

TE Bond: NMTC

Sources of Funds:

| | |
|---------------|---------------------|
| TE Bonds..... | \$ 8,000,000 |
| NMTC..... | \$ <u>2,000,000</u> |
| Total..... | \$10,000,000 |

Annual Debt Service.....\$312,000

Foundation PRI

- Program Related Investment
- With NMTC
- Private Purchase (Non-profit foundations)

Foundation and NMTC

- NMTC investment approximately 20% of project cost:
\$2,000,000
- **No need for additional financing**
- *Loan for the balance - \$8,000,000 **interest only** for 7 years*
- *Interest rate of 3.0%*

Foundation: HRSA LG and NMTC

Sources of Funds:

| | |
|----------------|---------------------|
| Tax Bonds..... | \$ 8,000,000 |
| NMTC..... | \$ <u>2,000,000</u> |
| Total..... | \$10,000,000 |

Annual Debt Service.....\$ 240,000



*What Should You Be Doing
to Get NMTC?*



Steps to Obtain NMTC Financing

- Project eligibility
 - Census tract & high distress
- Size matters >\$5 million
- Lining up one or more CDEs
 - Getting on a “pipeline list”
- Improving your chances of getting an allocation commitment from a CDE
 - Site control
 - Severely distressed census tract?
 - Know your leverage loan needs (soft vs. hard debt); explore hard debt alternatives
 - Hire financial advisor experienced in NMTC transactions (Don’t even think about doing this yourself!)
 - Get your Business Plan/Financial Forecast done as soon as possible

Current Opportunity

- Next few months are the best time to make CDEs and other financing parties aware of your project
- Get your project in front of CDEs before they receive their allocation.
- Get your project budget estimate and business plan (including financial forecast done)
- If your project is not ready to begin next year start the process anyway! Most successful NMTC recipients begin a year in advance.
- Success can mean millions!

Questions?

Contact

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