

C8E HRSA Capital Grant Opportunity
Webinar Series

Webinar #4

June 3, 2021

**Where will the Balance of Your
Project Funding Come From?**
→ Developing Your Sources and Uses
of Funds for Larger Projects

Tony Skapinsky

Duncan McGillivray

Project Consultants
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

From: NACHC's Regulatory Affairs Team

To: PCAs & HCCNs

Date: May 27, 2021

Re: HRSA Capital Funding Opportunity Summary Fact Sheet

[https://caplink.org/images/ARP Capital Funding Opportunity Fact Sheet.pdf](https://caplink.org/images/ARP_Capital_Funding_Opportunity_Fact_Sheet.pdf)

- **Financial Feasibility:** Does your health center have the balance of funds needed for the project available currently? Do you have other grant opportunities or the ability to take on debt? What about financing alternatives that augment the potential C8E funding, such as Community Development Financial Institutions (CDFIs), or banks? And how can the HRSA funding be leveraged to secure additional outside funding? Health centers are encouraged to consider projects that will cost more than the award amount – the key is to contemplate a plan about how to find the remainder of necessary funds.

- ❑ Project Budgeting & Sources & Uses of Project Funds
- ❑ General Funding Sources & Financing Considerations
- ❑ Financing Programs
 - ❑ USDA
 - ❑ HRSA LGP
 - ❑ NMTCs
- ❑ Q&A



<https://hillcountryclinic.blogspot.com/>

Project Budget

- Shows all the detailed cost categories for a project
 - Property/Acquisition
 - Construction Budget
 - Soft Costs
 - 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

| Grantee Name: <i>Insert Grantee Name in this cell</i> | | Project Number: <i>Insert the Application Number followed by the project Number (i.e., xxxxx-xx)</i> | | Note |
|---|--|--|--|---|
| <p>BUDGET INFORMATION - Construction Programs</p> <p><i>NOTE: Certain Federal assistance programs require additional computations to arrive at the Federal share of project costs eligible for participation. If such is the case, you will be notified.</i></p> | | | | OMB Approval No. 0348-0041 |
| | | | | |
| COST CLASSIFICATION | a. Total Cost | b. Costs Not Allowable for Participation | c. Total Allowable Costs (Columns a-b) | |
| 1 Administrative and legal | \$153,700.00 | \$50,000.00 | \$103,700.00 | |
| 2 Land, structures, rights-of-way, appraisals, etc. | \$405,000.00 | \$400,000.00 | \$5,000.00 | |
| 3 Relocation expenses and payments | \$20,000.00 | \$20,000.00 | \$0.00 | |
| 4 Architectural and engineering | \$160,000.00 | \$0.00 | \$160,000.00 | |
| 5 Other architectural and engineering fees | \$5,000.00 | \$0.00 | \$5,000.00 | |
| 6 Project inspection fees | \$0.00 | \$0.00 | \$0.00 | |
| 7 Site work | \$15,000.00 | \$0.00 | \$15,000.00 | |
| 8 Demolition and removal | \$10,000.00 | \$0.00 | \$10,000.00 | |
| 9 Construction | \$3,800,000.00 | \$0.00 | \$3,800,000.00 | |
| 10 Equipment | \$570,000.00 | \$0.00 | \$570,000.00 | |
| 11 Miscellaneous | \$10,000.00 | \$0.00 | \$10,000.00 | |
| 12 SUBTOTAL | \$5,148,700.00 | \$470,000.00 | \$4,678,700.00 | |
| 13 Contingencies | \$100,000.00 | \$0.00 | \$100,000.00 | |
| 14 SUBTOTAL | \$5,248,700.00 | \$470,000.00 | \$4,778,700.00 | |
| 15 Project (program) income (NOT APPLICABLE) | \$0.00 | \$0.00 | \$0.00 | |
| 16 TOTAL PROJECT COSTS (subtract #15 from #14) | \$5,248,700.00 | \$470,000.00 | \$4,778,700.00 | |
| FEDERAL FUNDING | | | | |
| 17 Federal Assistance Requested | Federal percentage share (automatically calculated 17c / 16c): | 19% | \$900,000.00 | <i>Enter the total Federal amount for this project.</i> |

Capital Budgeting Tool (with SF 424C alignment)



PROPOSED CAPITAL PROJECT BUDGET

| | SF 424C Line # | Allowable | Not Allowable | Total Amount | % | | | | |
|---|----------------|--------------|---------------|--------------|-----|---|----------------------|--------------------------|-----------------------|
| Real Estate Related Costs: | | | | | | | | | |
| Land Acquisition | 2 | | 400,000 | 400,000 | 8% | SF 424C Categories | Allowable (c) | Not Allowable (b) | Total Cost (a) |
| Acquisition of Existing Building | 2 | | 0 | - | 0% | 1 Administrative and legal expenses | 103,700 | 50,000 | 153,700 |
| Total Real Estate Costs: | | \$ - | \$ 400,000 | \$ 400,000 | 8% | 2 Land, structures, rights-of-way, appraisals, etc. | 5,000 | 400,000 | 405,000 |
| | | | | | | 3 Relocation expenses and payments | - | 20,000 | 20,000 |
| Hard Costs: | | | | | | 4 Architectural and engineering fees | 160,000 | - | 160,000 |
| Site Work/Preparation | 7 | 15,000 | | 15,000 | 0% | 5 Other architectural and engineering fees | 5,000 | - | 5,000 |
| Other Site Work/Preparation related costs | 7 | | | - | 0% | 6 Project inspection fees | - | - | - |
| Contingency: Site Work/Preparation (5% limit) | 13 | | | - | 0% | 7 Site work | 15,000 | - | 15,000 |
| | | | | | | 8 Demolition and removal | 10,000 | - | 10,000 |
| Demolition | 8 | 10,000 | | 10,000 | 0% | 9 Construction | 3,800,000 | - | 3,800,000 |
| Environmental Remediation/Abatement | 8 | | | - | 0% | 10 Equipment | 570,000 | - | 570,000 |
| Other Demolition & Removal Costs | 8 | | | - | 0% | 11 Miscellaneous | 10,000 | - | 10,000 |
| Contingency: Demolition (5% allowable limit) | 13 | | | - | 0% | 12 SUBTOTAL | 4,678,700 | 470,000 | 5,148,700 |
| | | | | | | 13 Contingencies | 100,000 | - | 100,000 |
| Construction of New Building | 9 | 3,500,000 | 0 | 3,500,000 | 67% | 14 SUBTOTAL | 4,778,700 | 470,000 | 5,248,700 |
| Rehab of Existing Building | 9 | 0 | 0 | - | 0% | 15 Project (program) income (NOT APPLICABLE) | | | |
| Interior | 9 | | | - | 0% | 16 TOTAL PROJECT COSTS (subtract #15 from #14) | 4,778,700 | 470,000 | 5,248,700 |
| Concrete | 9 | | | - | 0% | CL Budget Template Totals | 4,778,700 | 470,000 | 5,248,700 |
| Direct Purchased Equipment and Materials | 9 | | | - | 0% | Variance | - | - | - |
| Fire Sprinklers | 9 | | | - | 0% | | | | |
| Electrical | 9 | | | - | 0% | | | | |
| Plumbing | 9 | | | - | 0% | | | | |
| HVAC | 9 | | | - | 0% | | | | |
| Fixed Equipment (generators, sinks, built in refrigerators, etc.) | 9 | | | - | 0% | | | | |
| Elevator | 9 | | | - | 0% | | | | |
| Roofing | 9 | | | - | 0% | | | | |
| Specialties / Interior Decorations | 9 | | | - | 0% | | | | |
| GC Overhead and Fee | 9 | 200,000 | | 200,000 | 4% | | | | |
| Payment and Performance Bonds | 9 | | | - | 0% | | | | |
| Change Order Allowance | 9 | 100,000 | | 100,000 | 2% | | | | |
| Bonus Payments to Contractors | 9 | | | - | 0% | | | | |
| Fixed Equipment (not part of GC contract) | 9 | | | - | 0% | | | | |
| Fixed Equipment (part of GC contract) | 9 | | | - | 0% | | | | |
| Other Construction Costs | 9 | | | - | 0% | | | | |
| Sub-Total Hard Costs of Construction | | \$ 3,825,000 | \$ - | 3,825,000 | 73% | | | | |
| Construction Contingency (5% allowable limit) | 13 | 100,000 | | 100,000 | 2% | | | | |
| Total Construction-Related Costs: | | \$ 3,925,000 | \$ - | \$ 3,925,000 | 75% | | | | |

| SOURCES AND USES OF PROJECT FUNDS | | | |
|--|---------------|---------------------|-------------|
| Uses of Funds: | Amount | Totals | % |
| Property (acquisition cost) | | 1,000,000 | 9% |
| Total Construction-Related | | 7,500,000 | 65% |
| Total Soft Costs | | 1,500,000 | 13% |
| Total Equipment Costs | | 1,500,000 | 13% |
| Total Uses of Funds | | \$11,500,000 | 100% |
| Sources of Funds: | Amount | | % |
| Land Contribution | 1,000,000 | | |
| Predevelopment Expenditures | 500,000 | | |
| HRSA Capital Support | 1,000,000 | | |
| Additional Cash Required for Closing | 1,000,000 | | |
| Total Equity Contribution | | 3,500,000 | 30% |
| Long-Term Debt | | 8,000,000 | 70% |
| Total Sources of Funds | | \$11,500,000 | 100% |

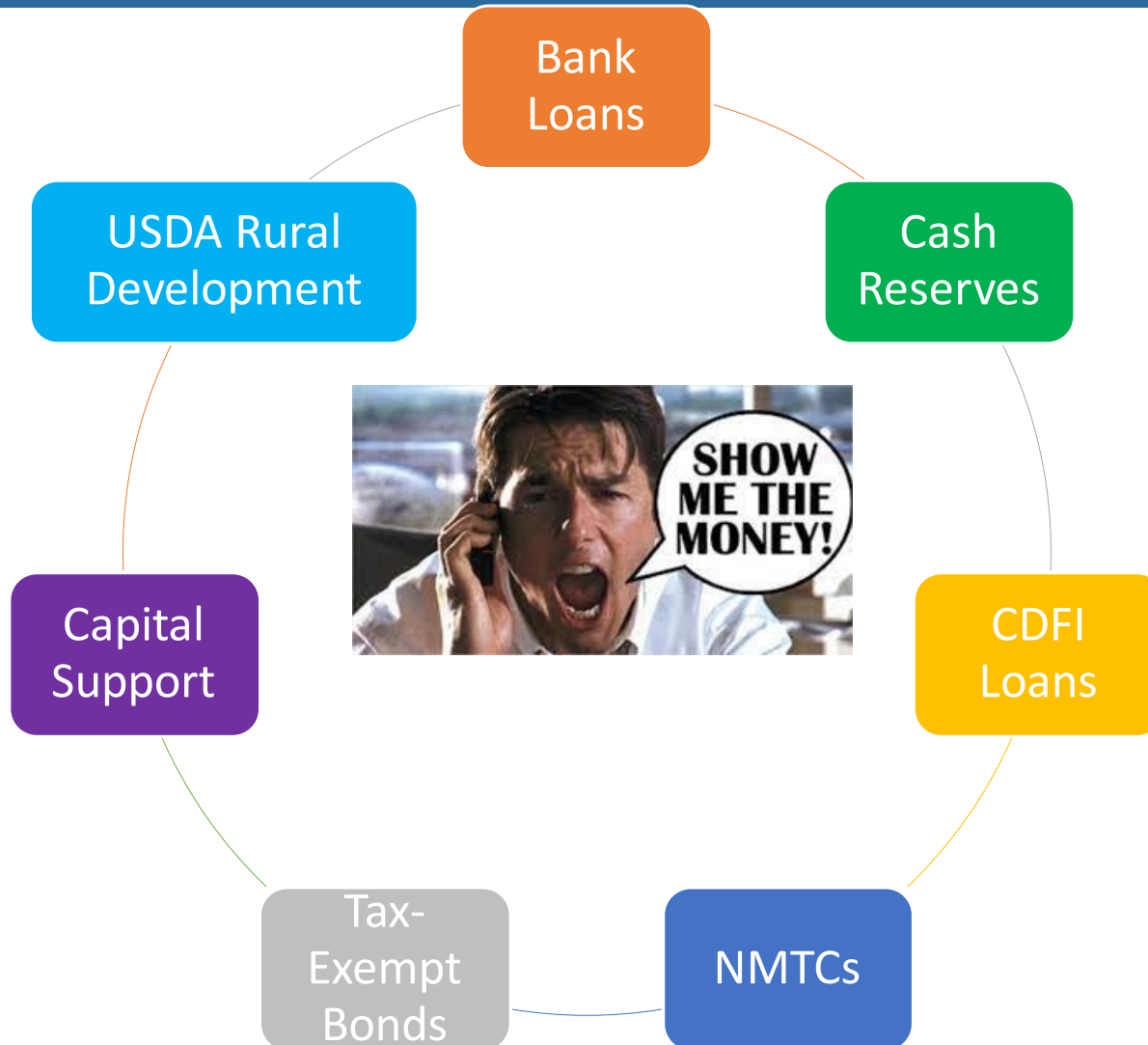
Other Financing Considerations: Debt Capacity



Capital Link - Debt Capacity Sensitivity Analysis

| | FY18 | FY19 | FY20 | FY21 |
|--|---------------------|---------------------|---------------------|---------------------|
| Change in Net Assets | 350,000 | 200,000 | 500,000 | 425,000 |
| Add: Depreciaton | 200,000 | 250,000 | 300,000 | 300,000 |
| Add: Interest Exp. | | | | |
| Funds Available For Debt Service | 550,000 | 450,000 | 800,000 | 725,000 |
| Add Rent Rebate/Savings | | | | |
| Total Funds Available for Debt Service | 550,000 | 450,000 | 800,000 | 725,000 |
| Debt Service Coverage discount (1.25) | \$ 440,000 | \$ 360,000 | \$ 640,000 | \$ 580,000 |
| 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 |

<https://caplink.org/data-products/debt-capacity-calculator>



Capital Project Business Plan

- Organizational Overview (Who?)
 - Incl. governance
- Target Market/Need Analysis (Why?)
- Capital Project Overview (What?)
 - Project Rationale (Why?)
 - Project Description (What?)
 - Project Budget & Sources and Uses (How Much?)
 - Project timeline (When?)
 - Critical Path (What's next?)

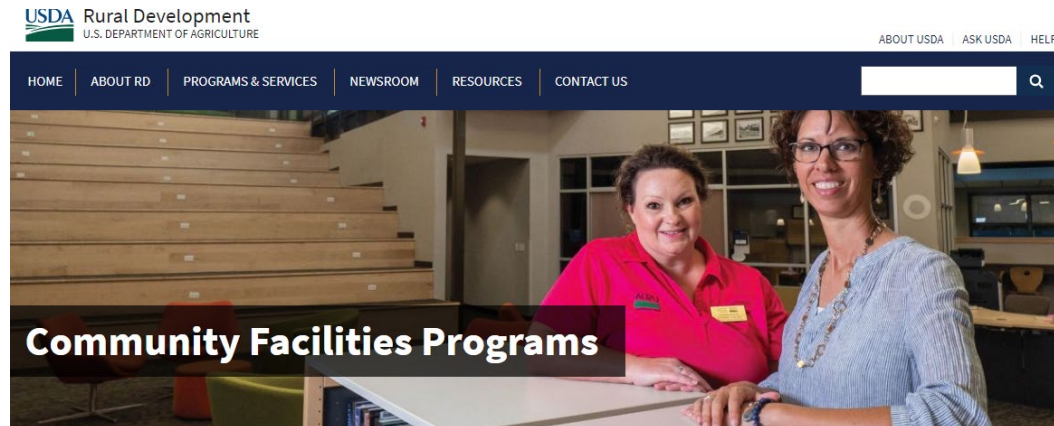
Financial Feasibility (How?)

- Audited Performance Analysis
- Financial Projections

- Letters of Interest
- NOFI
- Need for Bridge Loans



- ❑ 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%** (March 2021)
- ❑ Work through your state office



<https://www.rd.usda.gov/programs-services/all-programs/community-facilities-programs>

Guarantee:

https://www.rd.usda.gov/sites/default/files/fact-sheet/508_RD_FS_RHS_CFGuarantee.pdf

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

Loan:

https://www.rd.usda.gov/sites/default/files/fact-sheet/508_RD_FS_RHS_CFDirect.pdf

- 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

- 5 years of financially successful operations prior to loan
- 3 years historical debt coverage for existing + new debt
 - No examination opinion by CPA firm required

<\$5 million

- No examination opinion required of FFS

<https://www.rd.usda.gov/sites/default/files/RDUL-Financial.pdf>

HRSA LGP “Big Picture” Overview on Application Process – Key Elements



- 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.
- The guarantee can cover up to 80% of the principal and accrued 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
- Congress appropriated *new funds* for the program in 2018, enabling HRSA to update and modernize the LGP to provide guarantees for almost \$900 million in new loans to health centers.



- Enhance a health center's credit profile, reducing a lender's risk, allowing them to lend to health centers under more favorable terms than otherwise possible.
- For some centers, this might mean the difference between getting a “yes” vs. “no” from a lender
- For others, the guarantee may allow the lender to offer a lower interest rate, a longer fixed-rate term, a higher loan-to-value ratio and/or the lender might accept less collateral



Why Might I Need a HRSA Loan Guarantee?

- Your health center has experienced financial ups and downs.
- Your health center's ability to repay a loan is dependent upon a higher level of provider productivity than you've previously achieved.
- Your health center is in a rural area where it is more difficult to recruit and retain providers, and your loan is predicated on your ability to increase the number of providers.

- The scale of your project is large compared to your current operations and past debt capacity.
- The appraised value of your project is likely to be less than the cost to build.
- Weak economic conditions make lenders leery of lending in “risky sectors.”

Preparation to Submit HRSA Loan Guarantee Application

- Pre-Application Consultation with HRSA LGP Staff AFTER site control and you have at least a *BASIC PLAN* for your project
- Ideally AFTER lender has reviewed loan guarantee agreement docs
- These steps are not required but strongly recommended



- **Market Assessment** - A clear understanding of the market you wish to serve.
- **Strategy Development** - An overarching strategy to meet the market's needs.
- **Project Planning** - A detailed and specific plan for your project.
- **Financial Planning** - A detailed outline of costs and financial projections.
- **Project Team Development** - An experienced team of internal and external experts.
- **BUSINESS PLAN - REQUIRED.**
- **Lender's legal has reviewed HRSA LGP guarantee agreement docs in advance**

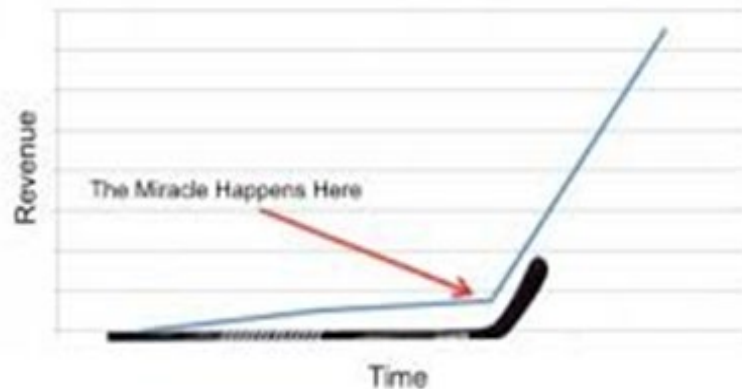
- Resource to assist with writing a business plan:
 - [*Creating a Business Plan for a Community Health Center Capital Project*](#)
- Webinar to assist with market assessment :
 - [*Webinar: Tools and Techniques to Assess Your Health Center's Market and Community Needs*](#)
- Toolkit to assist with strategy development :
 - [*Creating a Dynamic and Useful Strategic Plan: A Toolkit for Health Centers*](#)
- Publication to assist with project team creation:
 - [*Assembling a Capital Project Team*](#)

- [*Capital Project Work Plan*](#) - Helps health centers identify the necessary steps in the capital development process that specifically address their individual capital projects.
- [*Checklist: Sustainable Community Health Center Renovations*](#) - This checklist consists of no-or low-cost sustainable principles for implementation into health center expansions and renovations, to be used in the earliest stages of project planning.
- [*Estimating Capital Project Costs for Health Centers*](#) - Outlines the main components of a capital project budget and provides assistance in estimating top-line construction costs, based on the review of approximately 500 community health center capital projects.

www.caplink.org/resources

- The LGP application requires projections for the health center's operations as a whole/consolidated and for the proposed project as if it were a stand-alone entity.
- Third party appointed by HRSA reviews projections.

"Hockey Stick" Revenue Growth



Source: QuestFusion LLC

- If HRSA determines, it may be required to provide a NEPA Environmental Assessment Report with the LGP application. This report is ***not the same*** as a Phase I Environmental Site Assessment (although your lender will likely require one of these as well).
- NEPA: National Environmental Policy Act
- Phase 1 Environmental Site Assessment investigates past and current property uses impacting the soil or groundwater that could affect human health (example: forgotten buried gasoline storage tank).
- NEPA Environmental Assessment reviews bigger picture surrounding environmental impacts and concerns possibly connected to the project (water, air, wildlife, other potential impacts).

- This is a required part of the HRSA LGP application.
- **Prepare this checklist as early as possible** and submit to for HRSA for review so you can identify and address any issues that may otherwise impede or delay the project.
- Upon review, HRSA will let you know if any additional environmental or historical review will be required.



- LGP application requires projects meet **minimum design standards for accessibility** and;
- demonstrate to the greatest extent practicable incorporation of appropriate sustainability principles and federal green building requirements.
- *Tell your architect in advance.*



- No Federal Lenders; (FDIC or CDFI = OK)
- No Tax Exempt Bond Authorities
- Due Diligence / Underwriting = Loan Approval = Commitment Letter
- Commitment may be subject to HRSA's Guarantee Approval
- Submission of as-built appraisal for the project required – lender orders



- Application materials are submitted through the Electronic Handbook link on HRSA's [website](#).
- Lender also submits comprehensive credit analysis and statement describing the value of the HRSA loan guarantee to the applicant and project.
- HRSA performs both an onsite and desk review of the application, generally within 60 days of complete application submission.
The review includes a programmatic review, Architectural/Engineering Reasonableness Review, and a NEPA and Historic Preservation Review.



- If the application is approved, HRSA will issue a Loan Guarantee Commitment Letter. Thereafter, the lender coordinates the loan closing.
- HRSA LGP application approval process is expected to take **two months** following submission of completed application





New Markets Tax Credits - NMTCs

- “Gross Tax Credit Equity Investment” includes NMTC transaction costs + a portion of dollars don’t need to be repaid after 7 years (the project cost subsidy = your NET BENEFIT)
- Investors purchase NMTCs in exchange for tax benefits
 - investors get their IRR from their tax benefits over 7 year period
- Subsidy/ “Net Benefit” from NMTCs roughly 20% of the project cost (assumes allocation = project cost)
- Can be used with a variety of financing sources, credit enhancement and certain other tax credit programs

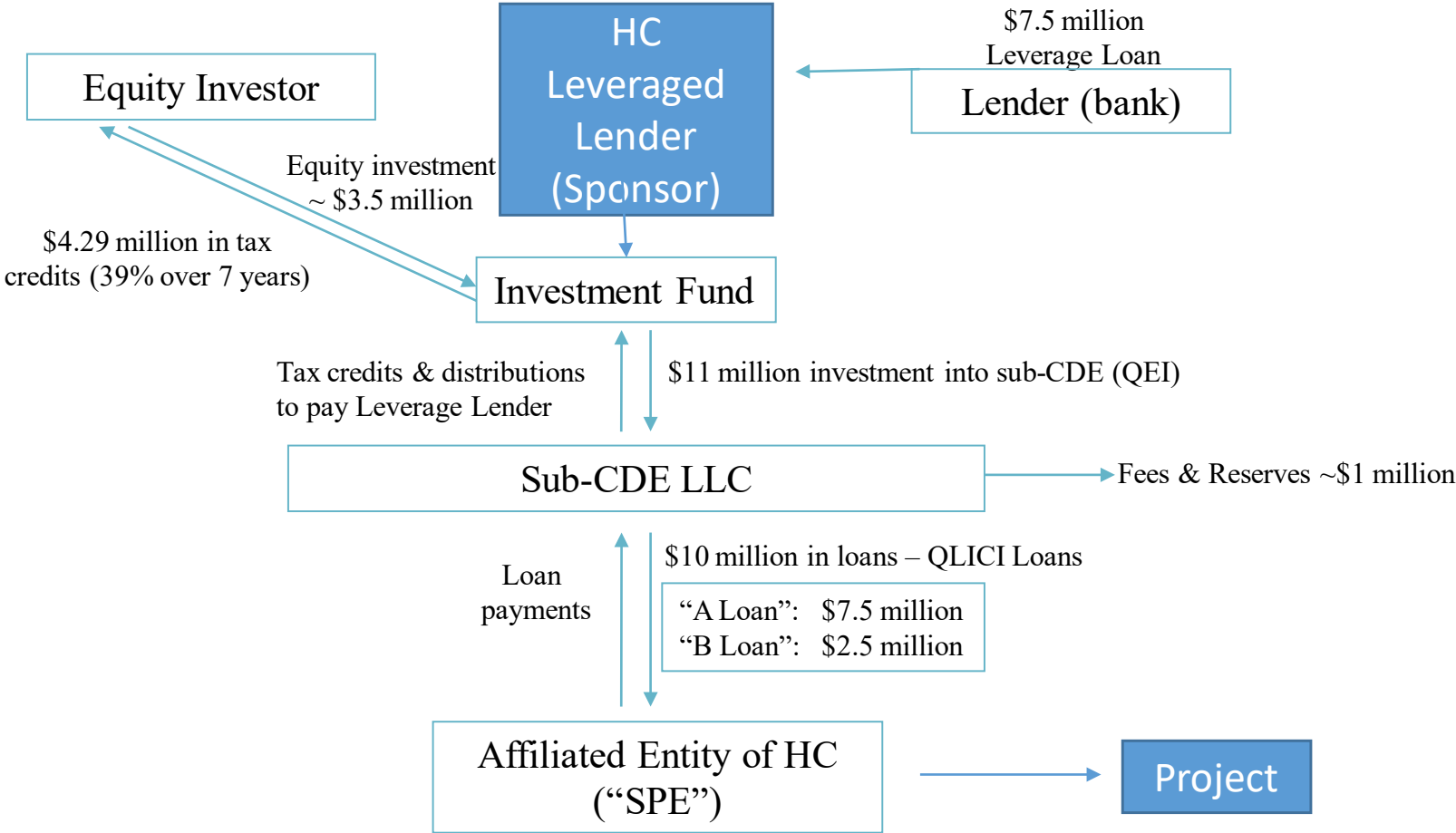
- Federal program authorized in 2000 and renewed repeatedly since 2006
- To date about \$61 billion in investment authority allocated to approximately 1,105 awardees, called “Community Development Entities” (CDEs) – due to repeat awards, there are about 325 distinct CDEs who have won
- \$3.5 Billion was Allocated July 2020
- \$5 Billion to be Awarded in July 2021 and annually thru 2025

- Health center capital projects are a highly desirable asset type for NMTC's 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's 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's financing structure)

- 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 the **NMTC related costs don't directly come out of the health center's pocket**); many expert advisors needed
- Compliance: reporting requirements for 7-year period
- Takes great coordination & patience!

NMTCs Hypothetical FQHC Project

Assumes \$10 Million in Project Costs



SPE pays below 2% interest-only for 7 yrs; Loan A refi after 7 years; Loan B extinguishment of debt in YR 8

- **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 (Area Median Income); 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 such as “Medically Underserved Area” or Opportunity Zone or SBA Hubzones, Promise Zones, etc.

- Community Development Entities (CDEs) Apply for Tax Credits
- Get “**Pitch Package**” in front of CDEs, Investors, and Lenders
 - 7-8 year consolidated financial projections + stand alone new site; Sources & Uses; preliminary NMTC leveraged structure for discussion purposes
 - Project budget well formulated; architect’s preliminary budget & schematics
 - Project Summary: Site control, design development, evidence of ‘shovel readiness’, estimated construction time table; estimated permit timeline environment/city/other); key project management (including NMTC advisors); list of positive community impacts including jobs created
 - Business Plan
- Underwriting and Closing Process (3 months “rule of thumb” / typical timeline)

- Get your project in front of CDEs before they submit their Oct 2021 applications.
- Get your project budget estimate and business plan (including 7-8-year projections)
- If your project is not ready to begin until next year start the process anyway!
Most successful NMTC recipients begin a year in advance.
- Success can mean **MILLION\$!**

Capital Link's

- Outlines for Financing Options
- Debt Capacity & Revenue Modeling Tools
- Capital Planning & Financing Guides
- Strategic Planning & Benchmarking Toolkits
- Business Plan and Work Plan Manuals
- Recorded and Upcoming Webinars

www.caplink.org

<https://caplink.org/c8e-funding>

- ❑ **Webinar 1:** C8E Overview and Picking Your Priority Project(s)
- ❑ **Webinar 2:** Working with Your Architect (in a Hurry): Site Design, Schematics, EID
- ❑ **Webinar 3:** Project Budget, Timeline, NOFI, Oh My!
- ❑ **Webinar 4:** Where will the Balance of Your Project Funding Come From? Developing Your Sources and Uses of Funds for Larger Projects

Questions?



BPHC Contact Form:

<https://bphccommunications.secure.force.com/ContactBPHC/BPHC>Contact Form>

Tony Skapinsky

Project Consultant, Capital Link

tskapinsky@caplink.org

www.caplink.org



Duncan McGillivray

Project Consultant, Capital Link

dmcgillivray@caplink.org

www.caplink.org

