Capital Planning for Addressing Rural Health Needs

June 22, 2023

Dave Kleiber, Sr. Project Consultant

Capital Link

Alan Morgan, CEO

National Rural Health Association

www.caplink.org

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:

Nearly **30 years** of experience

Worked with **50+** PCAs/HCCNs and regional consortia

ASSISTED **2/3rds** OF HEALTH CENTERS NATIONALLY

LEVERAGED **$1.4 billion**

FOR **246+** HEALTH CENTER PROJECTS

TOTALING OVER **$1.7 billion**

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NRHA

The Rural Health Landscape

Alan Morgan
CEO

May 2023

National Rural Health Association

NRHA

Your voice. Louder.

Our mission is to provide leadership on rural health issues.

National Rural Health Association Membership
One Dot Represents One Member
(Map shows only members residing in the United States & Puerto Rico)
ALASKA
HAWAI'I
PUERTO RICO

The Rural Landscape

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The State of Rural America

- Workforce Shortages
- Vulnerable Populations
- Chronic Poverty

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Rural Population since 2015

- U.S. Census shows that population in nonmetropolitan counties remained stable from 2014 to 2022 at about 46 million.
- (2014-2018 rural adjacent to urban saw growth.)

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Rural Quality

- Strong sense of community responsibility, propensity toward collaboration (unique ways to develop and provide services needed.)

- Ability to create regional networks to provide greater access to state-of-the-art health care.
  - Institute Of Medicine "Quality through Collaboration"

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Rural Quality

- Rural hospitals consistently outperform urban hospitals on patient experience metrics and patients often report higher levels of trust in their providers.
  - Joynt et al., 2016

Rural Quality

- Rural hospitals are more likely to practice patient-centered care as opposed to “more expensive” specialized care, which drives up Medicare costs.
  - Hiler 2014

Rural Quality

- Rural hospital preform better than urban hospitals in Medicare's Hospital Value-Based Payment Program.

- Rural hospitals scored better than their urban counterparts in postoperative wound infection rates and measures of health care related to infections.
  - Joynt et al, 2016

Rural Quality

- Patients seeking prenatal care at rural hospitals are less likely to experience potentially avoidable maternity complications.
  - Laditka et al, 2005

Rural Quality

- Rural home health care agencies are initiate care more quickly than their urban counterparts and typically outperform in the care process measure.
  - New York University, 2022

Rural has an Older, Sicker and Poorer Population

- The median age of adults living in rural areas is greater than those living in urban:
  - Rural: 51 years
  - Urban: 45 Years
- 18.4% of rural residents are age 65+, whereas its 14.5% in urban
- **Rural areas have higher rates of several health risk factors/conditions:**
  - **Obesity**
  - **Diabetes**
  - **Smoking**

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Fragile Rural Health Safety Net

- Vulnerable populations
- Systemic workforce shortages
- Scattered populations with inherent access to care issues
- Limited resources for providers
- Inadequate Medicare, Medicaid and private insurance coverage
- Lack of Medicaid expansion and high uninsured populations
- Rural provider closures

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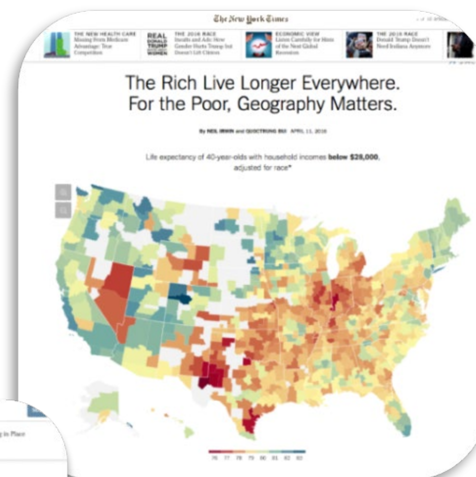
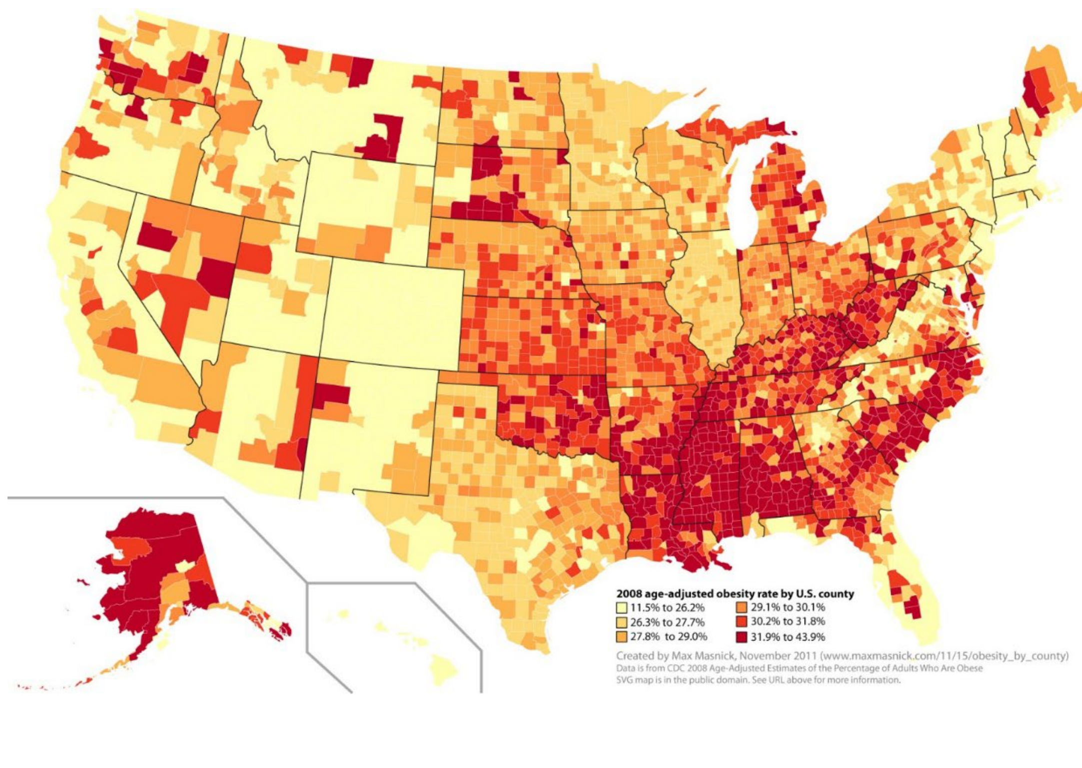
Declining Life Expectancy



Obesity rates in rural America



Rural Cancer Rates

(Source: Centers for Disease Control and Prevention, MMWR Series July 2017)

- Reported death rates were higher in rural areas (180 deaths per 100,000 persons) compared with urban areas (158 deaths per 100,000 persons).

- Analysis indicated that while overall cancer incidence rates were somewhat lower in rural areas than in urban areas, incidence rates were higher in rural areas for several cancers: those related to tobacco use such as lung cancer and those that can be prevented by cancer screening such as colorectal and cervical cancers.

- ***While rural areas have lower incidence of cancer than urban areas, they have higher cancer death rates. The differences in death rates between rural and urban areas are increasing over time.***

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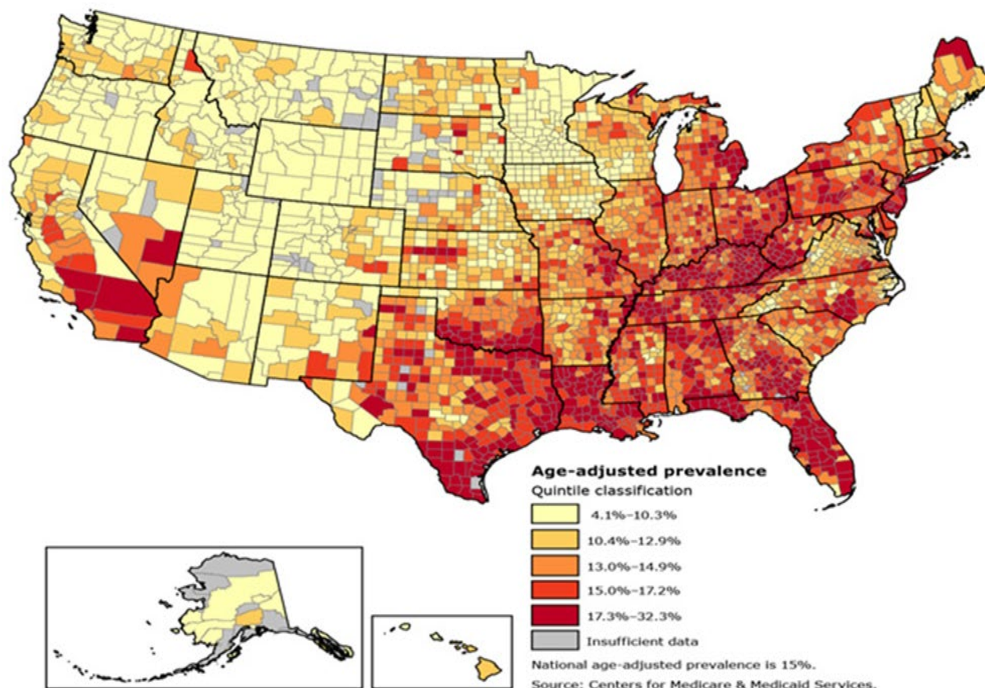
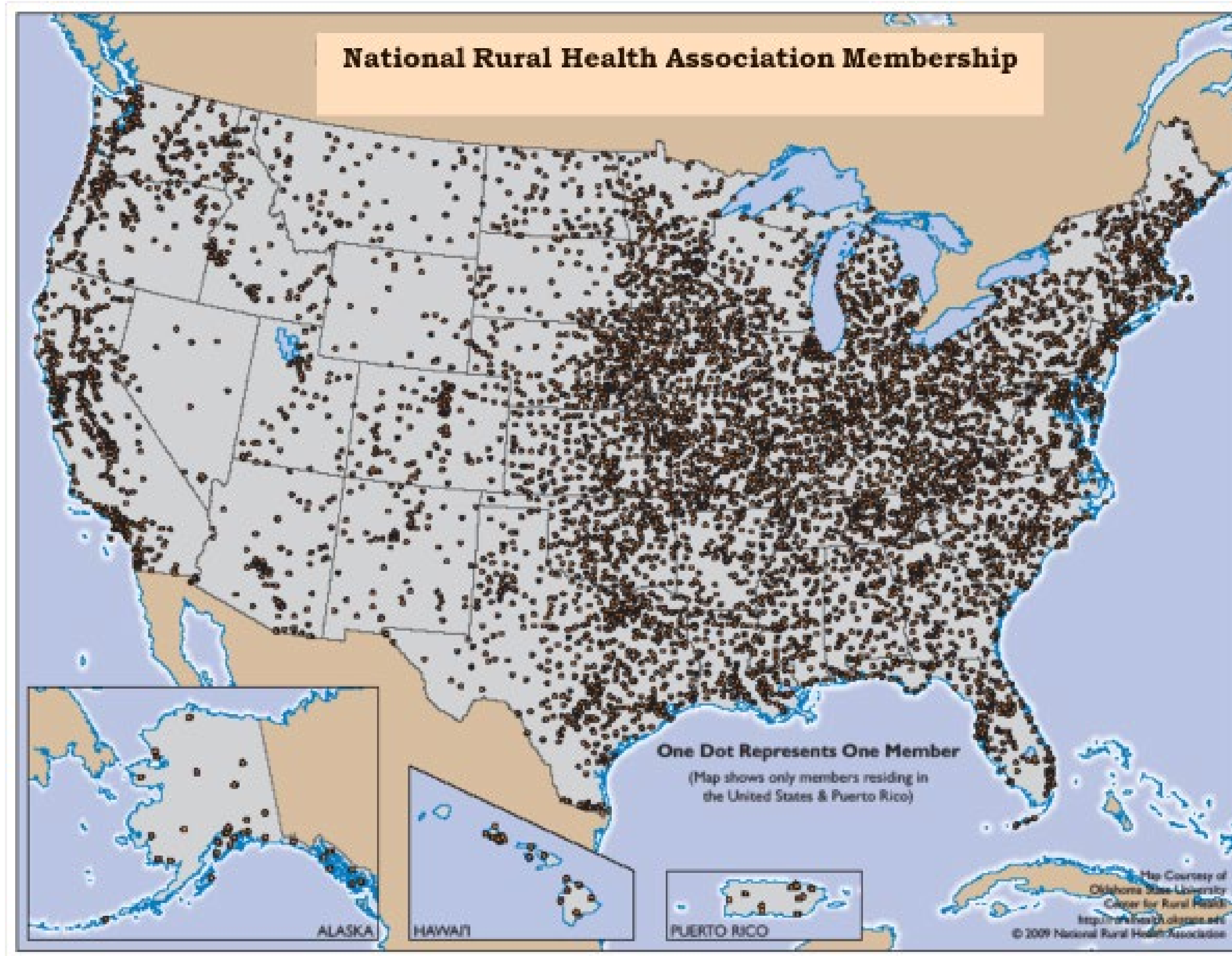
Prevalence of Medicare Patients with 6 or more Chronic Conditions





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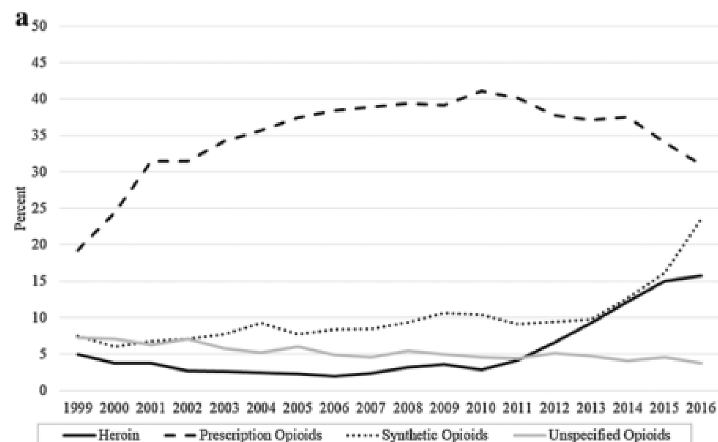
The Geography of Food Stamps

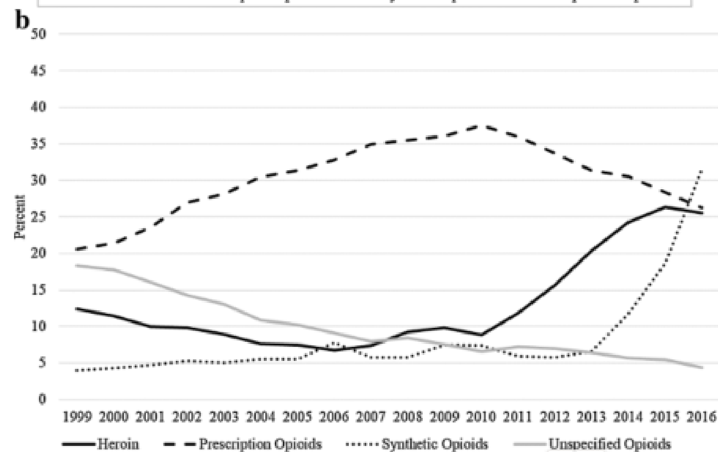
SNAP Enrollment as Percent of County Population

0.4—8.0%	8.0—11.7%	11.7—15.3%	15.3—19.9%	19.9—58.0%
Lowest %				Highest %

Opioid-related mortality



Rural areas



Urban areas

Source: Rigg KK, Monnat SM, Chavez MN. Opioid-related mortality in rural America: Geographic heterogeneity and intervention strategies. International Journal of Drug Policy. 2018 Jul;57:119–29.

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The Rural Provider Environment

-1400 total Federally Qualified Community Health Centers

(600 rural, serve 1 in 5 rural residents)

-5000 Rural Health Clinics

-1300 Critical Access Hospitals

-500 Rural Prospective Payment Hospitals

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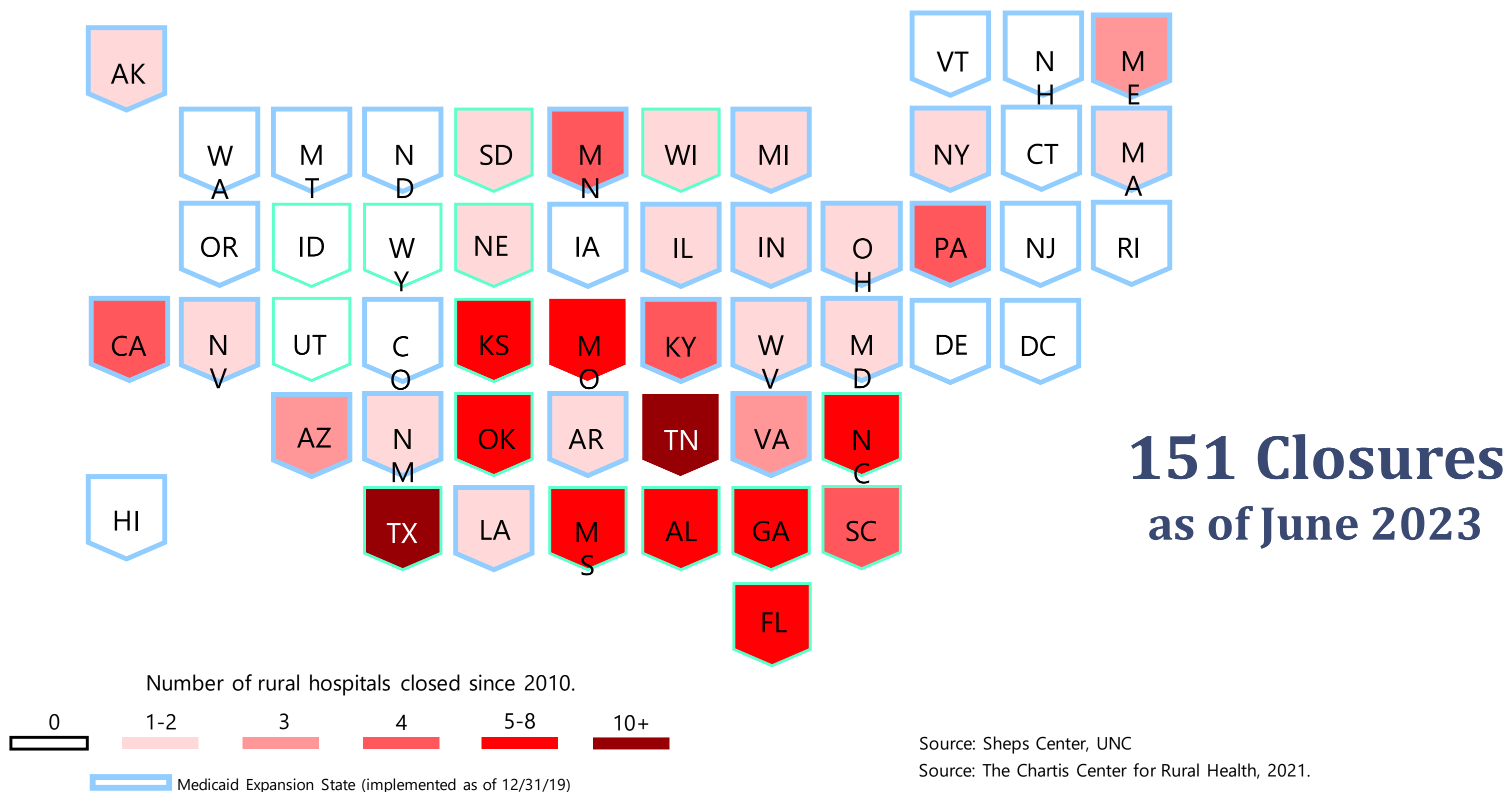
Rural Hospital Closures



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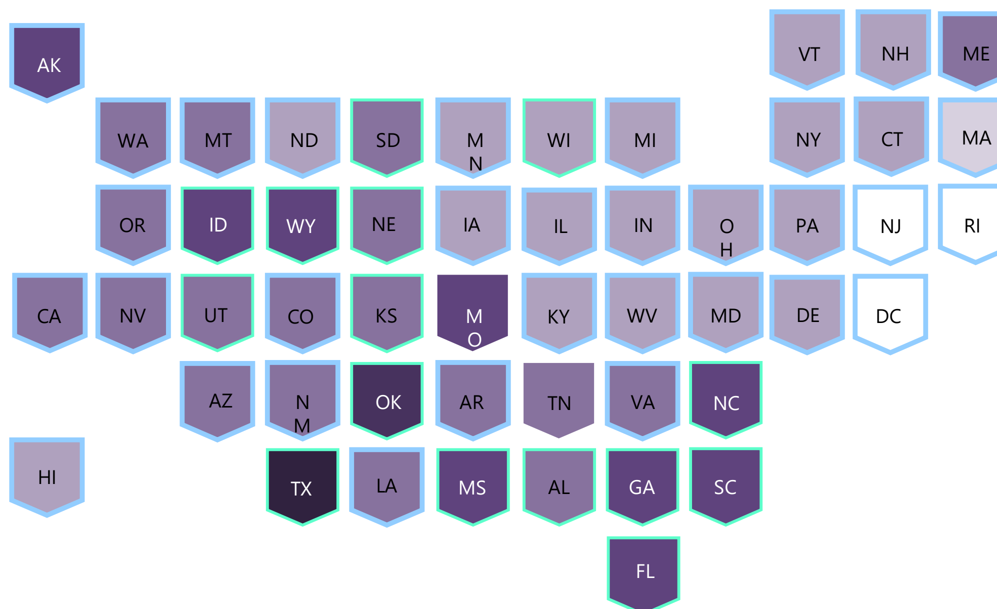
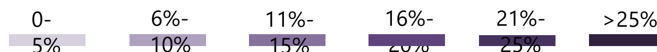
Rural Population Disparity
Uninsured Adults



Percentage of population served by rural hospitals that is adults under age 65 without health insurance.



Source: The Chartis Center for Rural Health, 2021.

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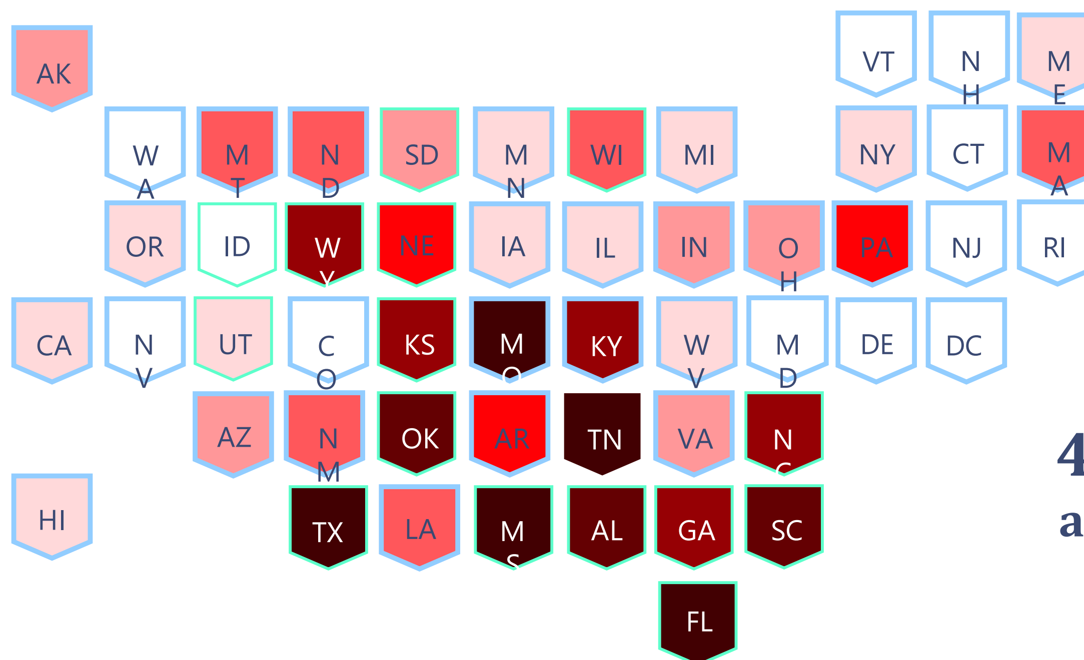
Rural Hospitals Vulnerable to Closure



453 At-Risk
as of June 2023

Percentage of State Rural Hospitals Determined to be Vulnerable

Source: The Chartis Center for Rural Health, 2021.

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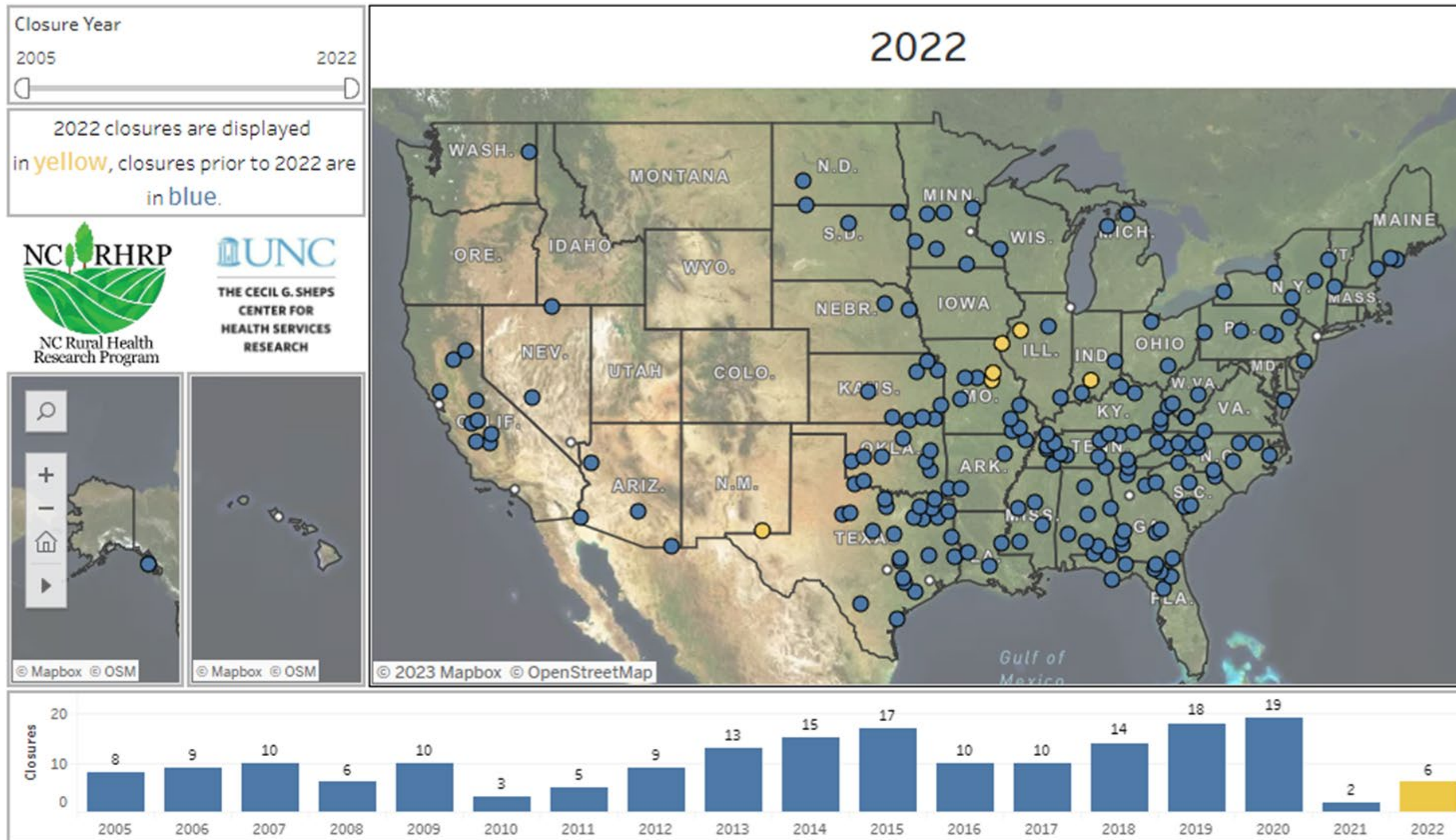
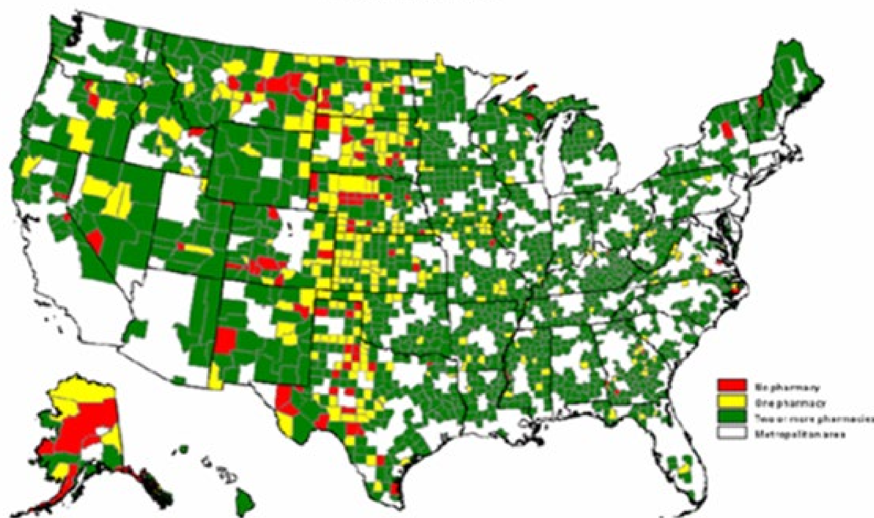
Rural Hospital Closures



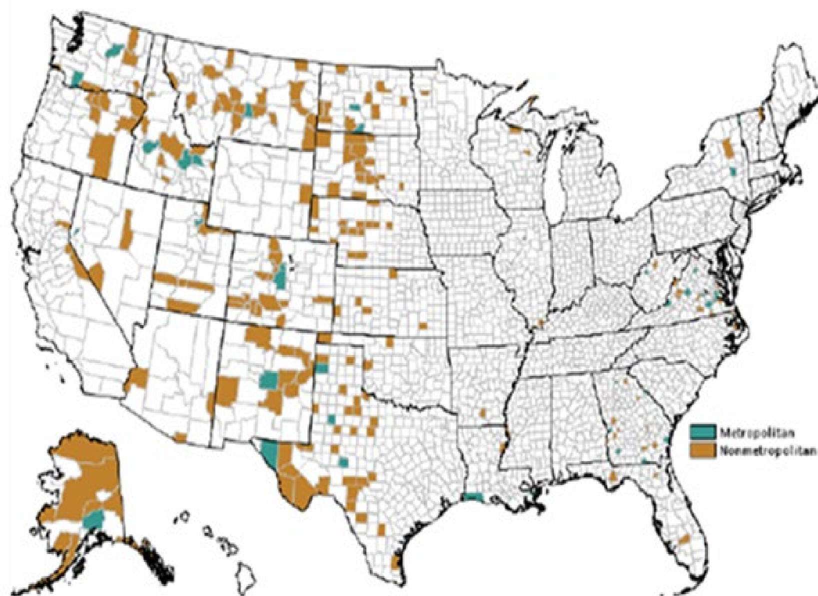
Rural Pharmacy Closures



- From 2003 – 2018, *1,231* independently owned rural pharmacies (16.1%) closed
- 630 rural communities with at least 1 retail pharmacy in 2003 had 0 in 2018

- https://rupri.public-health.uiowa.edu/publications/policybriefs/2020/COVID%20Pharmacy%20brief.pdf

Rural Nursing Home Closures



- 10% of rural counties are nursing home deserts
- From 2008-2018, *400* rural counties experienced at least 1 nursing home closure

- https://rupri.public-health.uiowa.edu/publications/policybriefs/2021/Rural%20NH%20Closure.pdf

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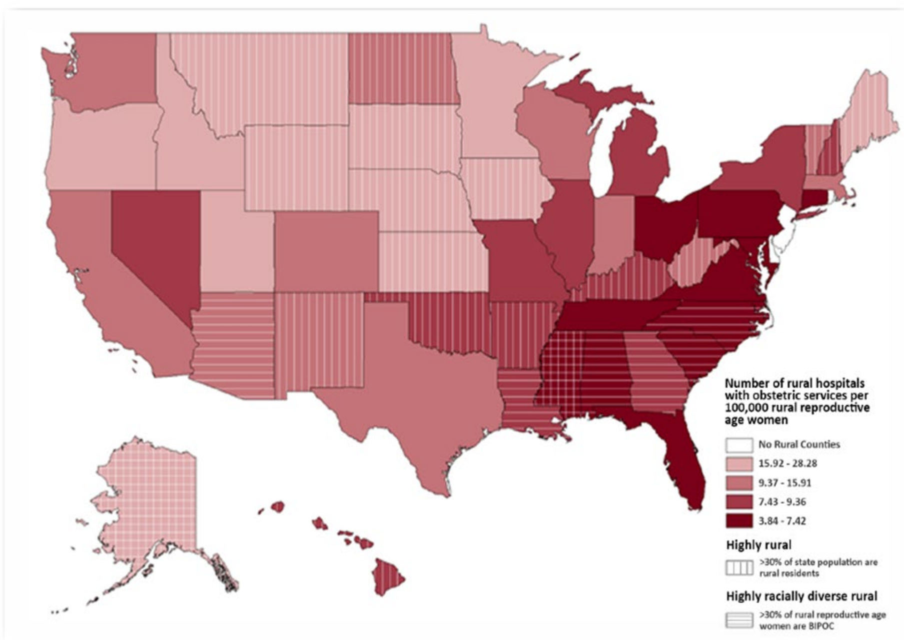
Maternity Deserts Nationwide



- 56% of rural counties lack hospital-based OB services
- Substantial state and regional variability
- Loss of hospital-based OB services is most prominent in rural communities:
  - With a high proportion of Black residents
  - Where a majority of residents are Black or Indigenous have elevated rates of premature death

- https://rupri.public-health.uiowa.edu/publications/policybriefs/2023/Hospital%20System%20Participation%20and%20Services.pdf

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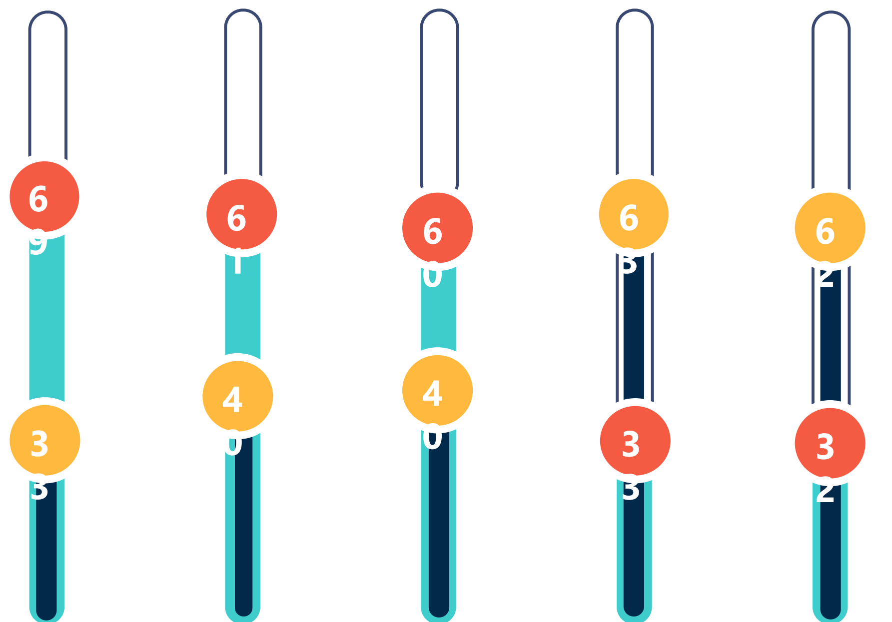
Population Health Disparity

Rural

Urban

Percentile Ranking



Over 65

Premature Death

Uninsured Children

Access to Primary Care

Access to Mental Health

Source: The Chartis Center for Rural Health, 2021.

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Drivers behind rural workforce shortage

- COVID-19 burnout/exhaustion
- Baby Boomers are retiring
- Desire for flexible work schedules
- New options like remote work/digital opportunities
- Salary and benefit limitations
- Education opportunities limited
- Rural patients need more services
- Rural practice characteristics
- Rural communities lack spouse opportunities

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The 2022 Budget and 2023 Budget: Workforce

Addressing rural workforce needs by tapping into other HRSA programs

National Health Service Corps and Nurse Corps

support primary care and mental health providers

> 6,000 serve in rural communities

Public Health Scholarships

$39 Million available now with applications due June 1, 2022

Community Health Worker Training

$226 million available now with applications due June 14th, 2022

Area Health Education Centers Program

builds a pipeline of trainees with experience in rural and underserved areas

Teaching Health Center Graduate Medical Education Program

trains in community-based outpatient settings

> 93% train in medically underserved or rural communities

Pre-doctoral Training in General, Pediatric, and Public Health Dentistry and Dental Hygiene

improves oral health care for those with complex conditions and special health care needs

Nurse Education, Practice, Quality and Retention; Advanced Nursing Education Workforce Program; Nurse Education, Practice, Quality and Retention and Nurse Practitioner Residencies:

A range of programs to support the training of nurses and broader nurse education needs.

Behavioral Health Workforce Development Programs

enhance training for professionals and paraprofessionals

52% gain experience in treating substance use disorders

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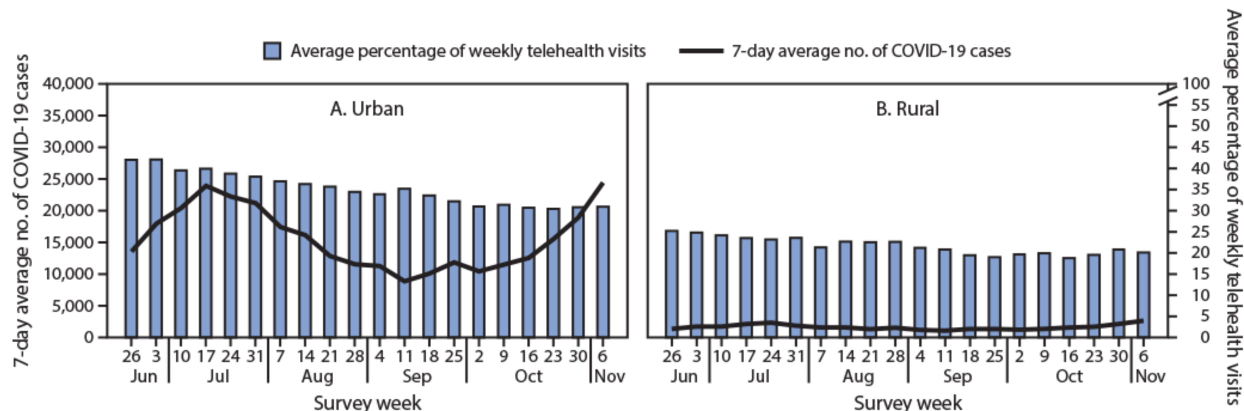
Telehealth During COVID-19

- CARES Act provided the largest expansion of telehealth flexibilities in history for the duration of the public health emergency.
  - Medicare to pay for telehealth services provided by a Federally Qualified Health Center (FQHC) or a Rural Health Clinic (RHC) (Sec. 3704).
- The administration, through the 1135 waiver process also enhanced telehealth access.
- Unfortunately, all notable telehealth provisions are tied to the end of the public health emergency.
- NRHA is adamant that telehealth provisions be extended beyond the duration of the public health emergency so rural providers and patients can continue an increased access to care.

2021 Rural vs. Urban

- Cohort study of 36 million Americans with private insurance
- 0.3% of contacts in 2019 to 23.6% of all contacts in 2020 (March-June)
- This represents a 79x increase
- Rural-urban disparity



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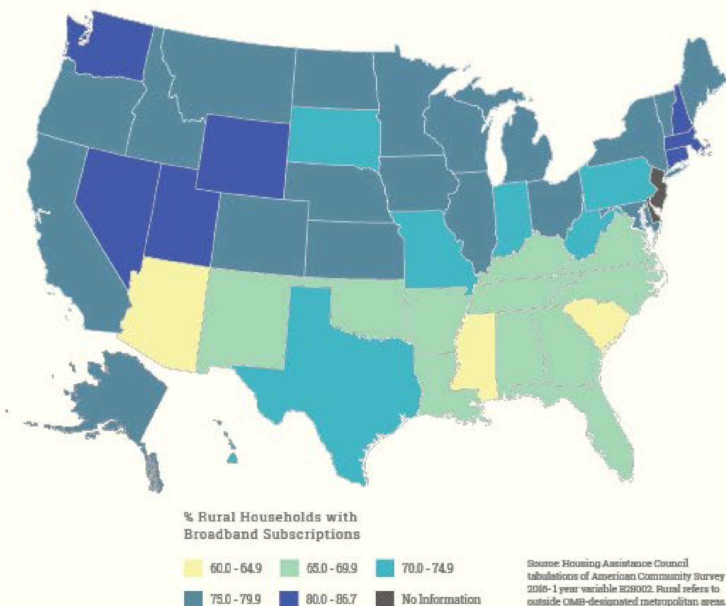
The Digital Divide in Rural America

National Rural Health Association

RURAL HOUSEHOLDS WITH BROADBAND SUBSCRIPTIONS



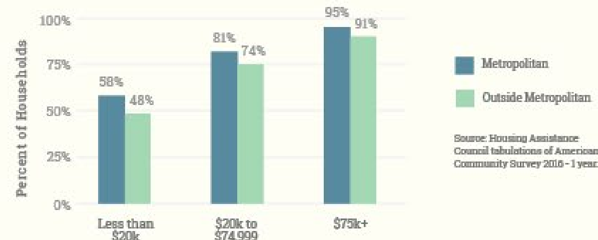
HOUSEHOLDS WITH BROADBAND SUBSCRIPTIONS

Source: Housing Assistance Council tabulations of American Community Survey 2016 - 1 year.

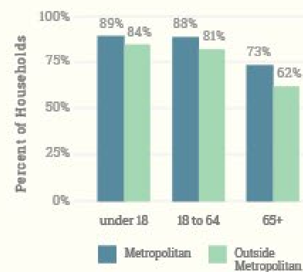
83% METROPOLITAN vs **73%** OUTSIDE METROPOLITAN

BROADBAND SUBSCRIPTIONS

BY INCOME

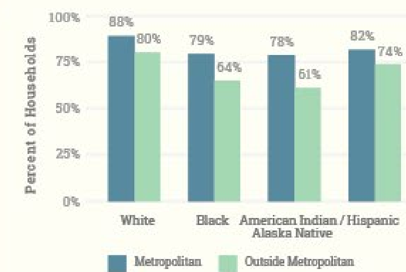


BY AGE



Source: Housing Assistance Council tabulations of American Community Survey 2016 - 1 year.

BY RACE / ETHNICITY



Source: Housing Assistance Council tabulations of American Community Survey 2016 - 1 year.

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amorgan@nrharural.org

@amorganrural (TWITTER)

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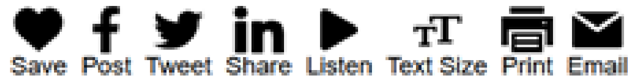
Construction project exit leaves VCU on the hook for $80M

Nick Thomas (Twitter) - Thursday, June 15th, 2023



Rapid management turnover, a lack of due diligence, and insufficient real estate expertise were among the reasons Richmond, Va.-based VCU Health failed to follow through with a downtown medical office project, according to a June 14 *Richmond BizSense* report.

Such findings emerged after a legal review lasting several months, according to the report. The aborted project has cost the health system at least $80 million, including an approximate $73 million payment to exit the deal.

The focus on initiating the deal was more about mission and values than it was finances, the report said, a conclusion interim CEO, Marlon Levy, MD, agreed with.

"Perhaps not enough emphasis was placed on the financial implications of the decisions made," he said. "One of the lessons is to lead with the mission, lead with the values but don't forget the finances."

VCU health officials have also blamed the pandemic for causing the project to blow way over budget.

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The process to build a new clinic facility is fundamentally the same regardless of where it is built:

- The Sources and Uses statement is your road map;
- You need site control with proper zoning/permitting;
- You need a good architect with health care experience (or a qualified space planning consultant);
- It will require a sound project budget with adequate contingencies;
- You need a quality/qualified General Contractor; and
- You have to monitor construction invoices and disbursements to say in budget.

BUT

There could be important detailed aspects that differ or present different challenges in rural areas vs urban or suburban areas.

Sources and Uses Statement

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- It probably goes without saying, but the sources of project cash and the uses of project cash have to balance!
- Uses drives Sources – so start by estimating the costs.
- The earlier the Uses projection, the greater the uncertainty and the higher the contingencies need to be.
- Prepare for lots of iterations

Uses of Funds		
	Real Estate Related Costs	
	Total Building Hard Costs	
	Total FFE Costs	
	Soft Costs	
	Capitalized Interest	
	Closing Costs, Fees & Reserves	
	Total Uses of Funds	**$ -**

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Real Estate-related Costs

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Site Control includes owning, leasing, conditional lease, conditional gift, etc.

When securing a site – **make no assumptions**

- **Get a preliminary title report**
  - Looking for: the owner has clean fee simple title, unreleased legacy liens, unpaid taxes, mineral rights, easements,
- **Ask for the latest survey if one is available**
  - Looking for: utility access, rights of way that may impinge on your development flexibility, access constraints, flood/wetland designations
- **Get a Phase 1 environmental review**
  - Looking for: REC's (Recognized Environmental Conditions), both on the record and as a result of a careful walk of the property-was it ever used as a illegal dump?
  - If there are RECs, you may need a Phase 2 (test boring, more expensive); Get this before you lease/buy so you aren't on the hook.
    - Looking for: evidence of RECs with remediation plan, or a FONSI (Finding of No Significant Impact)

Utility Access – Do an Inventory:

- **Water (city or well?)**
  - Looking for: volume & quality and keep in mind all your uses (if on a well, will you need a reservoir for fire-suppression (tank or pond)
- **Sewer – city or septic?**
  - Looking for: soil percolation/leaching tests (if you need to add septic capacity). That will drive the type and cost of the septic system you will need. Ask for (or contract for) a soils report. If the only adequate soils are under the building footprint – time to re-plan.
- **Power**
  - Looking for: distance to nearest transformer– cost to connect, above ground or underground?
  - If underground – are there crossing easement issues?
  - Considering solar? Have a power study done. You can also run a report at PVWatts: https://pvwatts.nrel.gov/
  - Gas
- **Phone - Internet/fiber**

Desert Sage Health Centers, Mountain Home, ID

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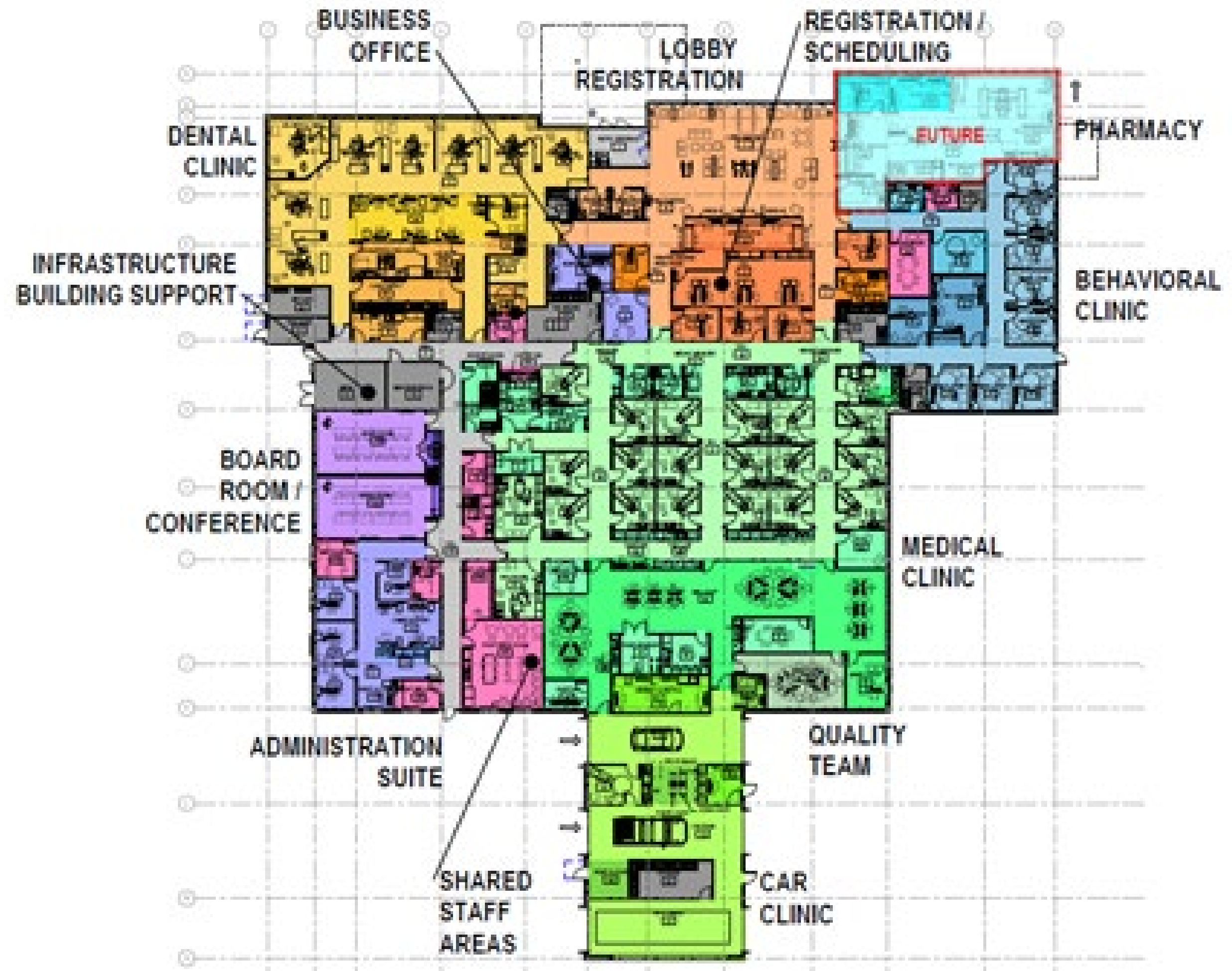
Hard Costs

CL Recent Projects: $270 per sq.ft. to $1,000 (!!)
Variation due to:

- design,
- planned services,
- need to accommodate use during construction,
- rural/urban location,
- requirement for prevailing wages,
- sustainability factors,
- parking or other reasons to dig,
- contingencies, general inflation in building materials…



~ 31,000 square feet,~ $22m = ~$500/SQ FT for hard costs only

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Sterling Health Solutions, KY

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~27,000 square feet, ~$7.3M; ~$270/sq. ft. for hard costs, Mt. Sterling KY 2021

~9,500 square feet, ~$3.M; ~$320/sq. ft. for hard costs, Carlisle KY 2021

Hard Costs – Schedule of Values

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General Requirements
Sitework & Utilities
Concrete and Masonry
Structural Steel - Superstructure
Waterproofing
Exterior Siding
Cabinetry and Millwork
Doors, Windows, Hardware, Entrances & Storefronts
Painting
Walls, Ceilings
Flooring and Tiles
Roofing
Elevators
Mechanical / HVAC
Plumbing & Sprinklers
Electrical & Fire Alarm
Specialties, Site Furnishings, Signage
Landscaping / Paving / Exterior Improvements
Contractor's Contingency
Owner's Contingency
General Conditions
General Liability Ins.
GC Overhead & Profit (incl. pre-construction fee)

Possible Hard Cost variations due to rural location:

- Availability of qualified sub-contractors
- Distance to concrete batch plant
- Distance to material wholesalers
- Public services for snow removal, road maintenance

Soft Costs -

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Architectural - local availability? Familiarity with medical buildings, space planner on staff?

Soils - Geotechnical Engineering (and archaeological?)

- How far do you have to dig down and what might you find

Environmental

Appraisal

Financial Feasibility (*uhh…that would be us!)*

Zoning – don't assume and don't wait to find out

Permits – Possible issues include delays driven by:

- Lower level of technology in planning department
- Low staffing levels in planning department

Site Inspector - big coverage area for limited staff

Owner's Representative – available? qualified? cost?

Insurance & Bonding

Legal

Project Monitor

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Sources of Project Cash	
Bank/CDFI Loan*	
USDA Direct Loan (Community Facilities)*	
Hospital/Health System loans*	
Bridge Loan	
City Grants	
State Grants	
USDA Grants	
Foundation Grants	
HRSA Capital Grants	
Federal Earmark	
Other Philanthropy and Fundraising	
Pre-incurred Costs (only in NMTC)	
Health Center Cash	
New Markets Tax Credit Equity (Federal/State?)	
Total Sources of Project Cash	

* The formula here is: **Total Uses – all non-loan sources = amount to borrow**

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Do You Need to Borrow to Complete the Project?

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Once you have some idea of the net loan required to equalize the projected Uses of Cash and Sources of Cash.

Then what?

Let's assume that the calculated total loan amount is above what you project as the center's **Debt Capacity***.

***You can find a useful Debt Capacity calculator on our website:**
https://www.caplink.org/data-products/debt-capacity-calculator

When doing this calculation be sure to do it over a range of interest rates. Right now, 5%, 6%,and 7% are probably reasonable – if using USDA Community Facility funding, a lower fixed rate may be available as well as a longer amortization period.

USDA Guarantee vs. Direct Loan

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Guarantee:

https://www.rd.usda.gov/sites/default/files/factsheet/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

USDA Community Facilities Programs – **Direct Loans and Loan Guarantees**

- Communities <20,000 residents
- FQHCs are eligible borrowers
- **Long Loan Term**: Maximum of 40 years (or useful life of asset)
- **Low fixed rates** set for the whole term (~**4.25%** as of today? – but check with Rural Development through your state office)
- Priority point system based on population, median household income. Focus on small communities with a population of 5,500 or less
- Low-income communities having a median household income below 80% of the state nonmetropolitan median household income.
- **No pre-payment penalties**
- You may need to prove the loan is not bankable, and Direct Loans are structured as a take-out of construction loan after project completion (so you still need a bank)

https://www.rd.usda.gov/programs-services/community-facilities/community-facilities-direct-loan-grant-program

USDA Community Facilities Programs – **Grants**

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75% of Eligible Project Costs if:

Population Maximum –<5,000; AND Median Household Income (MHI)< 60% of Statewide, non-metro MHI

55% of Eligible Project Costs if:

Population Maximum – 12,000 AND MHI< 70% Statewide, non-metro MHI

35% of Eligible Project Costs if:

Population Maximum – 20,000 AND MHI< 80% Statewide, non-metro MHI

15% of Eligible Project Costs if:

Population Maximum – 20,000 AND MHI< 90% Statewide, non-metro MHI

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As of May 29,2020 directive re: Financial Feasibility Analysis evaluations for Community Facility Applications

- **>$5 million** loan request
  - 5 years of audits and 3 years of demonstrated adequate debt coverage for existing + new debt
    - No examination opinion by CPA firm required
- **<$5 million**
  - No examination opinion required of FFS

Resources from Capital Link

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- ❑Business Plan Manual
- ❑Scenario Worksheets
- ❑Benchmarking Toolkit
- ❑Debt Capacity Estimates
- ❑Capital Project Work Plan Manual
- ❑National Trends Reports
- ❑Cost of Care Bulletin
- ❑Learning Collaboratives
- ❑Recorded/Upcoming Webinars

www.caplink.org

Or don't DIY ☺, contact us and we can help you walk through every step of the process

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- **Estimating Health Center Project Costs**
  https://www.caplink.org/project-costs
- **HRSA Health Center Facility Loan Guarantee Program Toolkit for Health Centers**
  https://www.caplink.org/hrsa-loan-guarantee-program-toolkit-for-health-centers
- **HRSA Health Center Facility Loan Guarantee Program Instructions**
  https://bphc.hrsa.gov/sites/default/files/bphc/initiatives/hcf-lgp-instructions.pdf
- **New Markets Tax Credits**
  https://www.caplink.org/NMTC
- **Spotlight on Capital Resources: Community Development Financial Institutions**
  https://www.caplink.org/images/stories/Resources/publications/pub-spotlight-on-capital-resources-cdfis.pdf
- **Spotlight on Capital Resources: Tax-Exempt Bonds**
  https://www.caplink.org/images/stories/Resources/publications/pub-spotlight-on-capital-resources-tax-exempt-bonds.pdf
- **Working with the USDA: Opportunities for Rural Federally Qualified Health Centers**
  https://www.caplink.org/images/stories/Resources/publications/pub-working-with-the-usda-guide-for-health-centers.pdf
- **Capital Link Client Case Studies**
  https://www.caplink.org/resources/client-stories

CAPITAL LINK

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