



Save Millions

By Using Tax-Exempt Bonds and/or New Markets Tax Credits



CAPITAL LINK

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If you will need a new or expanded
facility in the next 15 years....

Start planning now!

*WE ARE IN A WINDOW OF OPPORTUNITY THAT
WILL NOT COME AGAIN!*

Window of Opportunity

- Lowest Interest rates in history
- Level building costs
- Government Financing Programs
 - Tax Exempt Bonds
 - NMTC
 - USDA

Interest Rates

Interest Rates

Rates Today

- Fed Funds – .75%
- AAA TE Bond
 - 10 yea 2.25%
- Prime – 3.75%

“Normal”

- Fed Funds – 4.00%
- TE Bond
 - 10 year 5.5%
- Prime – 6.0%

Inflation

January 2017	2.50%
January 2016	1.37%
January 2015	-.09%

Interest Rates

Federal Funds Rate
July 1954 – February 2017



Building Costs

Building Costs

- Inflation rate – has been below 2%
- Construction bids – at budget
- Prior to 2008 building bids were 10% to 15% above budget

Helpful Government Programs

The use of NMTC – authorization expires December 31, 2019. Two more chances!

Tax exempt Bonds – Always talk of limiting these...new tax law may play with this.

USDA financing – Year to year

So, How Long Will Things Stay This Way?

How long is a piece of
string?



Strategic Influences on Policy

Healthcare Costs

- 1900 – 3% GDP (Gross Domestic Product).
- 1964 – 6% GDP.
- 1994 – 15% GDP.
- 2016 – 17.5%
- 2020 – 25% GDP.

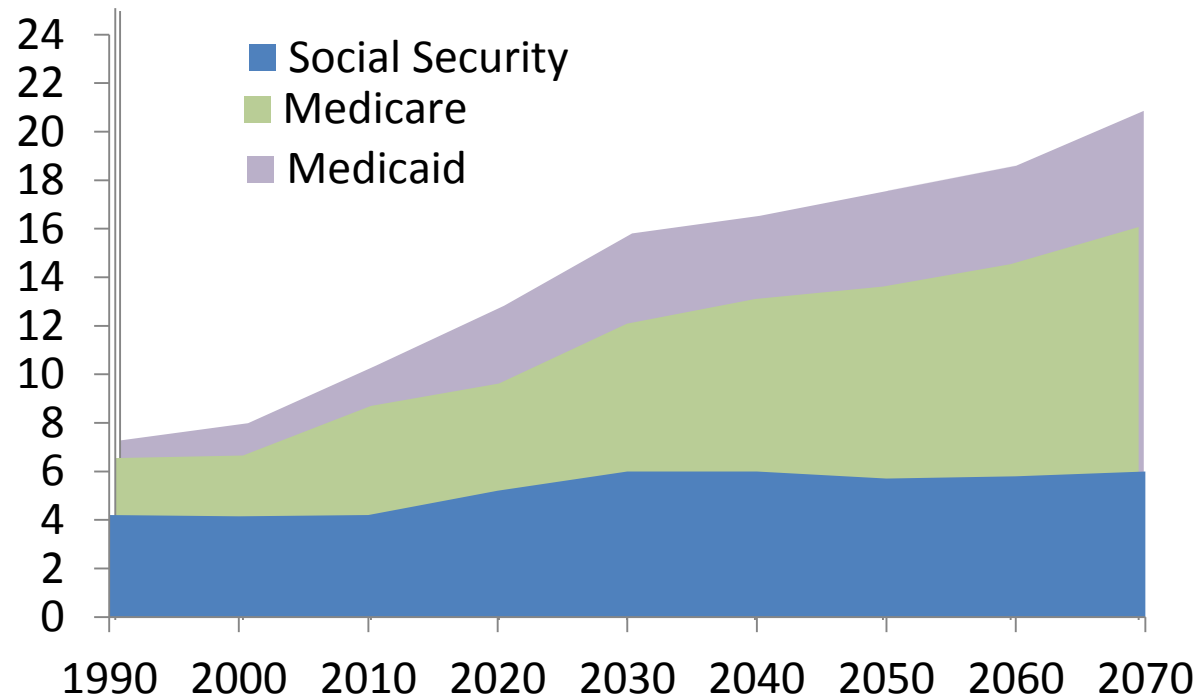
Per person expenditure for healthcare:

- 1965 - \$205
- 2000 - \$4637
- 2010 - \$8233
- 2016 - \$10,345

Source: Office of Economic and Cooperative Development

Social Security, Medicare & Medicaid

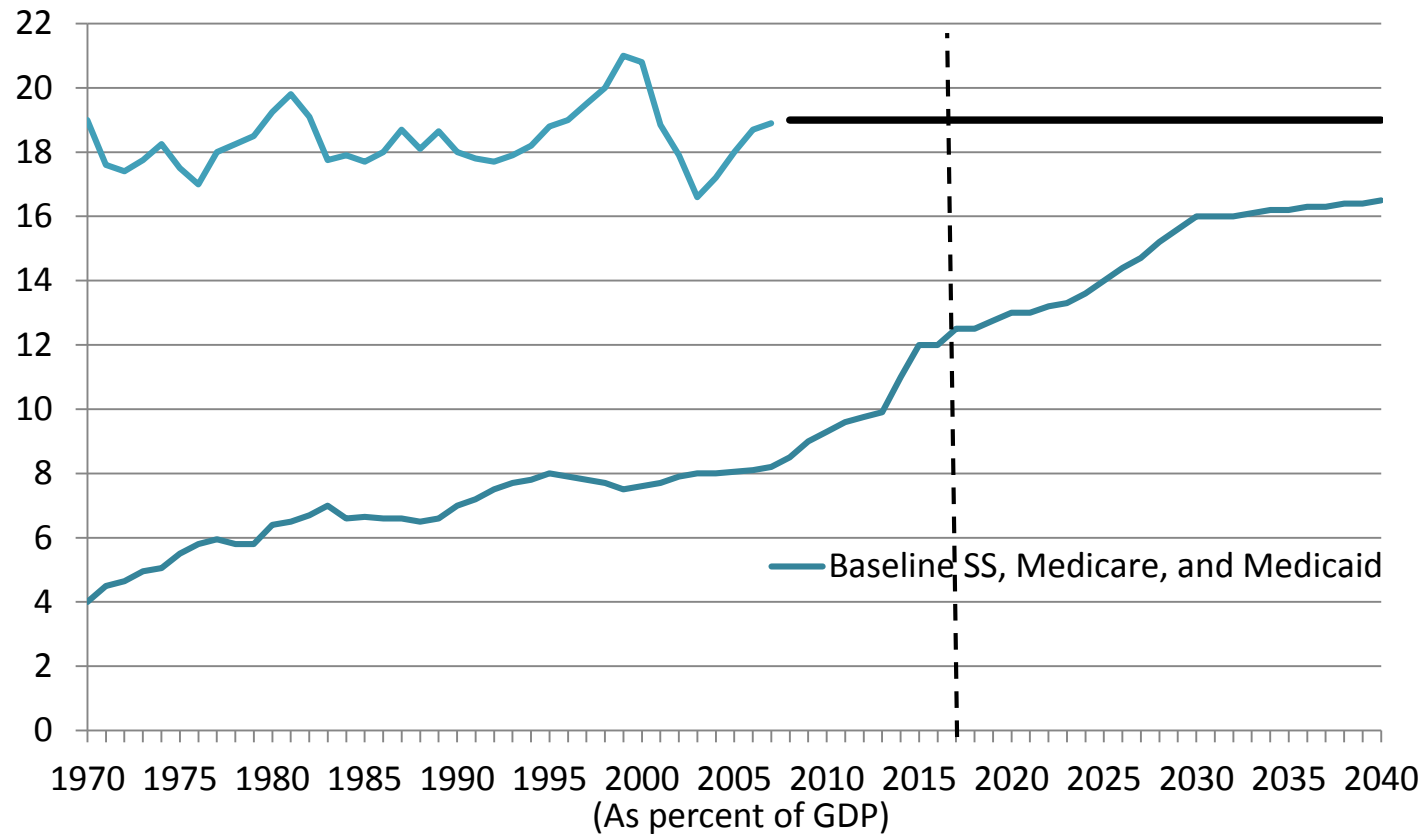
Outlays as a Percentage of GDP 1990-2075



Source: C. Eugene Steuerle and Adam Carasso, (*Budget Crisis at the Door*), The Urban Institute, 2003. Based on data from the Congressional Budget Office, "A 125Year Picture of the Federal Government's Share of the Economy, 1950-2075," July 3, 2002, table 2.

Influences

Federal Receipts vs. Entitlement Spending



Source: C. Eugene Steurle and Adam Carasso, (*Budget Crisis at the Door*), The Urban Institute, 2003 Based on data from *Budget of the U.S. Government, FY 2004* and CBO's "Analysis of the President's Budget, FY 2004."

Entitlement programs cannot be sustained at current levels!

*SS, Medicaid, and Medicare
will be altered!*

Starting now!

Act II:
American Health Care Act

Act I:
Affordable Care Act

Taking Advantage

- Tax Exempt Bonds
- New Markets Tax Credits

Using Tax Exempt Bonds

- Who may use them?
- How do you qualify?
- How do they work?
- What's the advantage?
- Cost
- Timing

Who?

- All non-profit health care providers qualify to use tax exempt financing for their capital projects.
- New construction – all costs (land purchase, building costs, soft costs)
- Remodel – all costs
- Refinance
- Reimburse yourself with TE bond issue (how).

How Do You Qualify

- Each state has an agency “authority” that you may contact to get information on qualifying and using TE bonds.
- This agency provides you the authorization and approval to use TE bonds. This approval usually takes 2 to 3 months.
- Ironically you don’t want to contact them first. Let your PCA check to see if you qualify in your state. (Municipal Advisor)

How Do They Work?

- They don't get sold on Wall Street
- Its just like a bank loan
- A bank (local, regional, national) simply agrees to purchase your bonds rather than make you a loan.
- Their income is then tax exempt.
- So they can lend you at a lower interest rate.
- You make payments monthly or quarterly just as if it were a loan.

What's the advantage?

\$5 million project:

- \$4 million Loan
 - 25 year amortization
 - Interest rate: 5.5%
 - Annual P&I: \$294,750
 - Over 25 years: \$7,368,900
- \$4 million Tax Exempt Bond
 - 25 year amortization
 - Interest rate: 3.8%
 - Annual P&I: \$248,100
 - Over 25 years: \$6,202,200
 - Difference: **-1,166,700**

Cost

- Just costs associated with TE bonds
- Bond attorney - \$10,000 to \$15,000
- Municipal advisor - \$10,000 to \$15,000
- *Does not include any costs to assist in the financing effort or to place the bonds with a bank. Those costs would be the same as in a conventional loan.*

Timing

- Outside of the advisability of making it through the current window of opportunity.
- Board Resolution: once passed can reimburse your center for all costs incurred up to 90 days prior to the resolution
- Potentially could add 60 to 90 days to the financing process but usually not.
- If you wish to combine with NMTC then be guided by the NMTC timing discussion.

NMTC

- NMTC Background and Overview; Applicability to CHCs
- How your project qualifies for the NMTC
- NMTC Financing Structures
- Costs and Benefits for CHCs
- Process of putting a NMTC deal together

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 2014, \$38 billion in direct NMTC investments were made in businesses and these NMTC investments leveraged nearly \$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 pmts for 7 years
- Can be used with a variety of financing sources, credit enhancement and certain other tax credit programs (HTC: yes. LIHTC: no.)

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?

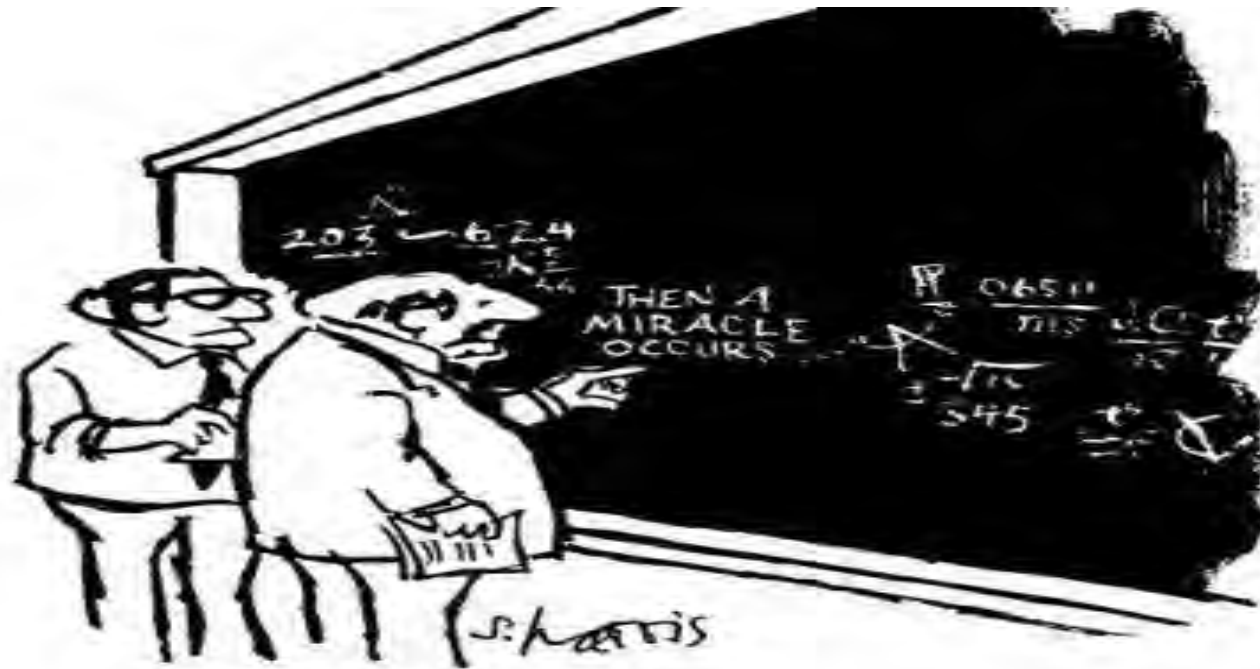
- Basic Eligibility
 - Look up census tract by street address – various mapping tools
 - Median family income of tract must be equal to or less than 80% of AMI; OR
 - Poverty rate of households within tract must be equal to or greater than 20%
- Severely Distressed (the bar that most projects need to 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 way to qualify)
 - Census tract MFI must be lower than 120% of AMI and
 - At least 50-60% of income derived from patients that are $\leq 80\%$ 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?

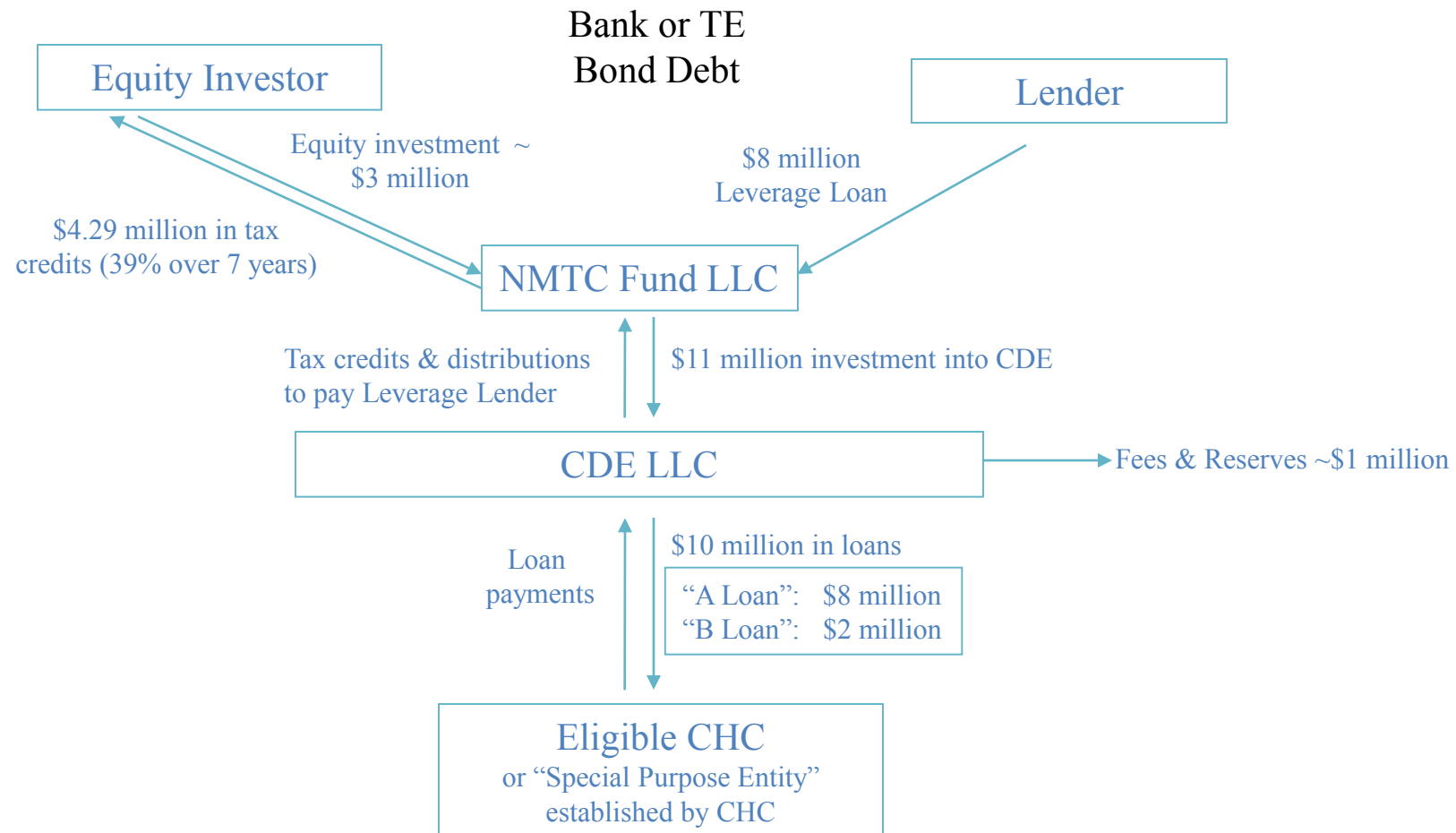
NMTC Miracle!



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

NMTC Hypothetical CHC Project

Assumes \$10 million in Project Costs



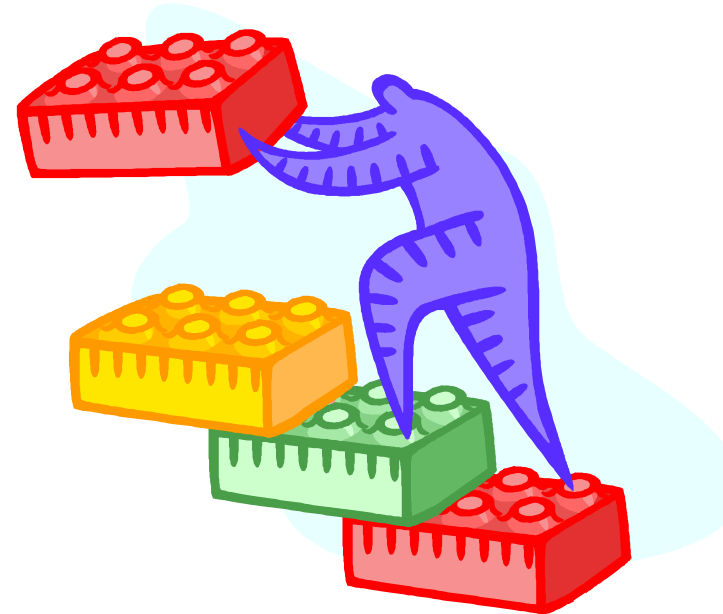
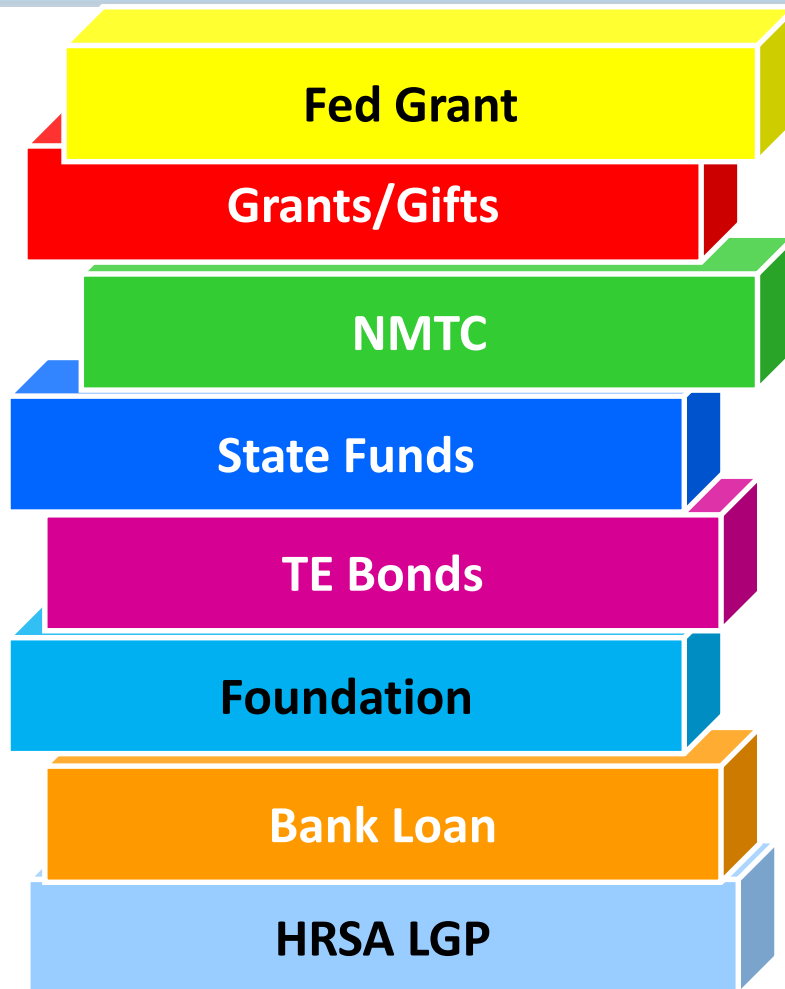
Weighted Average Cost of Capital ~ 5.2% in current market; ~\$520,000 interest-only for 7 yrs; refi \$8 million after 7 years

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

Financing Components

Mix and Match



Conventional Bank Loan

- Project size - \$5 million
- Loan is 80% of project value: \$4,000,000
- Interest rate is 5.5% with 25 year amortization
- Where will the remaining \$1,000,000 come from?
 - Sale of existing building?
 - Hospital contribution?
 - State?
 - Capital Campaign?
 - Government grant (HIIP)

Conventional Bank Loan

Sources of Funds:

Bank Loan.....	\$4,000,000
Other.....	<u>\$1,000,000</u>
Total.....	\$5,000,000

Annual Debt Service (P&I).....\$295,000

Bank Loan and NMTC

- NMTC investment approximately 20% of project cost
- Bank loan for the balance - \$4,000,000 interest only for 7 years – same rate
- **\$1,000,000 in “free” money!**

Bank Loan: NMTC, Interest Only

Sources of Funds:

Bank Loan.....	\$4,000,000
NMTC.....	<u>\$1,000,000</u>
Total.....	\$5,000,000

Annual Debt Service.....\$220,000

Tax Exempt Bonds

- With NMTC
- State issuing authority
- Private purchase by bank

Tax Exempt Bonds and NMTC

- NMTC investment approximately 20% of project cost - \$2,000,000
- TE Bonds for the balance - \$4,000,000 *interest only* for 7 years
- Interest rate – 3.8% (fixed 10 years)
- **No need for additional financing**

TE Bond: NMTC

Sources of Funds:

TE Bonds.....	\$ 4,000,000
NMTC.....	\$ <u>1,000,000</u>
Total.....	\$5,000,000

Annual Debt Service.....\$152,000

What Should You Be Doing to Get NMTC?

Current Opportunity

- Next awards expected Spring 2018 – exact timing is uncertain
- High-quality projects that are ready to close will be the limiting resource
- Next 60 days the critical time to make CDEs and other financing parties aware of your project
- ***If you miss the next round of NMTC it will be a year before you will have another chance.***

Steps to Obtain NMTC Financing

- Project eligibility
 - Census tract & high distress
- Size matters >\$5 million but some alternatives
- Lining up one or more CDEs
 - Next application round
 - Getting on a “pipeline list”
- Improving your chances of getting an allocation commitment from a CDE
 - Your project must be well-planned and ready to move ahead in a timely fashion
 - Site control
 - Severely distressed census tract?
 - Know your leverage loan needs (soft vs. hard debt); line up hard debt
 - Hire a financial advisor experienced in NMTC transactions
 - Hire an attorney experienced in NMTC transactions
 - Get your Business Plan/Financial Forecast done as soon as possible

How We Can Help

- Summary search - \$5,000: We work with you to develop a short summary of your project and contact CDEs across the country to make them aware of your project and your interest (Immediate - very important!)
- Financial forecast - \$22,000: We develop a highly detailed financial forecast based on your expected financial performance during and after completion of you project (ASAP if interest from a CDE).
- This is a 7 year financial forecast that includes:
 - Balance sheet
 - Income statement
 - Cash flow statement
 - Debt capacity analysis
 - Patient revenue by service for all 7 years
 - Employment FTE tally and cost for each FTE type for all 7 years
 - Project budget
 - Sources and Uses statement
 - Lender financial ratio analysis
- Full Business Plan - \$7500: A narrative describing your history, services, management, details of your project and a third-party analysis of your financial capacity to successfully sustain the new facility

“You may delay, but time will not.”

...Benjamin Franklin

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