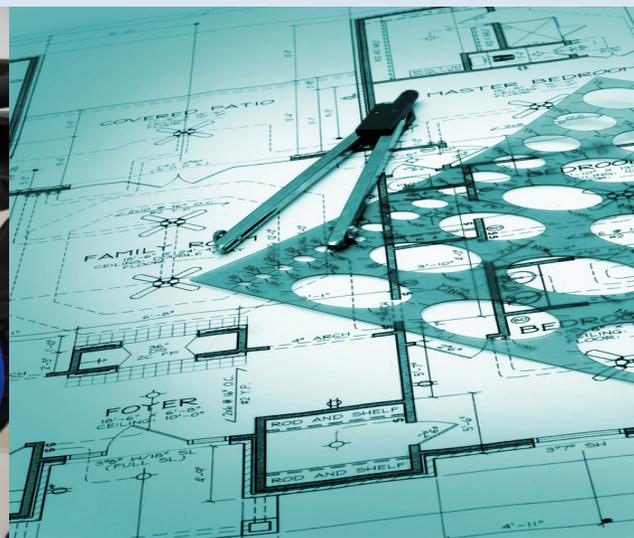


Steps to Success:

A Toolkit for Community Health Centers Navigating a Capital Development Venture



Prepared by Capital Link | 2017



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About Capital Link

Capital Link is a non-profit organization that has worked with hundreds of health centers and primary care associations for nearly 20 years to plan capital projects, finance growth, and identify ways to improve performance. We provide innovative consulting services and extensive technical assistance with the goal of supporting and expanding community-based health care. For more information, please visit www.caplink.org.

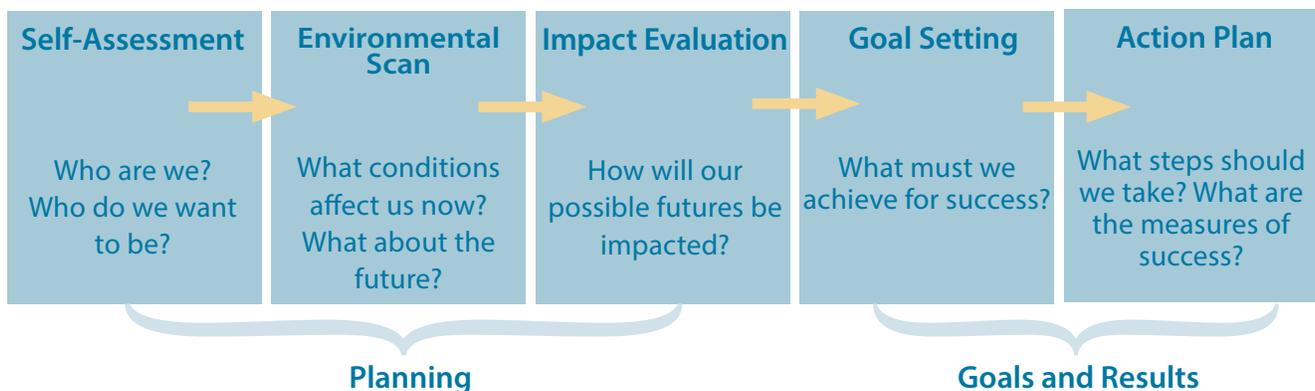
Introduction

Federally Qualified Health Centers (FQHCs) needing to build new facilities, renovate existing space, or purchase new equipment, quickly discover that capital development is a complex endeavor. The capital development process requires careful planning, as it can take years from project conception to completion. Successful projects encompass a number of planning activities, which are the fundamental building blocks that create a foundation for smoother completion, eliminating most of the guess work, and allowing health centers to understand opportunities and risks. Capital projects become more manageable when health centers follow a methodical process. Insufficiently planned projects could result in serious pitfalls, financial destabilization, or even lack of interest from the community and lenders needed to get the project off the ground. Poor initial planning could also result in increased costs during the implementation phase, extended timelines, and other unforeseen issues. Emphasis on clear project goals and an organized plan to achieve them will help your health center stay on track and keep the project moving forward.



A STRATEGIC PLAN

An up-to-date strategic plan is a prerequisite for any effort to expand. It can ensure that your ongoing operations and capital planning decisions are informed by changing conditions and efficiently managed. It also makes everyone on staff and the Board aware of growth plans. A specific capital plan component can also help your health center be more proactive and ready to take advantage of federal or other capital grant opportunities that may become available on short notice. If your project concept is not incorporated into your health center's strategic plan, take a step back and discuss how it fits into your overall objectives.



Related Resources:

- *Creating a Dynamic and Useful Strategic Plan* (toolkit: <http://www.caplink.org/resources/publications>)
- *An Introduction to “Creating a Dynamic and Useful Strategic Plan”, a New Toolkit for Health Centers* (webinar: <http://www.caplink.org/events/webinars>)
- *Strategic Growth Readiness Assessment*: This Capital Link service provides a base-level financial and operational view of a health center, helping management and board members determine if they are prepared for a capital project and identify next steps for future growth. (service: <http://www.caplink.org/services/begin>)
- *Preparing for a Capital Project: Are You Ready?* (publication: <http://www.caplink.org/resources/publications>)

FINANCIAL STRENGTH

An essential step of any capital development project is to conduct a thorough analysis of your health center's current financial strengths and weaknesses. How can you prepare for growth if you don't have a comprehensive understanding of your current financial status? Your health center should, at a minimum, be stable with an objective to attain excellence. If your health center isn't stable enough to add capacity, your infrastructure won't sustain the tremendous drain that a capital project demands.



Health centers need to have a finger on the pulse of their financial health through consistent tracking and benchmarking. Your health center should:

- **Regularly monitor your performance trends.** Calculate key measures to uncover trends over time, using information from financial statements and Uniform Data System (UDS) reporting.
- **Compare your results to peers and industry benchmarks.** Use the data to compare your health center to peers, whether against centers of the same size or in urban or rural locations, and against industry benchmarks.

Stable financial performance makes capital financing more attainable. Lenders are hesitant to invest in health centers with negative operating margins, unless they have a convincing case as to how expansion will strengthen revenues. Tracking key metrics keeps your health center in-the-know, revealing positive trends and helping to anticipate any ramifications of expanding capacity, including impacts to profitability and cash flow.

Related Resources:

- *Performance Benchmarking Toolkit for Health Centers* (toolkit: <http://www.caplink.org/resources/publications>)
- *Hallmarks of High Performance: Exploring the Relationship between Clinical, Financial and Operational Excellence at America's Health Centers* (publication: <http://www.caplink.org/resources/publications>)
- *High-Performance Community Health Centers: Learning, Measuring, and Achieving* (publication: <http://www.caplink.org/resources/publications>)
- *High-Performance Community Healthcare: How to Measure It and How to Achieve It* (webinar: <http://www.caplink.org/events/webinars>)
- *Financial and Operational Benchmarking* (webinar: <http://caplink.org/index.php/events/webinars>)

OPERATIONAL AND CLINICAL EXCELLENCE

Operational and clinical excellence are also necessary before expanding capacity. Review your health center’s current operations as well as your organizational readiness for change. The following steps will help create a framework for how your health center’s program of services may need to change, including adjustments to staffing and processes, in order to offer efficient and effective patient-centered care.

- **Analyze productivity and patient utilization.** This analysis will provide insight on operational changes that could be made to increase efficiencies and improve the delivery of current services. This information can also help determine if new facilities or services are necessary, or if changes could be made to existing space and programs.
- **Clarify your operational model.** Starting with a definition of your community, evaluate points of patient entry, how they currently receive care, and what changes might need to be made to grow smoothly.
- **Evaluate your programs.** Examine what programs your health center currently offers and identify opportunities for new services that may be arising.

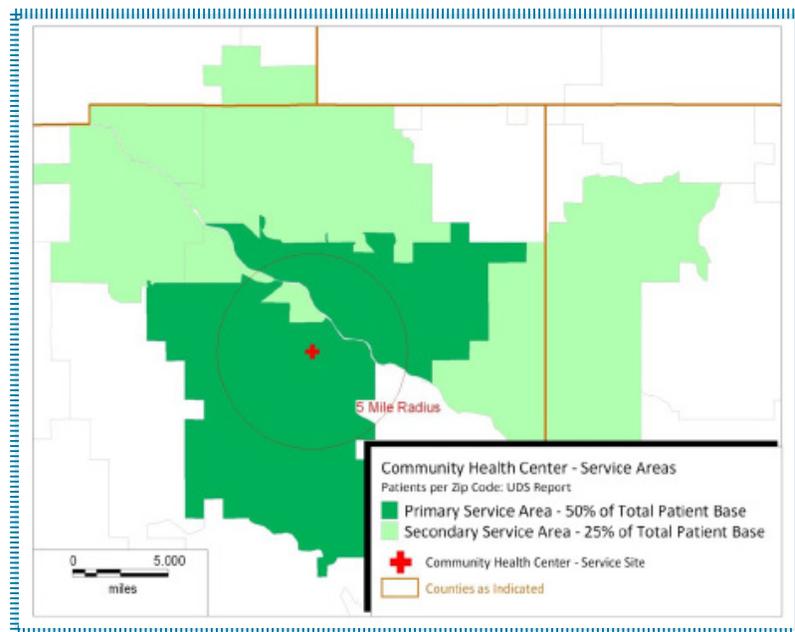


Related Resources:

- *Creating a Healthcare Facility that Supports the Patient-Centered Medical Home* (publication: <http://www.caplink.org/resources/publications>)
- *Creating a Place for Care: Fostering Alignment and Eliminating Barriers in the Patient-Centered Medical Home* (publication: <http://www.caplink.org/resources/publications>)
- *Developing an Organizational Culture that Sustains the Patient-Centered Medical Home: Lessons Learned* (publication: <http://www.caplink.org/resources/publications>)

MARKET OPPORTUNITY

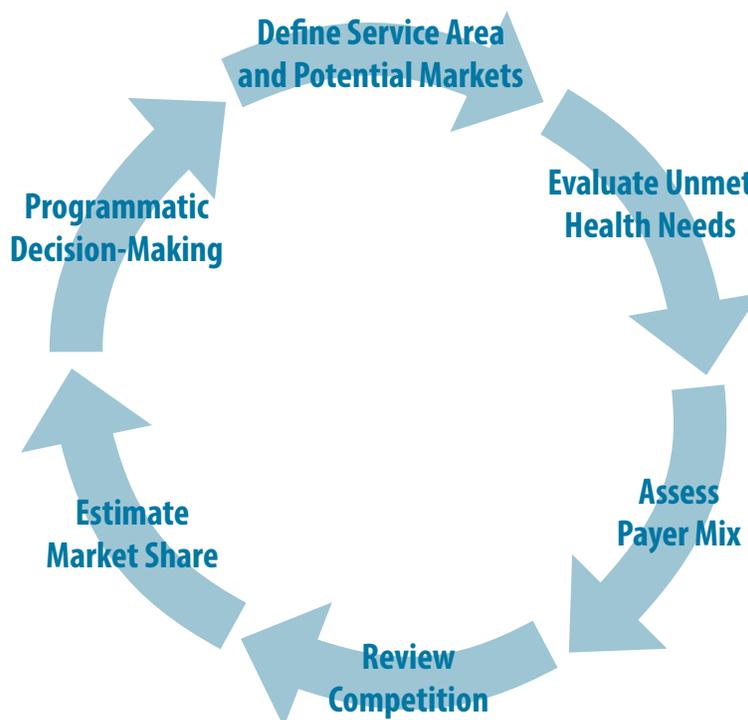
Before embarking on a capital project, it is essential to research your community and patient needs in order to identify gaps your health center could potentially fill. It is not viable to expand to a new market area that already has adequate primary care or offer new services that aren't needed in the community. While an idea may sound good, it won't be worth the time, money, and effort if it is not practical for your current or potential patient population. Define your health center's service area, determine the health needs of the population, and estimate your market share and competition.



Market assessments can give your health center's leadership team the information necessary to identify and evaluate opportunities for growth. A thorough market assessment can help:

- **Define current service area and potential markets for expansion.** Using current data such as patient origin by zip code, a health center can focus on geography, general population, or specific segments (e.g., children, level of poverty, women of childbearing age, etc.) in identifying needs by population and/or location in order to better address those needs.
- **Evaluate unmet health needs.** State and county health departments are usually the most up-to-date source for accurate health indicators, such as immunization and mortality rates. Look at patient trends now, and forecast for future needs, as population demographics change.

- **Assess payer mix.** It is important to understand the potential payer mix in your service area and to understand which of the currently uninsured might enroll in Medicaid, the health insurance exchange, or Medicare. This payer mix assessment can help determine whether the patient population can support new or expanded services and the extent to which subsidies to support care to the uninsured will be needed.
- **Review competition/similar providers.** Understanding the market environment in which your health center operates includes an analysis of similar providers. Identify competitor health care providers in your market, and compare your metrics to theirs. Take into account what services they offer, and their capacity, in order to predict how your potential opportunity will impact the community.
- **Estimate your health center's market share.** Based on opportunities and needs in the service area, and taking into account competitors, estimate current and projected market share that your health center could serve.
- **Estimate unmet needs/strategic program opportunities.** This final step pulls the market information together and establishes the foundation for programmatic decision-making. Once a health center has identified the characteristics and needs of its service area or market, it has the data to determine what additional resources are needed to proceed (including financing, partnerships, and outreach). This process also provides the basis for site selection to ensure that your targeted location aligns with the dynamics of the market you are endeavoring to serve.



Your goal as a health center is to always bring accessible, quality healthcare to the communities you serve; achieving this goal starts with knowing what they need. Being familiar with your current community and potential patient base will allow your health center to make informed decisions about relevant programs and services that meet the population's needs. If you are expanding to a new market, consider the demographics, economy, and culture of the communities you will serve to gain insight into the services your health center should offer. If you are expanding to provide new services in your current market, be proactive in reaching out to your community to gauge their interest and response to your facility changes.

Related Resources:

- *American FactFinder by the U.S. Census:* <http://factfinder2.census.gov>
- *Fee-based sites such as DemographicsNow:* www.DemographicsNow.com
- *County Health Rankings:* <http://www.countyhealthrankings.org/>
- *Community Health Status Indicators:* www.cdc.gov/CommunityHealth
- *HealthLandscape:* www.healthlandscape.org
- *Medicaid:* Enrollment data is available through the state offices of Medicaid
- *Medicare:* Enrollment by county at <http://www.cms.hhs.gov/MedicareEnrpts/>
- *Uninsured:* US Census <https://www.census.gov/did/www/sahie/data>
- *Mapping and decision-support tool, including exchange eligibility, GIS mapping of locations, health indicators, population statistics, and various provider types:* www.udsmapper.org
- *Planning in Uncertain Times: Market Assessment for Service Expansion to Respond to Community Needs* (webinar: <http://www.caplink.org/events/webinars>)
- *Market Assessment for Service Expansion Rooted in the Community* (webinar: <http://www.caplink.org/events/webinars>)
- *Market Assessment and Payer Mix Modeling in an Era of Health Reform* (webinar: <http://www.caplink.org/events/webinars>)
- *Market Assessment and Patient Revenue Modeling* (webinar: <http://www.caplink.org/events/webinars>)
- *NACHC State Level Data and Maps* (various online resources: <http://nachc.org/research-and-data/state-level-data-maps/>)
- *NACHC's Protocol for Responding to and Assessing Patients' Assets, Risks, and Experiences, or PRAPARE* (toolkit: <http://nachc.org/research-and-data/prapare/>)

BUSINESS PLAN

Once you have an understanding of your health center’s current operational and financial status, and have researched the needs of your patient base and service area population, you have the tools to develop a detailed plan for your capital project plan, called a business plan. Your plan should describe how your health center will translate your growth goals into a viable opportunity. Capital Link has developed a standard format for health centers to use in writing a business plan. Key components of any plan should include the nature of the capital project, the market opportunity, the level of funding required, the risks inherent to the venture, and other salient aspects of the plan. Know your purpose, audience, and key messages to frame your business plan appropriately.

Business plans are written for a variety of purposes and aimed at a diverse set of audiences. Most commonly business plans are developed:

- **To carry out specific goals of the organization’s strategic plan.** For example, in its strategic plan, the Board of Directors and management may have identified a goal to add an additional site. The business plan describes how the health center will translate this goal into a viable business opportunity (e.g., identifying the particular market niche, the individuals who will manage the venture, and various financing alternatives for the new business).
- **To provide the Board of Directors, staff, and management with a common road map.** Many organizations write business plans to enumerate a range of specific activities that they intend to undertake over a period of time (e.g., one-to-three years) and then annually update it. This process keeps the Board, management, and staff focused on the particular tasks at hand and ensures that all parties are working together toward a set of common goals.
- **To obtain financing from various funding sources** (e.g., lenders, foundations, corporations, public agencies). When embarking upon a project that requires outside financing, such as a capital improvement project or capitalizing a new business, financial institutions and others require a business plan.



- **To attract business partners** (e.g., joint venture, partnerships, etc.). Similar to the point above, health centers that undertake business ventures with other entities will often write a business plan (independently or jointly) that lays out the “hows and whys” of the plan and identifies the responsibilities of each party in order to avoid future misunderstandings.

It doesn't hurt to start communicating with potential lenders before providing them with a formal business plan. Doing so can open the door for more discussion on the potential project and allow for early feedback on potential interest in providing financing.

Related Resources:

- *Creating a Business Plan for a Community Health Center Capital Project: a “How-To” Manual* (toolkit: <http://www.caplink.org/resources/publications>)
- Debt Capacity (service: <http://www.caplink.org/services/begin/debt-capacity>)
- *Estimating Capital Project Costs for Health Centers* (publication: <http://www.caplink.org/resources/publications>)
- *Incorporating Capital Plans and Capitalization Goals into Strategic Planning* (webinar: <http://www.caplink.org/events/webinars>)
- *Developing and Using a Capital Project Budget* (webinar: <http://www.caplink.org/events/webinars>)

LEADERSHIP AND PROJECT PLANNING EXPERTISE

Health centers best prepared to implement a capital project have a strong leadership team and Board of Directors that can drive the process. Can your leadership team and Board concisely explain why your health center wants to take on a capital development project? All members involved in growth initiatives should be able to describe the purpose, planning activities, and needs that new and expanded facilities will fill in the community. Not only should all stakeholders understand the scope of the project, but they should also understand the various roles involved in managing the project.

Health center leadership teams need to assign internal project management teams, but also identify when outside experts should be hired. Internal project management team members should have consistent direction and the authority to proceed, with a designated point person to facilitate and delegate as needed. On behalf of the internal project management team, the point person will interface most directly with your external experts, who will help you develop and execute your plans, including architect and engineers, project manager, financial consultant, and contractor. Together, your internal project management team will be responsible for communicating the needs of your project to your external consultants and from the external consultants to the health center's leadership and various constituencies within the health center.

When evaluating your health centers leadership team, and when determining who should participate on your project management team, consider the following and make adjustments as necessary:



Related Resources:

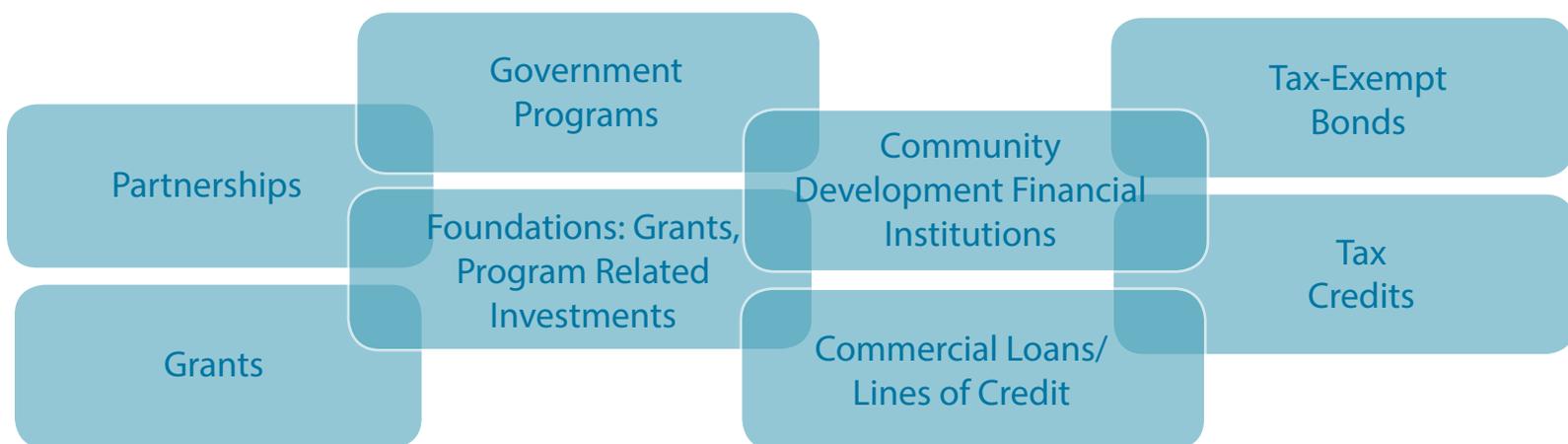
- *Developing a Health Center: A Guide for Health Center Staff and Boards on Managing the Design and Construction Process* (publication: <http://www.caplink.org/resources/publications>)
- *Engaging Staff and Community in Defining Your Capital Project* (publication: <http://www.caplink.org/resources/publications>)
- *Planning for Growth: Health Center Board and Staff Training* (webinar: <http://www.caplink.org/events/webinars>)
- *NACHC's Staffing the Safety Net: Building the Primary Care Workforce at America's Health Centers* (report: http://www.nachc.org/wp-content/uploads/2015/10/NACHC_Workforce_Report_2016.pdf)
- *NACHC's Workforce Snapshot* (fact sheet: http://nachc.org/wp-content/uploads/2016/10/Workforce-Snapshot_October2016.pdf)
- *Solutions, Training, and Assistance for Recruitment and Retention (STAR²) Center*, project of the Association of Clinicians for the Underserved (resources and training: <http://www.chcworkforce.org/>)
- *Adding Fund Development Capacity to Sustain Health Center Growth* (publication: <http://www.caplink.org/resources/publications>)
- *Assembling a Capital Project Team* (publication: <http://www.caplink.org/resources/publications>)
- *Capital Project Work Plan* (publication: <http://www.caplink.org/resources/publications>)



CAPITAL SOURCES

Health centers face significant challenges when trying to secure funding for facility development, expansion, and major equipment purchases. To successfully access capital, your health center needs to determine how much debt you can afford to take on and how much grant funding or equity will be needed—estimates that should be made before exploring specific funding options. Your leadership team should also consider if pre-development funding is needed to help with the costs of studies and other preliminary planning activities. This information will help identify potential capital sources early in the planning process so they can be evaluated throughout the project.

Grants and loan funding options vary greatly, and different sources may be more appropriate for different projects. Most health centers pay for capital projects through a combination of funding sources, so a clear definition of the project budget and a comprehensive plan of finance is needed. Typical funding sources for health center capital projects include:



As the market changes or different grant opportunities become available, health centers can refine their plans. There may also be options available to help your organization strengthen your chances to secure financing through credit enhancement. Comparing financing options is complicated, and there are resources available to help you conduct comparisons to help make informed decisions.

Related Resources:

- *Finding and Acquiring the Best Funding Sources for Your Project*
(webinar: <http://www.capl原因ink.org/events/webinars>)
- *Finding the Best and Lowest Financing for Your Project* (webinar: <http://www.capl原因ink.org/events/webinars>)
- *Working with the USDA: Opportunities for Rural Federally Qualified Health Centers*
(publication: <http://www.capl原因ink.org/resources/publications>)
- *Selecting the Right Capital Project Financing*
(publication: <http://www.capl原因ink.org/resources/publications>)
- *Capital Funding Options for Rural Community Health Centers*
(publication: <http://www.capl原因ink.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.capl原因ink.org/resources/publications>)
- *Financing Health Center Projects with New Markets Tax Credits*
(webinar: <http://www.capl原因ink.org/events/webinars>)
- *Accessing Capital from Community Development Financial Institutions*
(webinar: <http://www.capl原因ink.org/events/webinars>)
- *HRSA's Capital Development Grant Technical Assistance*
(online resource: <https://bphc.hrsa.gov/programopportunities/fundingopportunities/capdev.html>)



CONTINUOUS QUALITY IMPROVEMENT

The work doesn't end once a capital development project is complete. After a project has been implemented, your health center should take steps to monitor best practices, improvements, and community impact to track achievements. To continuously evolve, health centers should routinely:

- **Measure operational, financial, and clinical goals and benchmarks.** Doing so helps you plan for future growth and monitor potential risks.
- **Conduct “before and after” studies.** You will want to evaluate the impact of your capital project on the communities you serve, support the development of best practices and promote your achievements
- **Communicate your value.** Document and demonstrate the valuable impact your health center has on your community.

Related Resources:

- *HRSA's Health Center Quality Improvement resources*
(web page: <https://www.bphc.hrsa.gov/qualityimprovement/index.html>)
- *NACHC's Quality Management (QM) Monograph*
(webpage and publication: <http://www.nachc.org/clinical-matters/clinical-quality/quality-management/>)
- *HRSA Health Center Program Impact and Growth*
(webpage and infographics: <https://bphc.hrsa.gov/about/healthcenterprogram/index.html>)
- *Capital Plans and Needs of Health Centers: A National Perspective*
(report: <http://www.caplink.org/services/begin>)
- *Impact of Capital Projects on Health Centers: Growth, Financial Trends, and Operational Transformation: A Guide for Health Centers* (report: <http://www.caplink.org/resources/reports>)
- *Case studies and client stories* (publications: <http://caplink.org/client-impact/client-stories>)
- *Economic impact of health centers*
(infographic: [http://caplink.org/resources/reports#\"Economic Impact of Health Centers\"](http://caplink.org/resources/reports#\))

It takes a lot of planning and effort for health centers to implement capital projects and each step is necessary to ensure the project will be successful. This document provides a broad overview of the steps involved in undertaking a capital project—but every health center faces unique challenges. Review Capital Link's website at www.caplink.org/services for more information about how we can help. For one-on-one consultation regarding your questions and project needs, contact Capital Link at caplink.org/contact-form.