



PENOBSCOT COMMUNITY HEALTH CENTER BELFAST, ME



Penobscot Community Health Center | Belfast, ME

Access to capital financing is a pivotal challenge for Federally Qualified Health Centers (FQHCs) aiming to expand and modernize their facilities. This case study delves into the journey of Penobscot Community Health Center (PCHC), the largest health center in Maine, as it navigated the complexities of securing financing for a critical expansion project. Central to this narrative is Capital Link, a financial services consultancy dedicated to connecting FQHCs with the capital necessary to fulfill their mission of providing comprehensive health care services to underserved populations.

PCHC's quest for expansion was born out of a pressing need to relocate its Seaport Community Health Center due to a lost lease, coupled with a vision to enhance its service offerings. The discovery of a 142-acre property, resembling more of a commercial office park than a traditional health care facility, presented an unparalleled opportunity for growth. However, this opportunity was not without its challenges. Unforeseen contractor cost overruns, exacerbated by supply chain disruptions during the COVID-19 pandemic, tested the resolve and resourcefulness of all parties involved.

This case study explores how Penobscot, with the assistance of Capital Link and the Health Resources and Services Administration's (HRSA) [Health Center Facility Loan Guarantee Program \(LGP\)](#), navigated these turbulent waters. It highlights the importance of innovative financing solutions in the health care sector and underscores the critical role of partnerships between health centers, financial consultants, and government programs in achieving ambitious expansion goals. Through this case study, we aim to shed light on the perseverance, collaboration, and strategic thinking required to bring such complex projects to fruition, while promoting the value of programs like the HRSA LGP in supporting health center infrastructure development across the United States.



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Background: Penobscot Community Health Center

PCHC, founded in 1997, has grown to become a cornerstone of health care in the greater Bangor, Maine area. As the largest community health center in Maine with over 15 sites in three counties and 900 employees, PCHC has dedicated itself to providing comprehensive, integrated primary health care services to all individuals, irrespective of their insurance status or ability to pay. Governed by a board of community volunteers, PCHC's mission is deeply rooted in the belief that everyone deserves access to quality, cost-effective health care. This commitment is reflected in each of the 48,000 telehealth visits, 70,000 patient portal messages, and 270,000 patient visits PCHC provides every year.

From its inception, PCHC has positioned itself as more than just a health care provider. It embodies the concept of a medical home, focusing on prevention and the management of health conditions to reduce the reliance on emergency room and inpatient services. This proactive approach to health care is designed to transform the health system, dramatically improving health outcomes and reducing costs for patients, families, and the broader community. PCHC's services extend beyond the conventional, covering dental, pediatrics, geriatrics, psychiatry, mental health, and substance use services.

PCHC's designation as a FQHC underscores its vital role in serving the underserved populations, with approximately 4% of its budget supported by federal FQHC operating grants. Its accreditation by the Joint Commission and the National Committee for Quality Assurance as a patient-centered medical home further highlights its commitment to quality care and health equity.

PCHC's Expansion Project

In 2021, Penobscot Community Health Care (PCHC), Maine's largest FQHC, embarked on a transformative journey with the acquisition of a multi-building complex in Belfast. This strategic purchase paved the way for PCHC to enhance and expand its Seaport Community Health Center, which had been grappling with space constraints due to increasing demand for its services. The organization's initiative to renovate and retrofit one of the 70,600 square-foot buildings on this expansive campus marked a pivotal step in enlarging the clinic's capacity and broadening its health care offerings.

- **Addressing Service Demand and Facility Limitations:** PCHC's Seaport Community Health Center clinic in Belfast was facing the loss of its lease, which presented an immediate and pressing challenge for relocation and expansion. The acquisition of the nearby Belfast office complex directly responded to the urgent need for additional space, addressing both the clinic's operational challenges and the community's growing health care demands. This move not only alleviated the facility constraints experienced by the Seaport Community Health Center but also set the stage for an ambitious expansion of services. Moreover, the project was well-positioned to be a catalyst for the re-development of the largely vacant office park and the revitalization of the broader community.
- **Expansion of Services and Community Collaboration:** With plans to commence renovations, PCHC aimed to significantly enhance the Seaport Community Health Center's capabilities, adding vital services such as dental care and expanding mental, behavioral health, and recovery programs. The vision extended beyond health care, with PCHC exploring partnerships with other health care and social service providers to offer a comprehensive range of community services across the seven-building campus.
- **Strategic Investment and Community Development:** The acquisition of the former Bank of America complex for approximately \$7 million, not only signified a major milestone for PCHC and Belfast but also opened avenues for federal funding aimed at community development and economic growth. The new facility, originally designed on a large open-office model, offered PCHC a blank canvas to reimagine health care delivery in the region.

Seaport Community Health Center's transition to the new 72,000 square-foot facility from its current 11,800 square-foot building was a testament to PCHC's commitment to meeting the evolving health care needs of approximately 8,000 patients. This expansion enabled a creative and expansive approach to service provision setting a new standard for integrated health care services in Maine.

Challenges Encountered

The initial plan for project funding was straightforward. Two different Community Development Financial Institutions (CDFI's) partnered to provide the source loan for the purchase of the office park would then be used as leverage within a New Markets Tax Credit (NMTC) transaction. These tax credits, awarded to approved community development entities by the US Treasury Department, can be sold to investors in exchange for equity into the project. The investors use the tax credit to reduce their federal taxes. The equity the health centers receive effectively becomes a grant to the project after the expiration of a 7-year tax credit period. Together, this provided the financing needed to renovate one of the buildings as PCHC's new Seaport Clinic.

The expansion project, however, encountered several significant challenges, each adding layers of complexity and extending the length of the process. These hurdles not only tested the resolve and resourcefulness of the project team but also demanded innovative solutions to keep the project moving forward.

- **Unexpected Contractor Costs and Supply Chain Issues:** A primary challenge arose from unexpected contractor costs, which were significantly exacerbated by supply chain disruptions due to the COVID-19 pandemic. This led to a considerable financial shortfall, with the project going over budget by over \$1 million, complicating the financial feasibility of the expansion.
- **Property Development Complications:** The ambitious plan to utilize the entirety of the 142 acre property as leverage faced significant roadblocks. The need to first subdivide the property into sellable legal parcels meant delays in the closing process for the financing while contractors were already on site working on extensive building renovations.
- **Regulatory and Legal Challenges:** PCHC planned to utilize a COVID-era federal grant provided by HRSA as part of its sources of project cash. Although it is a valuable financing tool, the grant required the filing of a "notice of federal interest" (NFI) on the property. While a standard requirement of federal construction-related grants, it conflicted with the needs of the tax credits lenders within the NMTC closing. The normal work-around for this is for HRSA to subordinate the NFI to the lenders during the tax credit period and, while an accepted solution, it takes time to document.

Faced with these financial, regulatory and timing issues, PCHC's management responded with a multi-tiered strategy. First, they would accelerate the legal process to subdivide the large property. Second, they decided to go back to the lenders for additional debt financing to cover the higher costs. Finally, they slow-walked the construction schedule as much as possible to minimize the cash required from PCHC operations before the closing of the financing. All this needed to be accomplished simultaneously – and none of it was easy.

Revamping the Loan With the HRSA Loan Guarantee Program

In light of the aforementioned issues, the original financing of the deal was no longer viable. It was necessary to go back to the drawing board and think of an entirely new strategy for financing. The problem, however, was that without additional equity or guarantees, it was not possible to secure additional funds from lenders. Working with their CDFI lenders, Capital Link and PCHC focused on utilizing an important tool available exclusively to FQHCs: [HRSA's Loan Guarantee Program \(LGP\)](#).

The HRSA LGP acts as a partial guarantee of the loan principal amount. While specific percentages can vary based on the project and HRSA's assessment, this key program offers guarantees up to 80% of the loan amount. This guarantee significantly reduces the risk of loss for lenders, making it more feasible for health centers to obtain the large sums

required for substantial expansion projects. The benefits of the LGP to Penobscot are twofold:

1. **Enhanced Credit Profile:** One of the primary benefits of the HRSA LGP for PCHC was the significant enhancement of its credit profile. With the backing of a federal loan guarantee, PCHC was viewed as a less risky borrower, making it more attractive to potential lenders and investors. This improved creditworthiness was instrumental in securing the necessary funds for the project.
2. **Impact on Project Feasibility:** Perhaps the most significant benefit of the LGP was its impact on the overall feasibility of the expansion project. By reducing financial risks and improving loan terms, the LGP played a critical role in making the ambitious project viable. Without this support, PCHC may have faced insurmountable financial barriers, potentially derailing the expansion efforts.

The HRSA LGP's role in PCHC's expansion underscores the importance of such federal programs in supporting health care infrastructure development, particularly in underserved areas. By providing a safety net for lenders and enhancing the financial viability of large-scale projects, the HRSA LGP helps ensure that communities continue to have access to comprehensive, high-quality health care services.

Loan Financing Structure of the Penobscot Community Health Center Expansion

With the LGP in hand, Capital Link and PCHC went to work and leveraged a new, intricate financing strategy. This section delves into the intricacies of the loan financing structure, which leverages a combination of loans, equity investments, and the NMTC program to fund the project effectively.

Initial Funding Mechanisms

The LGP helped Capital Link facilitate two key changes to the initial source loan. First, it enabled PCHC to increase its funding. Second, it brought another CDFI, BlueHub Capital, into the deal, establishing a strategic collaboration with CDFI, Primary Care Development Corporation (PCDC).

The project was supported by a source loan of approximately \$4.7 million dollars. This loan originated with BlueHub and represented the mainstay of the project's long-term financing framework. Its design was specifically tailored to support significant phases of the project, including but not limited to, property acquisition and the extensive renovation efforts that were necessary for the project's completion. By securing this large sum, the project was assured of having the bulk of the capital required for its progression, addressing major financial needs and stabilizing the project's financial foundation for the subsequent stages of development.

Capital Investment via NMTC Program

The source loan, while crucial, was not on its own enough to complete financing for the project. Capital One Bank significantly bolstered the project as a NMTC investor. Its investment of nearly \$2.8 million dollars, underscored the bank's commitment to the project. As previously mentioned, this can help put transactions together by providing crucial funding for the project. In this deal, in return for its investment, Capital One received critical tax relief on federal taxes.

Together with a few other contributions, the funding sources were bundled into an \$8.9 million package that secured the expansion's financial future in December 2023.

Financial Projections of Expansion: Sustained Revenue Growth

The expansion of PCHC's facilities, particularly through the renovation and retrofitting of the Belfast complex, is expected to significantly enhance the health center's service offerings. By increasing the clinic's capacity and adding vital services such as dental care and expanded mental, behavioral health, and recovery programs, PCHC is poised to meet the growing health care demands of the community. This strategic expansion is anticipated to lead to a substantial increase in patient visits, thereby boosting revenue.

The expansion also allows PCHC to take advantage of the increases in the MaineCare's (Maine's Medicaid program) reimbursement rate. After a huge jump in fiscal year 2025, the health center is projected to enjoy healthy revenue growth for the remainder of the decade. It not only addresses the immediate health care needs of the community but also contributes to the long-term economic and social well-being of the region.

Conclusion: Towards a Sustainable Future for Penobscot

The PCHC expansion project serves as a compelling case study in the transformative power of strategic planning, innovative financing, and collaborative partnerships in the health care sector. Faced with the dual challenges of a pressing need for facility expansion and the complexities of securing necessary capital, PCHC, with the support of Capital Link and the HRSA LGP, navigated a path through financial uncertainty to achieve a monumental milestone in its mission to provide comprehensive health care services to underserved populations.

This case study highlights several key lessons and successes:

- **Strategic Expansion:** The acquisition and development of the Belfast complex exemplify how health centers can strategically address space constraints and service demand challenges. By expanding its footprint and service offerings, PCHC not only enhanced its capacity to serve the community but also set a new standard for integrated health care services.
- **Innovative Financing Solutions:** The project underscores the critical role of innovative financing in the health care sector. The use of the HRSA LGP, along with a combination of bridge loans, source loans, equity investments, and the New Market Tax Credits (NMTC) program, showcases the creative strategies required to fund large-scale health care infrastructure projects.
- **Collaborative Partnerships:** The success of the PCHC expansion project was made possible through the effective collaboration between health centers, financial consultants, and government programs. These partnerships underscore the importance of a united front in tackling the financial and operational challenges of health care expansion.
- **Sustained Impact:** The financial projections for the project reveal a future of sustained revenue growth and financial stability for PCHC. The strategic investment in facility expansion and service enhancement is poised to deliver long-term benefits to the community, improving health outcomes and reducing health care costs.

The PCHC expansion project is a testament to the resilience, innovation, and commitment of all parties involved. It demonstrates the significant impact that can be achieved when health care providers are empowered with the resources and support necessary to expand and modernize their facilities. As PCHC embarks on this new chapter, it stands as a model for other Federally Qualified Health Centers (FQHCs) facing similar challenges across the United States.

ACKNOWLEDGMENT

This resource is supported by the Health Resources and Services Administration (HRSA) of the U.S. Department of Health and Human Services (HHS) as part of an award totaling \$1,168,750 with 0 percent financed with non-governmental sources. The contents are those of the author(s) and do not necessarily represent the official views of, nor an endorsement, by HRSA, HHS, or the U.S. Government. For more information, please visit [HRSA.gov](https://www.hrsa.gov).

About Capital Link

Capital Link is a national, non-profit organization that has worked with hundreds of health centers and Primary Care Associations for 30 years to plan for sustainability and growth, access capital, improve and optimize operations and financial management, and articulate value. Established through the health center movement, Capital Link is dedicated to strengthening health centers—financially and operationally—in a rapidly changing marketplace.

For more information, visit us at www.caplink.org.



Project Partners:

Penobscot Community Health Center (PCHC): The largest community health center in Maine, looking to fund their expansion on a 142 acre property.

Capital Link: Financial and consulting services organization tasked with planning and coordinating the financing for the expansion project.

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Primary Care Development Corporation (PCDC): A community development financial institution providing the source loan to the expansion.

BlueHub Capital: Community development financial institution that partnered with PCDC to provide extra funds to the revamped loan package.

Capital One Bank: The NMTC investor, who provided equity in the deal in exchange for the new market tax credits.

Health Resources and Services Administration (HRSA): Health and Human Services agency dedicated to providing equitable health care to the nation's highest need communities. Its Loan Guarantee Program (LGP) played a key role in structuring the loan package.

