Capital Planning & Funding Options for Rural CHC’s

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About Capital Link

Our Vision

Stronger health centers, actively building healthy communities

Our Mission

Capital Link works to strengthen community health centers—financially and operationally—in a rapidly changing marketplace. We help health centers:

- Plan for health center sustainability and growth
- Help health centers access capital
- Improve and optimize health center operations and financial management
- Articulate health center value
Lay of the Land: FQHCs Serving Rural communities
## Lay of the Land: FQHCs Serving Rural communities

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>S330 + LAL</td>
<td>616</td>
<td>619</td>
<td>631</td>
<td>606</td>
<td>-4%</td>
<td>-2%</td>
</tr>
<tr>
<td>Service Sites</td>
<td>4,148</td>
<td>4,464</td>
<td>4,983</td>
<td>5,054</td>
<td>1%</td>
<td>22%</td>
</tr>
<tr>
<td>Patients</td>
<td>8,556,679</td>
<td>9,014,319</td>
<td>9,843,027</td>
<td>9,132,834</td>
<td>-7%</td>
<td>7%</td>
</tr>
<tr>
<td>Visits</td>
<td>33,007,526</td>
<td>35,341,621</td>
<td>38,650,224</td>
<td>36,132,510</td>
<td>-7%</td>
<td>9%</td>
</tr>
</tbody>
</table>
Poll #1

Over the last few years, have you .... (check all that apply)

- Added sites in rural communities
- Taken over or merged with another FQHC in a rural area
- Bought/taken over other non-FQHC practices
Topic Areas to Cover:

- Capital Planning
  - Cash Flow & Debt Capacity
  - Sources & Uses of Project Funds
  - Project Financing Package

- Financing Sources
  - Banks & CDFIs
  - USDA
  - NMTC
  - HRSA LGP

- Case Study: El Dorado Community Health Center (USDA)

https://hillcountryclinic.blogspot.com/
# Debt Capacity Sensitivity Analysis


<table>
<thead>
<tr>
<th>Capital Link - Debt Capacity Sensitivity Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY18</td>
</tr>
<tr>
<td>Change in Net Assets</td>
</tr>
<tr>
<td>Add: Depreciation</td>
</tr>
<tr>
<td>Add: Interest Exp.</td>
</tr>
<tr>
<td>Funds Available For Debt Service</td>
</tr>
<tr>
<td>Add Rent Rebate/Savings</td>
</tr>
<tr>
<td>Total Funds Available for Debt Service</td>
</tr>
<tr>
<td>Debt Service Coverage discount (1.25)</td>
</tr>
</tbody>
</table>

| Interest Rate | 4.0% | 4.0% | 4.0% | 4.0% |
| Term (years) | 20 | 20 | 20 | 20 |
| Debt Capacity | $5,979,744 | $4,892,517 | $8,697,809 | $7,882,389 |

| Interest Rate | 5.0% | 5.0% | 5.0% | 5.0% |
| Term (years) | 20 | 20 | 20 | 20 |
| Debt Capacity | $5,483,373 | $4,486,396 | $7,975,815 | $7,228,082 |

| Interest Rate | 5.0% | 5.0% | 5.0% | 5.0% |
| Term (years) | 30 | 30 | 30 | 30 |
| Debt Capacity | $6,763,878 | $5,534,082 | $9,838,369 | $8,916,022 |
Project Budget

- Shows all the **detailed** cost categories for a project
  - construction budget
  - soft costs and
  - furniture & equipment

- **Sources and Uses of Funds:**
  - Shows in **consolidated** manner how the project is to be funded and how those funds are to be spent
  - Sources of Funds = Uses of Funds
  - Uses of Funds is = to the Project Budget
## SOURCES AND USES OF PROJECT FUNDS

<table>
<thead>
<tr>
<th>Uses of Funds</th>
<th>Amount</th>
<th>Totals</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property (acquisition cost)</td>
<td>1,000,000</td>
<td>1,000,000</td>
<td>9%</td>
</tr>
<tr>
<td>Total Construction-Related</td>
<td>7,500,000</td>
<td>7,500,000</td>
<td>65%</td>
</tr>
<tr>
<td>Total Soft Costs</td>
<td>1,500,000</td>
<td>1,500,000</td>
<td>13%</td>
</tr>
<tr>
<td>Total Equipment Costs</td>
<td>1,500,000</td>
<td>1,500,000</td>
<td>13%</td>
</tr>
<tr>
<td><strong>Total Uses of Funds</strong></td>
<td><strong>$11,500,000</strong></td>
<td></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sources of Funds</th>
<th>Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Contribution</td>
<td>1,000,000</td>
<td></td>
</tr>
<tr>
<td>Predevelopment Expenditures</td>
<td>500,000</td>
<td></td>
</tr>
<tr>
<td>External Capital Support</td>
<td>1,000,000</td>
<td></td>
</tr>
<tr>
<td>Additional Cash Required for Closing</td>
<td>1,000,000</td>
<td></td>
</tr>
<tr>
<td>Total Equity Contribution</td>
<td>3,500,000</td>
<td>30%</td>
</tr>
<tr>
<td>Long-Term Debt</td>
<td>8,000,000</td>
<td>70%</td>
</tr>
<tr>
<td><strong>Total Sources of Funds</strong></td>
<td><strong>$11,500,000</strong></td>
<td></td>
</tr>
</tbody>
</table>
Primary Financing Sources

- Conventional/Market Rate
  - Banks

- Alternative/Non-profit
  - Community Development Financial Institutions (CDFIs)

- Government
  - USDA (Rural Development Community Facilities)

Financing Support

- HRSA Loan Guarantee Program
- New Markets Tax Credits (NMTCs)
Capital Project Business Plan

- Organizational Overview (Who?)
  - Incl. governance

- Target Market/Need Analysis (Why?)

- Capital Project Overview
  - Project Rationale (Why?)
  - Project Description (What?)
  - Project Budget & Sources and Uses (How Much?)
  - Project timeline (When?)
    - Critical Path (What’s next?)

Financial Feasibility Analysis (How?)

- Audited Performance Analysis
- Financial Projections
Communities <20,000 residents

Non-profit Health centers are eligible borrowers

Have direct loan program and loan guarantee program

Long Loan Term: Maximum of 40 years

Market rate 2.215% as of March 2021

Work through your state office

https://www.rd.usda.gov/programs-services/all-programs/community-facilities-programs
USDA Guarantee vs Direct Loan

Guarantee:
- 80% guarantee of bank loan
- Allows borrower to secure credit that might not otherwise access

Loan:
- Lowest rate, longest term
- May require documentation of inability to secure bank loan
- May need construction lender
May 29, 2020 directive re FFS evaluations for Community Facility Applications

- **>$5 million** loan request
  - 3 years historical debt coverage for existing + new debt
    - No examination opinion by CPA firm required

- **<$5 million**
  - No examination opinion required of FFS
New Markets Tax Credits

- Federal program authorized in 2000 & renewed repeatedly since ‘06
- over $57.5 billion in investment authority
- 15 competitive application cycles
- allocated to approximately 1,178 awardees (CDEs) – due to repeat awards, there are about 325 distinct CDEs
- Currently under a 5 year renewal @ $5 billion per year
- **Net** Benefit roughly 17%-20% of project (subsidy)
NMTC Partners

NMTC Consultant
NMTC Accountant
NMTC Counsel

CDE
• Provides tax credits

Sponsor/Developer (CHC)

NMTC Investor
• Buys tax credits

Lender
• Provides missing capital

Eligible Project
How Do NMTCs Get To Your Project?

- Community Development Entities (CDEs) Apply for Tax Credits
- Get “Pitch Package” in front of CDEs, Investors, and Lenders
  - Project Overview
  - Sources & Uses/Capital Budget
  - Impacts: Jobs, Patients, Utilization, Need
  - Timeline/Readiness
  - Eligibility Confirmation
- Preliminary NMTC leveraged structure
- Capital Project Business Plan & Financial Projections (7 yrs)
- Underwriting and Closing Process (can easily take 4/5 months or more)
NMTC Challenges:
Takes great coordination & patience!

- Highly competitive
  - Prioritizes most economically distressed census tracts & non-metropolitan areas
  - Aligning your project timing ("shovel ready")

- Complex financing structures (tax code compliance)
  - Takes longer to close than you (or anybody else) thinks
  - High transaction costs (though not out of pocket);
    - Various NMTC partners required (Consultants, CDEs, Investors, Lenders)
  - Minimum recommended Total Project Budget $5 Million

- Compliance: reporting requirements for 7-year period
NMTC Program Cycle & Project Readiness

Fall 2020
- CDE application round

Summer 2021
- $5B CDE award round (Aug.?)

Fall 2021
- Priority closings
- New CDE application round?

Winter/Spring 2022
- Additional project closings

Summer 2022
- $5B CDE award round

www.caplink.org
Originally authorized by Congress the HRSA LGP offers loan guarantees for the construction, renovation, and modernization of medical facilities operated by Section-330-funded health centers.

Recently re-appropriated, the guarantee program can cover up to 80% of the principal and interest on loans made by non-federal lenders. No limit on loan size - loans for projects of $5 - $7 million or more have been typical.
Financing Process with LGP

1. Pre-Application Call w/ HRSA (optional)
2. Application Development & Submission
3. Application Review & Approval
4. Loan Closing
Contact the HRSA LGP at LGProgram@hrsa.gov once you have the following information:

- Anticipated Project Scope;
- Type of construction activity (i.e., new construction, renovation, new site, replacement facility);
- Estimated project cost (preliminary)
- Financing needs and potential lender(s); and
- Timeline and status of project planning and financing.

- EID Checklist Form - your Architect knows how to address https://bphc.hrsa.gov/sites/default/files/bphc/programopportunities/fundingopportunities/hcf-lgp/environmentalchecklist.pdf
El Dorado Community Health Center

- Opened in 2003
- Based in Placerville, CA (pop. 11,000)
- 4 sites
- 135 FTEs
- 12,000 patients
- 66,000 visits
Missouri Flat Capital Expansion Project
El Dorado Community Health Center
Missouri Flat Capital Expansion Project
El Dorado Community Health Center
Poll #2

What planning phase are you in for your own capital expansion project?

- Currently no capital expansion plans
- Preliminary/Early Planning (2-3+ yrs out from project)
- Predevelopment Planning: early stage (concept design, feasibility planning)
- Predevelopment Planning: late stage (construction docs; looking for financing)
Publications: Rural FQHCs

Performance Benchmarking Toolkit for Rural Health Centers

This toolkit provides guidance in applying data analysis tools to help rural health centers more effectively track performance, understand key drivers, and incorporate operational insights for financial sustainability. This resource was supported by the Health Resources and Services Administration. (Released 2021)

FQHC Roles and Opportunities Related to Rural Hospital Distress and Closure

This publication, prepared with support from the Health Resources and Services Administration, provides a high-level examination of the lived experiences of Federally Qualified Health Centers (FQHCs) that serve rural communities, particularly in the context of rural hospital financial distress and closure. Utilizing a recently conducted national assessment of rural FQHCs, it seeks to document health centers’ experiences with hospital distress and closure over the past five years and to evaluate the extent to which these centers have and can play an instrumental role in preserving access to care under these difficult circumstances. (Released in 2021)

Rural Federally Qualified Health Centers Financial and Operational Performance Analysis 2016-2019
Other Resources

Rural Philanthropy & Foundation support – Allen Smart

- https://philanthropyworx.com/

Rural Health HUB

- https://www.ruralhealthinfo.org/topics/capital-funding
- https://www.ruralhealthinfo.org/funding

USDA capital funding toolkit:


HRSA’s Federal Office of Rural Health Policy

- https://www.hrsa.gov/rural-health

NACHC’s Health Center Resource Clearinghouse

- https://www.healthcenterinfo.org/
Questions?

Contact:

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