

Working with the USDA

*Opportunities for Rural
Federally Qualified
Health Centers*

Prepared by



CAPITAL LINK

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Working with the USDA Opportunities for Rural FQHCs

Across the United States, Community Health Centers¹ have been rapidly expanding to meet patient demand for care. Unfortunately, although many of the most underserved communities are located in rural areas, rural Community Health Centers face a number of challenges when preparing to grow or expand their facilities. Most small communities have a fairly limited donor base from which to raise capital campaign funding and there is often a limited network of foundations and other organizations that can contribute.

To fill the funding gap, rural Community Health Centers often need to borrow to fund a substantial portion of their project. Even if they have sufficient debt capacity, rural Community Health Centers often face limited options when seeking financing. Many rural areas only have one or two financial institutions and it can be challenging to work with national lenders who are unfamiliar with the community. In this climate, rural organizations often have few financing options—and existing offers usually feature high interest rates.

Aside from these fundamental challenges, rural FQHCs also struggle to attract the range of professionals needed to plan and build a new facility. From initial facility planning and financial projections through construction, rural communities often do not have enough planners, architects, contractors, and engineers to generate true competition to undertake their project. To attract interest, health centers often take on additional fees and costs to convene an experienced project team. This process further increases project costs.

Fortunately for health centers located in rural areas, the United States Department of Agriculture (USDA) currently features an array of programs that can be extremely beneficial for eligible Community Health Centers considering capital expansions. These programs provide grant resources as well as low-cost lending and guarantees for commercial financing. The most widely used programs are located within the USDA Community Facilities department. Through this department, health centers can apply for direct grants, direct loans, or loan guarantees for their capital projects. More information about each of these options is included in this document.

¹ In this document, unless otherwise noted, the terms “health center” and the acronym “CHC” are used interchangeably to refer to the family of organizations that receive grants under the Health Center Program as authorized under section 330 of the Public Health Service Act, as amended (also referred to as “grantees”) and Federally Qualified Health Center (FQHC) Look-Alikes, which are health centers that have been certified by the Centers for Medicare and Medicaid Services (CMS), based on recommendations provided by HRSA/BPHC, as meeting all Health Center Program requirements. FQHC LAs do not receive funding under the Health Center Program.

Although all of these programs are currently authorized and available, Congress and the Obama Administration recently reprioritized Community Facilities funding. As a result of this process, Congress dramatically increased the amounts authorized for direct loans, from \$300 million in FY11 to \$1.3 billion in FY12. President Obama has recommended the program be increased still further to \$2.3 billion in FY13.

On the other hand, Congress has reduced funding for loan guarantees—moving from \$167 million authorized for guarantees in FY11 to \$105 million in FY12. President Obama has recommended the program be entirely eliminated in the FY13 budget. At the same time, grant funding has been reduced from \$14.9 million in FY11 to \$11.3 million in FY12. This restructuring of USDA priorities further increases the competition for scarce grant funds and will likely steer more health centers toward USDA's low interest direct lending program and away from commercial financing options.

Community Facilities Programs

USDA's Community Facilities Programs provide capital to assist in the development of essential community facilities in rural areas and towns with populations up to 20,000. These programs are available to a variety of organizations including health centers. Programs include grants, direct loans, and guaranteed loans. Information on each is included below.

Grants

USDA has limited funds available for direct grants to capital projects. Grants may be used to construct, enlarge, or improve facilities and to purchase equipment for a new facility. Grants are available for up to 75% of project costs, although the amount is often less than 10% of the total project costs. Despite the relatively low grant awards, USDA grants can be used as leverage to secure other funding for the facility. Community Facilities grants are authorized on a graduated scale. Applicants located in small communities with low populations and low incomes will receive a higher percentage of grants.

Although the process is highly competitive, health centers should reach out to their local USDA office to determine funding availability and advocate on behalf of their project. Each USDA state office typically has an allocation of funding to work with, so it is important to garner their support as soon as possible.

Community Facility Direct Loans

The USDA also offers a highly attractive direct lending program. The program features low interest rates and long loan terms—an attractive combination for many health centers. Congress recently authorized

a dramatic increase in USDA direct lending, increasing available funds from \$300 million to \$1.3 billion. This presents a unique opportunity for qualifying health centers to obtain extremely affordable long term financing.

Community Facility Direct Loans

Program Requirements

- Applicants must demonstrate that they were unable to obtain needed funds from commercial sources at reasonable rates and terms.
- Costs can include construction, land acquisition, necessary professional fees, and equipment purchases required for operations.
- Loan funds may also be used to refinance existing debt, provided the debt being refinanced is a secondary part of the loan, the debt is associated with the project facility, and the applicant's creditors are unwilling to extend or modify terms for the new loan to be feasible.
- Direct loans are subject to departmental approval at the state office level, and loan requests over \$1 million are normally subject to departmental approval at the national office level.

Loan Features

- Three tiers of interest rates (Poverty, Intermediate, Market).
- Low rate is currently 3.5% (as of June 2012).
- Up to 40 year terms have been obtained.
- Repayment cannot exceed the useful life of the facility.
- Tax exempt notes or bonds may be issued to secure direct loans.

Community Facility Loan Guarantee Program

For health centers that wish to pursue private financing, the USDA Community Facilities program also offers loan guarantees for rural projects. In many cases, this guarantee can help health centers secure better loan terms from commercial lenders. Under the program, commercial loans are guaranteed up to 90 percent of the loan's outstanding principal. The loan guarantee is supported by a fee, which is 1% of the guaranteed portion of the loan, is paid by the lender and may be passed on to the borrower.

Funding for this program has recently been reduced in favor of additional direct lending, so health centers may want to compare both programs to determine which offers the best financing possibilities.

USDA Business and Industry Guaranteed Loans (B&I)

For rural FQHCs planning facilities in areas slightly too large to be eligible for the Direct Loan and Loan Guarantee Programs, the Business and Industry Guaranteed Loan program can be a useful option. The USDA B&I Guaranteed Loan Program was developed with the goals to finance business, industry, and employment and improve the economic and environmental climate in rural communities. The B&I program seeks to guarantee only viable loans, which will provide lasting community benefits. While the USDA Community Facilities loan guarantee offers the most favorable terms for FQHCs, the B&I program has the advantage of allowing borrowers in larger sized towns (up to 50,000) to apply to receive a loan guarantee. It also has been used in conjunction with the federal New Markets Tax Credit program, which could prove advantageous to health centers seeking to take advantage of both programs. For more information on this financing approach, contact Capital Link.

Loan Guarantee Ranges

The B&I loan guarantee amount will depend upon the loan size, but in any case will require a 2% one time fee and ¼% annual servicing fee. The actual percentage of the guarantee is based on the total amount of funding for the project:

- 80% up to \$5 million
- 70% up to \$10 million
- 60% for loans exceeding \$10 million and up to \$25 million

Eligibility

B&I loans are normally available in rural areas, which include all cities or towns of less than 50,000 people. Locations that are contiguous and adjacent to urbanized areas of such cities or towns are not eligible. In addition to the requirement for a maximum population size of 50,000, the B&I program requires a test of population density surrounding the street address for the project. To determine eligibility click on the following link and select “Business Programs” on the left-hand navigation menu:

<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

USDA Rural Development Programs for FQHCs

<i>Program</i>	<i>Eligibility</i>	<i>Awards</i>
<i>Community Facilities Program</i>	Organization must be located in a rural area with less than 20,000 in population	<ul style="list-style-type: none"> • Grants for up to 75% of project costs (Typically less than 10%) • Guarantees up to 90% of principal due on a commercial loan • Loans starting at 3.5% for 40 years as of June 2012 (rates adjusted quarterly)
<i>Business and Industry Guaranteed Loans</i>	Cities and towns with less than 50,000 people. Also requires population density test around site location	<ul style="list-style-type: none"> • Guarantees ranging from 60-80% depending on total project funding

Things to Remember

- Programs are operated through local USDA offices. Always talk to your local USDA office to confirm eligibility and discuss your project needs.
- If you are located in a rural community that does not strictly meet the 20,000 population cut-off, it can be useful to talk through your needs and eligibility with your local USDA office. They can double check your eligibility and offer suggestions about which programs to access.
- The application process for many USDA programs can stretch over several months. It is important to plan accordingly and build this delay into your project timeline.
- When working with the USDA, be sure to stay in regular contact with your project officer.
- Depending on your borrowing need, you may be required to complete a financial feasibility analysis. Capital Link can assist with this process.
- Encourage site visits to engage and inform USDA stakeholders.
- Reach out to the USDA early in your planning process to get the ball rolling and get into their application pipeline.

Additional Resources:

- Information on USDA Rural Development programs can be found at: www.rurdev.usda.gov/Community_Development.html
- HRSA's Office of Rural Health Policy (ORHP) coordinates activities related to rural health care within the U.S. Department of Health and Human Services.
- Additional information on a wide variety of rural resources can be found via the Rural Assistance Center at: <http://www.raconline.org/>
- Capital Link has hosted several webinars focused on funding rural health center capital projects. USDA program staff have participated and offered their insights into these valuable programs. For more information, visit <http://caplink.org/resources/webinars>.
- Capital Link has also completed a variety of manuals and toolkits, many of which include an emphasis on rural challenges. To access these publications, visit <http://caplink.org/resources/publications>
- For assistance in determining your health center's eligibility for USDA financing and completing planning activities associated with your project, please contact Mark Lurtz, Director of Marketing and Project Consulting, at mlurtz@caplink.org or 636-244-3082.

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About Capital Link

Capital Link, established in 1998, is a non-profit organization dedicated to assisting Community Health Centers in accessing capital for building and equipment projects. From market feasibility and program, staff and facility plans to comprehensive financing assistance, Capital Link provides extensive technical assistance to health centers to strengthen their abilities to plan and carry out successful capital projects. For more information, visit www.caplink.org.