

Leveraging ARP Funding

Capital Planning and Supplemental Financing Options

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www.caplink.org

- \$6.1 Billion in H8E Funding Awarded to 1,377 Health Centers
- \$145 Million in L2C Funding Awarded to 104 LAL Centers
- \$954 Million in C8E Funding Awarded to 1,292 Health Centers

- Between 2011 and 2020, on-Balance Sheet property, plant, and equipment (PP&E) investments grew by an estimated 290%, totaling \$26.4 billion.
- By year-end 2025, FQHCs are projected to **need additional PP&E investments totaling \$17.5 billion**, enabling them to serve 38.5 million patients, bringing gross PP&E investments to \$43.8 billion.

https://www.capl原因.org/images/Capital_Investment_Trends_and_Needs_of_FQHCs.pdf

- Lever - used to help move a heavy or firmly fixed load with one end when pressure is applied to the other
- Leverage - use (something) to maximum advantage



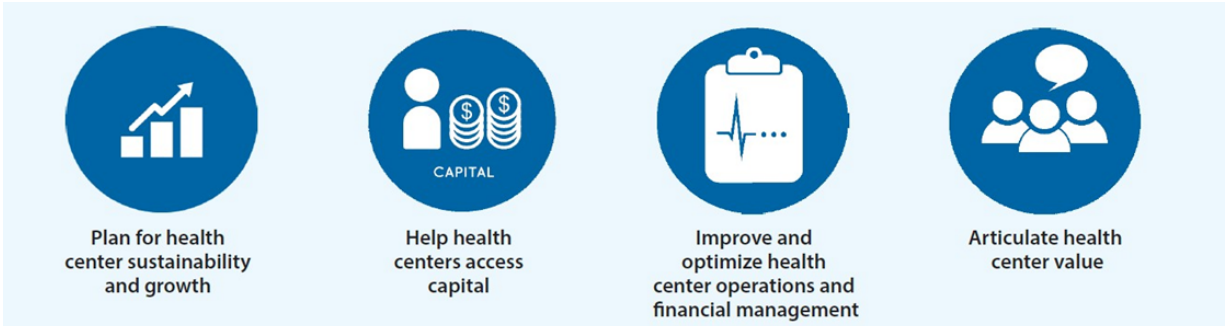
- Overview of Capital Planning
- Types of Financing Resources
- Financing Examples
- Preparing for What Might Be Next



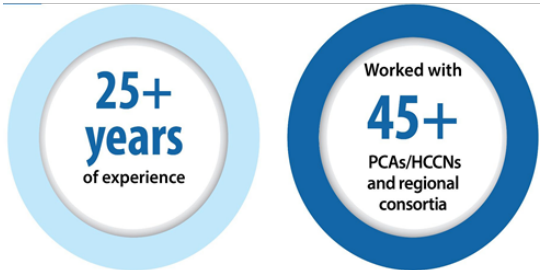
tidbits

- HRSA's recent funding should cover our current capital projects and costs
- HRSA's recent funding will help cover some of our current capital projects and costs
- I have significant capital projects and funding needs beyond HRSA's recent funding
- Other

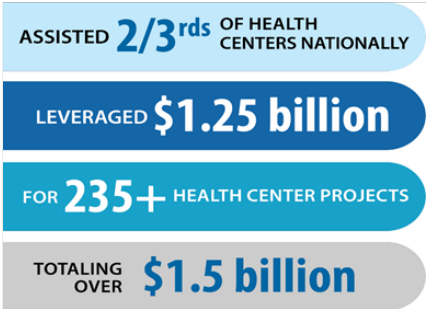
Launched in 1995, Nonprofit
HRSA National Training and Technical Assistance Partner
Offices in CA, CO, FL, MA, and WV



- 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



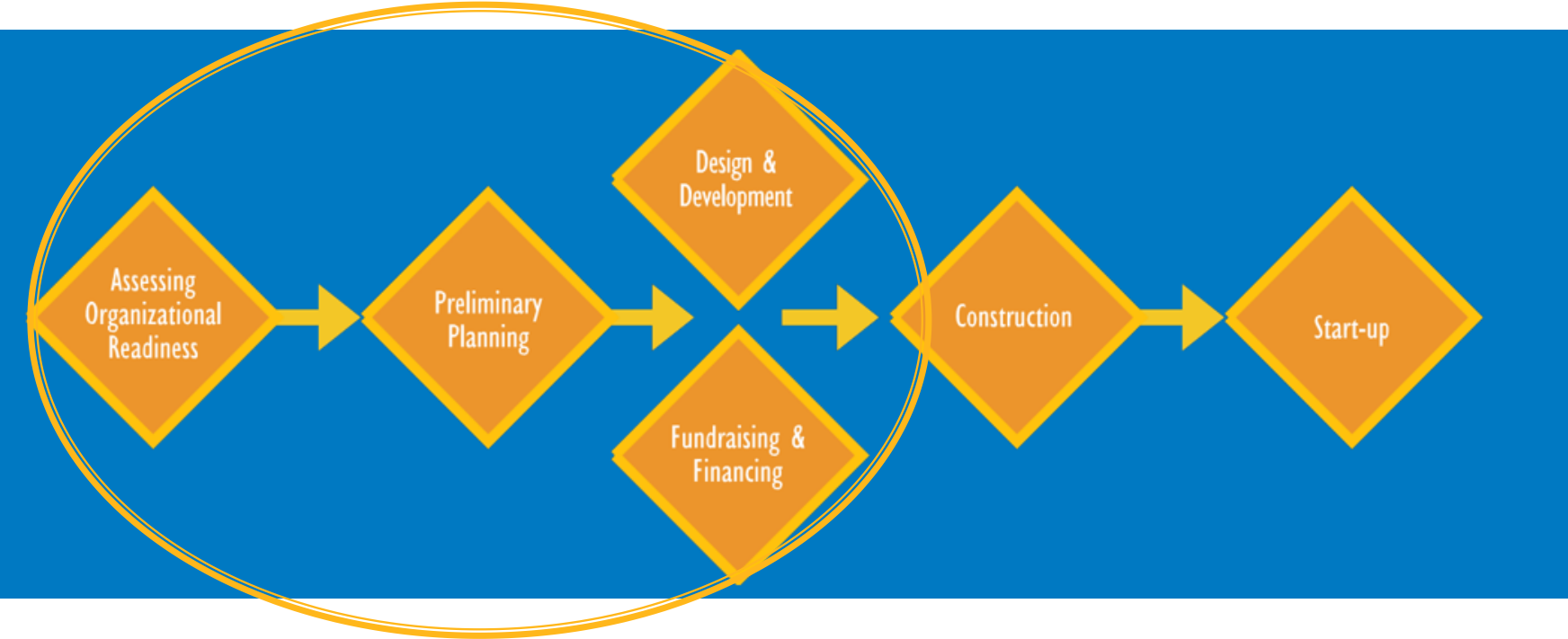
- 25+ years of experience
- Worked with 45+ PCAs/HCCNs and regional consortia



- ASSISTED **2/3rds** OF HEALTH CENTERS NATIONALLY
- LEVERAGED **\$1.25 billion**
- FOR **235+** HEALTH CENTER PROJECTS
- TOTALING OVER **\$1.5 billion**

Assessing Risk “at the Edges”

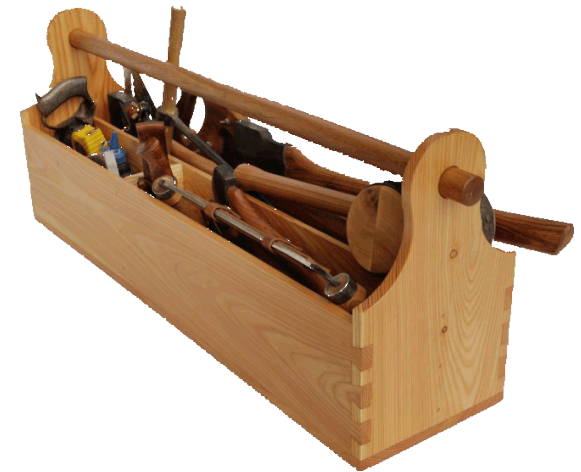




- Strategic Planning
- Financial Strength
- Operational & Clinical Excellence
- Assessing Market Opportunity
- Developing a Business Plan
- Identifying Financing Resources
- Project Planning Expertise



- Begin to Define Your Capital Needs and Projects
- Know Your Financial and Operational Health
- Determine Debt Capacity
- Identify Sources and Types of Financing
- Tools and Resources



When to Plan?

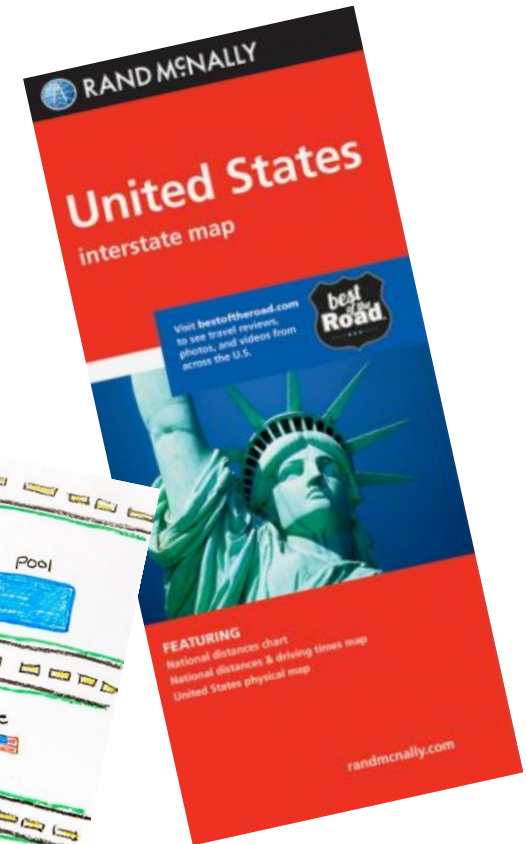


SAMPLE CAPITAL PROJECT TIMELINE		Time Line - Months/Weeks/Days																																						
Project Process Stage		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36			
Assessing Organizational Readiness Stage																																								
	Mission, Vision and Planning																																							
	Financial Systems and Position																																							
	Community Engagement and Collaboration																																							
	Organizational Leadership																																							
	Board of Directors																																							
	Fund Development History and Infrastructure																																							
Preliminary Planning Stage																																								
	Preliminary Project Concept																																							
	Work Plan Development																																							
	Market Assessment																																							
	Program & Staff Planning																																							
	Space Planning																																							
	Capital Campaign Planning & Feasibility Study																																							
	Education & Preliminary Planning for Debt Financing																																							
	Plan of Finance & Preliminary Sources & Uses of Funds																																							
	Preliminary Financial Forecast																																							
Design & Development Stage																																								
	Assemble a Project Team																																							
	Develop & Refine Project Budget																																							
	Obtain Site Control																																							
	Architectural Design																																							
	Furnishings & Equipment Planning																																							
	Land Use, Permits & Third-Party Approvals																																							
Fundraising & Financing Stage																																								
	Develop Written Business Plan																																							
	Obtain Funding from Government Sources																																							
	Capital Campaign Plan/Conduct Fundraising																																							
	Obtain Debt Financing																																							
Construction Phase																																								
	Construction Documents																																							
	General Contractor Bids/Contractor Selection																																							
	Construction Process																																							
Start-Up Phase																																								

https://www.caplink.org/images/stories/Resources/publications/Pub.Work_Plan_Manual.pdf

Begin to Define Your Project(s)

- Patients
- Populations
- Services
- Geographical Area
- Provider Capacity and Types
- Area(s) of Excellence



<https://www.caplink.org/market-assessment-process>

	Metric	Why This Is Important
1	Operating Margin	Measuring stick of your business model; margins typically small but need to be positive
2	Bottom Line Margin	Is performance dependent upon large capital grants and/or other sources of non-operating revenue?
3	Personnel-Related Expense	Consumes 70-75% of budget; key driver of financial performance
4	Days Net Patient A/R	Financial management starts with collecting your money efficiently
5	Days Cash on Hand	Is there enough liquidity to keep operations running smoothly?
6	Physician Productivity (visits)	Productivity is the basis for revenue generation
7	Mid-Level Productivity (visits)	Productivity is the basis for revenue generation
8	Dental Provider Productivity (visits)	Productivity is the basis for revenue generation

<https://www.capl原因.org/component/tags/tag/pep>

	Metric	Why This Is Important
9	Medical Provider Productivity (patients)	Becomes more important in transition to team-based care
10	Medical Team Productivity	Who are your teams? How do they perform?
11	Cost (Revenue) per Visit	How are your visit costs changing over time?
12	Cost (Revenue) per Patient	With the move to PCMH, how are patient costs changing?
13	Medical Support Staff Ratio	How strategic is the staffing the medical teams?
14	Non-Clinical Staff Ratio	Non-clinical employees are not revenue drivers
15	Visit/Patient Growth Rates	Are visits growing faster than patients? Is demand growing?

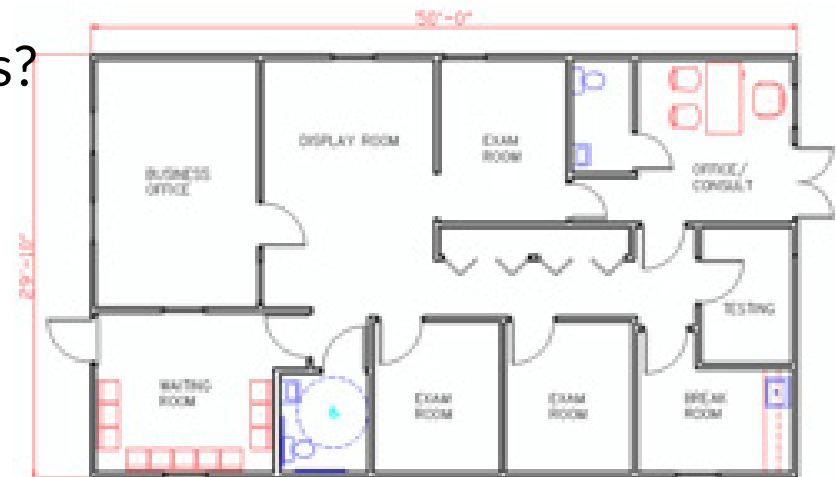
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Debt Capacity Sensitivity Analysis

	A	B	C	D	E
1	Capital Link - Debt Capacity Sensitivity Analysis				
2		FY18			
3	Change in Net Assets	150,000			
4	Add: Depreciaton	20,000			
5	Add: Interest Exp.				
6	Funds Available For Debt Service	170,000			
7	Add Rent Rebate/Savings				
8	Total Funds Available for Debt Service	170,000			
9	Debt Service Coverage discount (1.25)	\$ 136,000			
10					
11	Interest Rate	4.0%			
12	Term (years)	20			
13	Debt Capacity	\$ 1,848,284			
14					
15	Interest Rate	5.0%			
16	Term (years)	20			
17	Debt Capacity	\$ 1,694,861			
18					
19	Interest Rate	5.0%			
20	Term (years)	30			
21	Debt Capacity	\$ 2,090,653			
22	www.caplink.org				

<https://www.caplink.org/debt-calculator>

- Age and condition of current space?
- Existing space adequate and/or attractive?
- How is space configured? Healthcare, team-based, flexible?
- Does it represent your community?
- Collaboration/funding requirements?



<https://www.capl原因ink.org/advisory-services/operations-and-transition-planning>

	Scenario 1
Number of new patients	2,000
Provider FTE productivity/Patients per FTE	500
Additional provider FTE needed	4.0
Support staff per provider FTE	2.3
Total FTE needed	13.2
Estimated square footage per provider FTE	1,100
Total additional square footage needed	4,400
Cost per Square Foot?	\$180
Estimated Construction Cost	\$792,000
Hard Costs (construction, etc)	\$ 792,000
Soft Costs	\$ 170,000
Furniture, Fixtures, & Equipment (FF&E)	\$ 170,000
Total Facility Cost	\$1,132,000

	<u>Scenario 1 Dental/FTE</u>
Number of anticipated patients	1,314
<u>Provider FTE productivity/ Patients per FTE</u>	<u>876</u>
Additional provider FTE needed	1.5
<u>Support staff per provider FTE</u>	<u>2.1</u>
Total FTE needed	4.7
Patient Utilization (Visits per Patient)	3.4
Anticipated Visits per Year	4,468
<u>Reimbursement per Visit</u>	<u>\$170</u>
Total Reimbursement	\$759,560
Direct Cost Per Service Visit	\$169
<u>Total Cost</u>	<u>\$755,092</u>
Net Patient Revenue Gain/(Loss)	\$4,468

- Historical Performance (3 years audited)
- 5-8 Year Forecast
- Project Budget
- Sources and Uses
- Financing Structure



- New Market Tax Credits (NMTC)
- Tax-Exempt Bonds
- US Department of Agriculture (USDA)
- HRSA Loan Guarantee Program (LGP)
- HRSA Capital Grants
- COVID-19 Relief



- Foundations
- Bank Loan
- State/Local Funds
- Cash Reserves
- Lease vs Loan
- Grants/Gifts



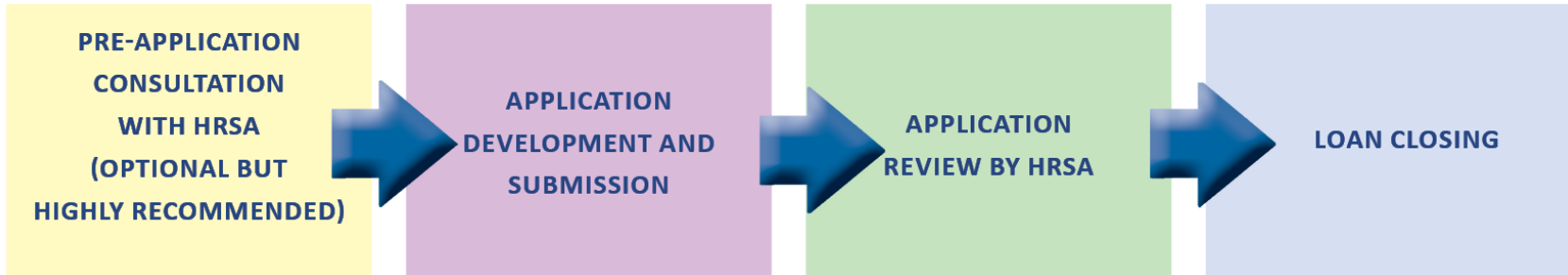


<https://www.caplink.org/advisory-services/financing-assistance/hrsa-loan-guarantee-program>

- Congress put \$20 million dollars into a subsidy for loan loss reserve for the HRSA LGP so now the HRSA LGP can guarantee up to about \$890 million of new loans.
- Program is only available for 330 funded health centers
- **Federal guarantee on 80% of the principal amount of loans** made by non-federal lenders for the construction, renovation and modernization of medical facilities owned and operated by Section 330 health centers
- May be a limit on percentage of principal used for refinancing
- Credit enhancement like the HRSA LGP can help a non-Federal lender to approve a loan application they may have otherwise not approved
- Has been combined with NMTC but can not combined with tax exempt bonds
- **No minimum/maximum project budget – NO HRSA FEES!**
- HRSA has worked to streamline its administrative and documentation processes and is now accepting applications

<http://www.caplink.org/advisory-services/financing-assistance/hrsa-loan-guarantee-program>





<https://bphc.hrsa.gov/programopportunities/loan-guarantee-program>

<https://caplink.org/advisory-services/financing-assistance/hrsa-loan-guarantee-program>

- Benefit from Private “Investment” that is NOT Repaid
- Provide ~18-22% of Total Project Cost
- Project Eligibility
- Community Development Entity (CDE)
- Application and Awards
- Timing



<https://www.caplink.org/financing-assistance/new-markets-tax-credits>

- **As of 2017, health centers have benefitted from \$3.6 billion in NMTC investments**
 - Financed over 330 projects serving at least 6.7 million patients annually
- **Health center capital projects are a highly desirable asset type for NMTC 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 regulations, e.g. non-qualified businesses or uses
 - Financial Stability: health centers are seen as stable and growing industry that can support long-term debt

- **Finding a Community Development Entity (CDE)**
 - Aligning your project *timing* with other funding
- **Complex structures**
 - Three tiers of financing, with multiple parties
 - No two NMTC deals look exactly alike
 - Takes longer to close than you (or anybody else) think

- Basic Eligibility

- Location and Budget
- Severely Distressed (the bar that most projects need to reach)
- Targeted Populations Rule (very difficult to qualify)



- I am or anticipate using NMTC to financing my current capital projects
- I am considering using NMTC to finance my current capital projects
- I may consider using NMTC to finance my future capital projects
- Unsure of my project's NMTC eligibility, budget, etc.

Considerations and Combinations Can Mean
Significant
Financing Cost Differences Over Time



Example: \$10 Million Health Center Project



- **Conventional Bank Loan Only**
 - Interest rate is 6% with 15 year amortization
 - Annual Debt Service (P&I) **\$810,103**
- **Conventional Bank Loan with NMTC**
 - NMTC “net benefit” approximately 25% of project budget
 - \$2,500,000 subsidization from NMTC’s Program
 - Annual Debt Service **\$791,971** During 1st 7 years; then **\$759,471**
- **Tax-Exempt Bonds with NMTC**
 - NMTC net benefit approximately 25% of project cost - \$2,500,000
 - Interest rate – 4.0 % (fixed 10 years); 15 YR AMORT
 - Annual Debt Service **\$709,474** During 1st 7 years; then **\$665,724**
- **Foundation’s PRI with NMTC**
 - NMTC subsidy approximately 25% of project budget: \$2,500,000
 - PRI Loan for the balance - \$7,500,000; Interest rate of 3.0%; 40 year term
 - Annual Debt Service **\$365,936** During 1st 7 years; then **\$322,186**



- **Project 1, Rural**

- \$0.4M Land Equity
- \$1.1M Cash/Predevelopment
- \$2.2M NMTC Equity
- \$4.2M Long Term Debt
- \$7.9M Financing

- **Project 2, Rural**

- \$0.5M Foundation Grant
- \$0.8M In-kind
- \$2.1M USDA Loan
- \$3.4M Financing



- **Project 3, Rural**

- \$2.0M Loan
- \$13.0M Loan (HRSA Guaranteed)
- \$5.8M NMTC Equity
- \$7.0M Cash/In-kind
- \$27.8M Financing

- **Project 4, Urban**

- \$0.8M Cash
- \$1.2M Loan (HRSA Guaranteed)
- \$1.0M Loan
- \$1.1M HRSA Grant
- \$4.1M Financing

- Rural Health Innovations
- Flexible Service Sites
- Telehealth & Technology
- Collaborations with Support Services & Other Provider Types
- Energy Efficiency
- School-Based Service Sites
- Workforce Recruitment & Retention
- Health Equity



- NMTC
- Commercial Loan
- Tax-Exempt Bonds
- HRSA and Other Capital Grants
- Cash Reserves
- USDA
- Other

Indicate all that apply

- Preparing for a Capital Project: Are You Ready?
<http://www.caplink.org/capital-planning-tools>
- Debt Capacity & Revenue Modeling Tools
- Capital Planning & Financing Guides
- Strategic Planning & Benchmarking Toolkits
- Business Plan and Work Plan Manuals
- Cost of Care Trends & Snapshot Reports
- Case Studies and Project Highlights
- Learning Collaboratives



- Designed to assist health centers that anticipate conducting a capital project during the next one to three years and are considering the benefits of the [HRSA Health Center Facility Loan Guarantee Program](#) (LGP).
- Series of interactive learning sessions conducted between **October and December 2021**
- **The deadline to apply was Thursday, October 21.**
- https://www.caplink.org/images/stories/Services/Capital_Link_HRSA_LGP_Learning_Collaborative_Fall_2021_-_Application_-_Fillable.pdf



<https://www.caplink.org/trainings-and-programs/learning-collaboratives/lgp-lc>

Celebrating the Effort



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