

Capital Financing Strategies for CHC's Serving Rural Communities

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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

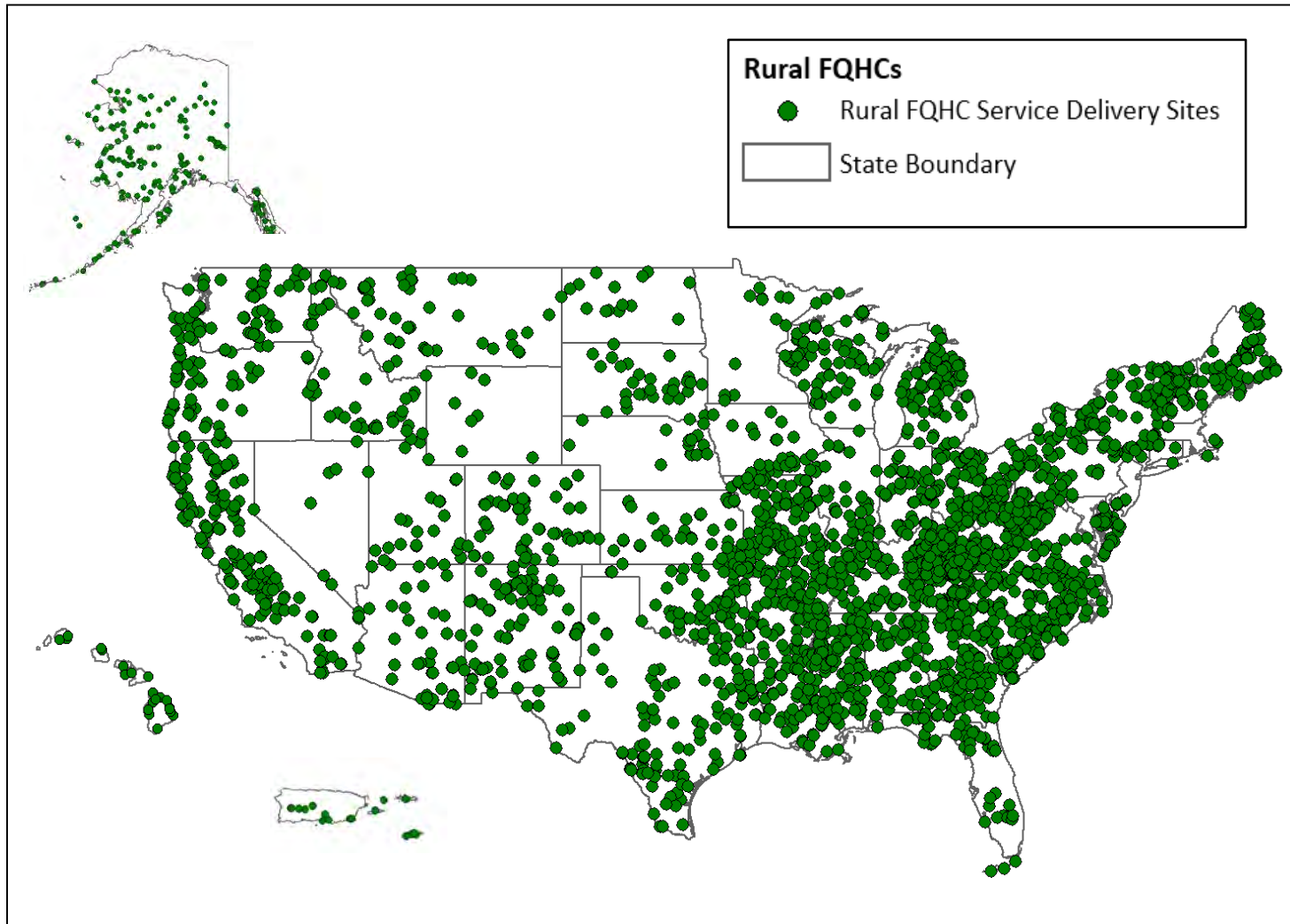


Improve and optimize health center operations and financial management



Articulate health center value

Lay of the Land: FQHCs Serving Rural communities



FQHC Growth & Expansion



Rural	2018		2019		2020		2021		2018-2021
S330 + LAL	631	2%	606	-4%	601	-1%	609	1%	-3%
Service Sites	4,983	12%	5,054	1%	5,356	6%	5,695	6%	14%
Patients	9,843,027	9%	9,132,834	-7%	9,002,619	-1%	9,715,727	8%	-1%
Visits	38,650,224	9%	36,132,510	-7%	33,811,982	-6%	37,871,218	12%	-2%

Urban	2018		2019		2020		2021		2018-2021
S330 + LAL	815	1%	851	4%	861	1%	872	1%	7%
Service Sites	7,063	3%	7,968	13%	8,511	7%	8,980	6%	27%
Patients	19,421,684	3%	21,298,809	10%	20,267,288	-5%	21,432,616	6%	10%
Visits	80,426,803	4%	89,010,728	11%	83,207,977	-7%	90,188,696	8%	12%

Over the last few years, have you (check all that apply)

- Added sites in rural communities
- Taken over or merged with another FQHC in a rural area
- Bought/taken over other non-FQHC practices

Topic Areas to Cover:

Capital Financing Considerations

- Key credit considerations
- Cash Flow & Debt Capacity
- Sources & Uses of Project Funds
- Project Financing Package

Financing Sources

- Banks & CDFIs
- USDA
- NMTC
- HRSA LGP

Case Study: El Dorado

Community Health Center (USDA)
www.caplink.org



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



5 C's of Credit

1. **Cash Flow Capacity**
2. Collateral
3. Conditions/Competition (market)
4. Capital (contribution)
5. Character (Management)

□ Key Financial Ratios

1. Performance Margins

1. Operating Margin (positive, $>3.0\%$?)
2. Bottom Line Margin (positive, $>3.0\%$?)

2. Debt Service Coverage Ratio (1.25x)

3. Days Cash on Hand (>30 -60 days)

4. Current Ratio (>1.2)

5. Leverage Ratio (<2 -3x)

6. *Days in Patient A/R (<60 days)*

7. *Days in A/P (<45 days?)*



Debt Capacity Sensitivity Analysis

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

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

Project Budget vs Sources & Uses of Project Funds



Project Budget

- Shows all the detailed cost categories for a project
 - construction budget
 - soft costs and
 - 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

Sources & Uses of Project Funds

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		
External 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%

Primary Financing Sources

- Conventional/Market Rate
 - Banks
- Alternative/Non-profit
 - Community Development Financial Institutions (CDFIs)
- Government
 - USDA (Rural Development Community Facilities)

Financing Support

- HRSA Loan Guarantee Program
- New Markets Tax Credits (NMTCs)

Basic Financing Application Documents



Capital Project Business Plan

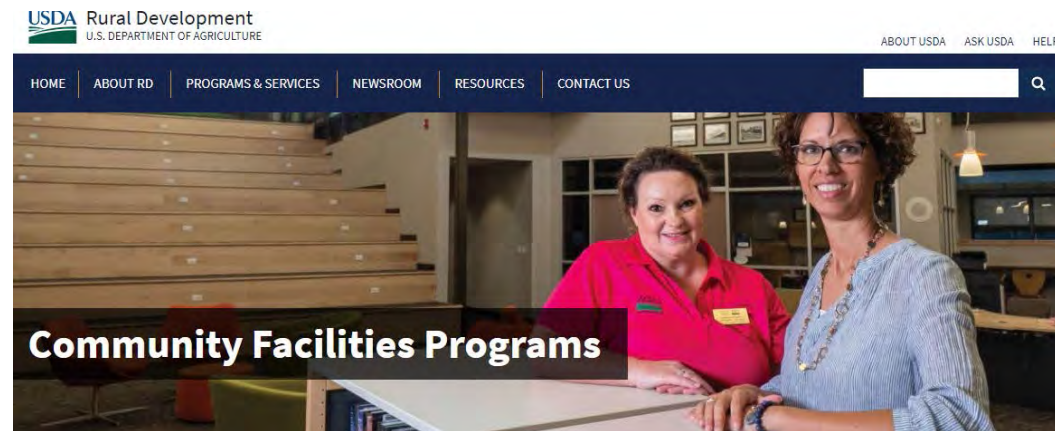
- Organizational Overview (Who?)
 - Incl. governance
- Target Market/Need Analysis (Why?)
- Capital Project Overview
 - Project Rationale (Why?)
 - Project Description (What?)
 - Project Budget & Sources and Uses (How Much?)
 - Project timeline (When?)
 - Critical Path (What's next?)

Financial Feasibility Analysis (How?)

- Audited Performance Analysis
 - Financial Projections
-

USDA Community Facilities Programs

- ❑ 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 **3.50%** as of Sept. 2022
- ❑ Work through your state office



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

USDA Guarantee vs Direct Loan



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

Community Facilities: Financial Feasibility Study



2020 directive re FFS evaluations for Community Facility Applications

>\$5 million loan request

- 3 years historical debt coverage for existing + new debt
 - No examination opinion by CPA firm required

<\$5 million

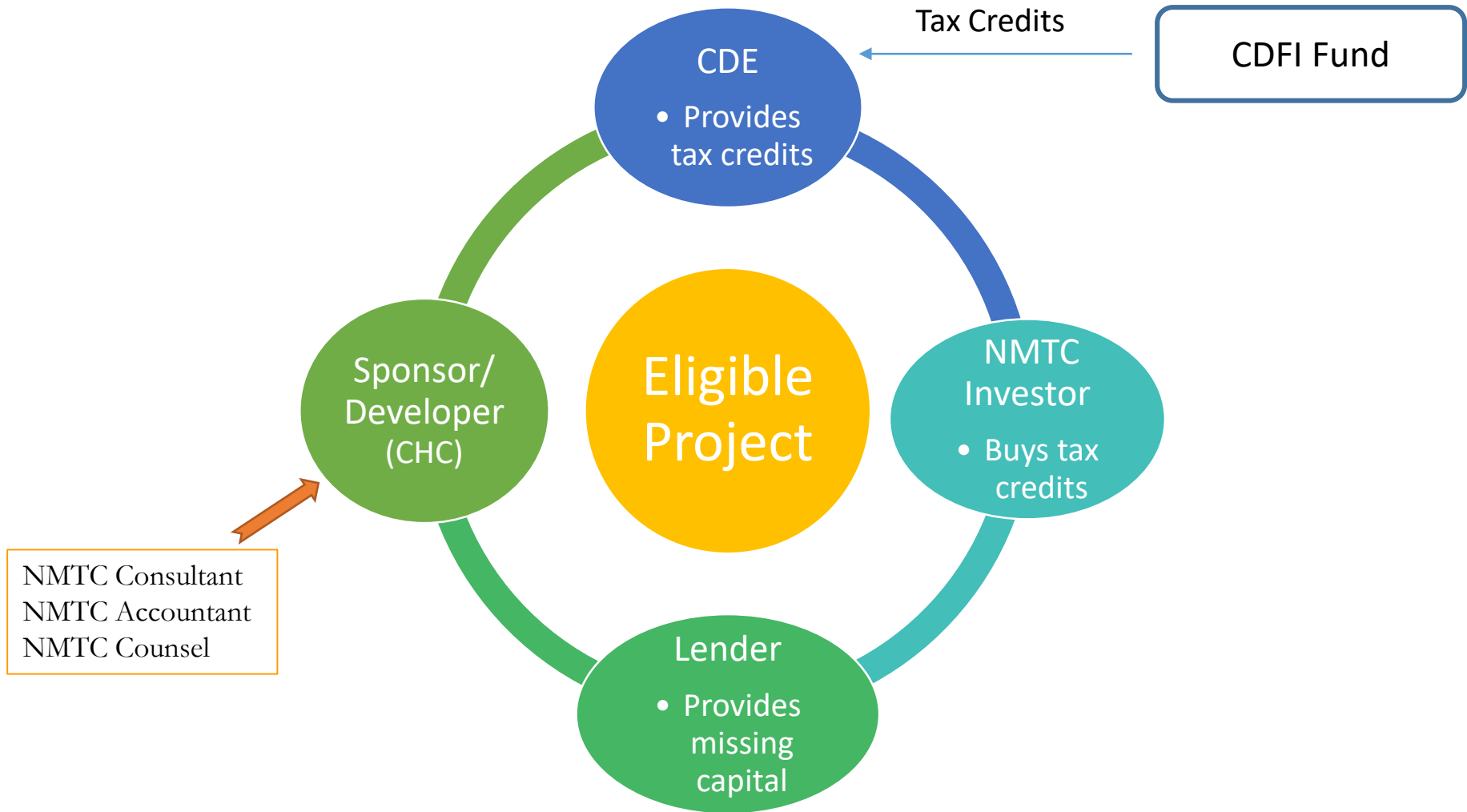
- No examination opinion required of FFS

New Markets Tax Credits

- ❑ Federal program authorized in 2000 & renewed repeatedly since '06
 - ❑ Currently under 5-year renewal @ \$5 billion per year
 - ❑ Current expiration end of 2025
- ❑ Through 2021, allocations totaling \$64 billion have delivered more than \$120 billion in total project financing to more than 7,500 projects
- ❑ In 2020, over 20% of NMTC investments were in rural areas
- ❑ Net Benefit roughly 17%-20% of project (subsidy)



NMTC Partners



How Do NMTCs Get To Your Project ?



- Community Development Entities (CDEs) Apply for Tax Credits
- Get “**Pitch Package**” in front of CDEs, Investors, and Lenders
 - Project Overview
 - Sources & Uses/Capital Budget
 - Impacts: Jobs, Patients, Utilization, Need
 - Timeline/Readiness
 - Eligibility Confirmation
 - Preliminary NMTC leveraged structure
- Capital Project Business Plan & Financial Projections (7 yrs)
- Underwriting and Closing Process (can easily take 4/5 months or more)

NMTC Challenges:

Takes great coordination & patience!



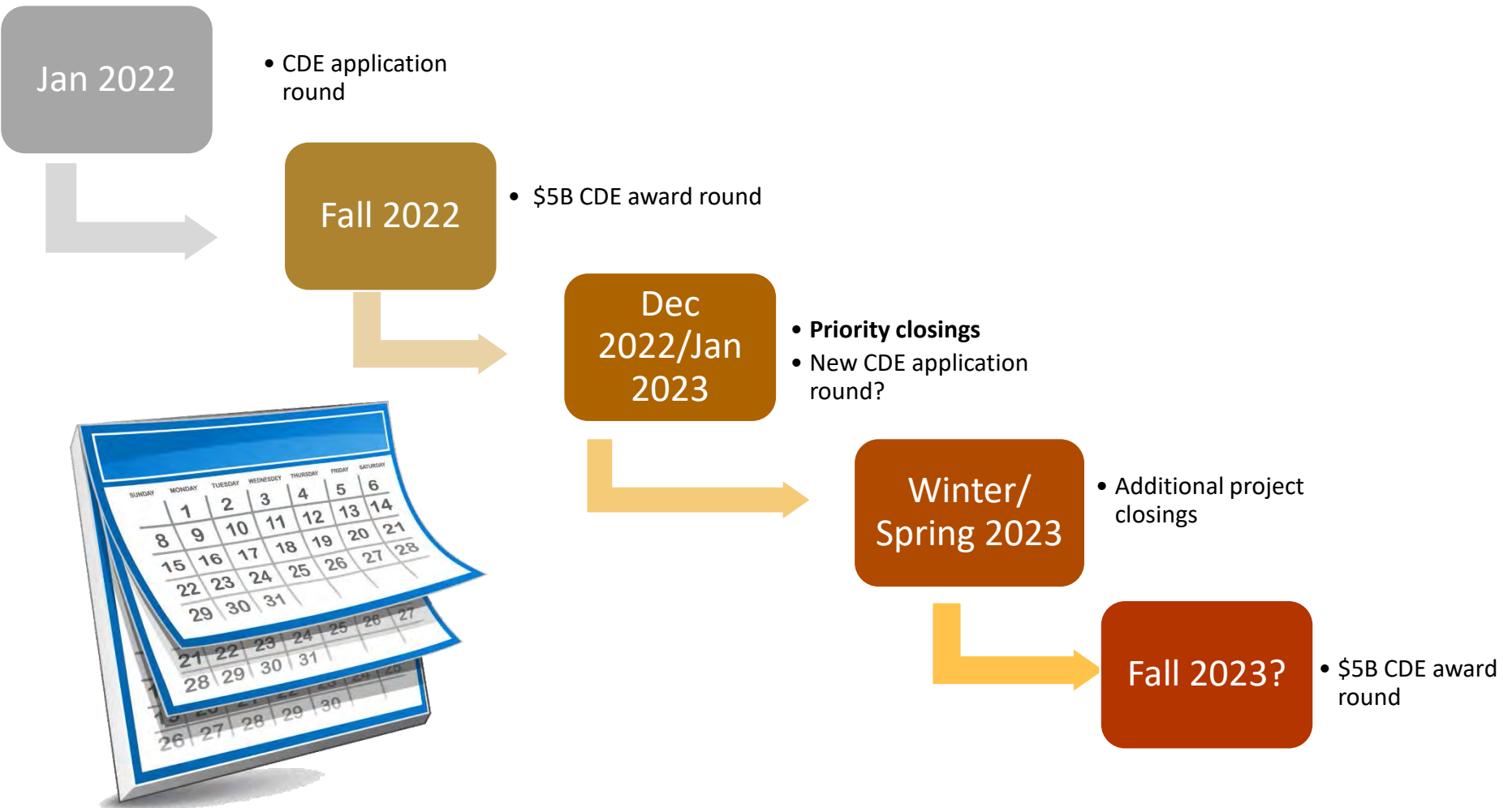
Highly competitive

- Geographic Eligibility: Prioritizes most economically distressed census tracts **& non-metropolitan areas**
- Aligning your project timing (“shovel ready”)

Complex financing structures (tax code compliance)

- Takes longer to close than you (or anybody else) thinks
- High transaction costs (though not out of pocket);
 - Various NMTC partners required (Consultants, CDEs, Investors, Lenders)
 - Minimum recommended Total Project Budget **\$5 Million**
- Compliance: reporting requirements for **7-year period**

NMTC Program Cycle & Project Readiness



HRSA LGP Overview

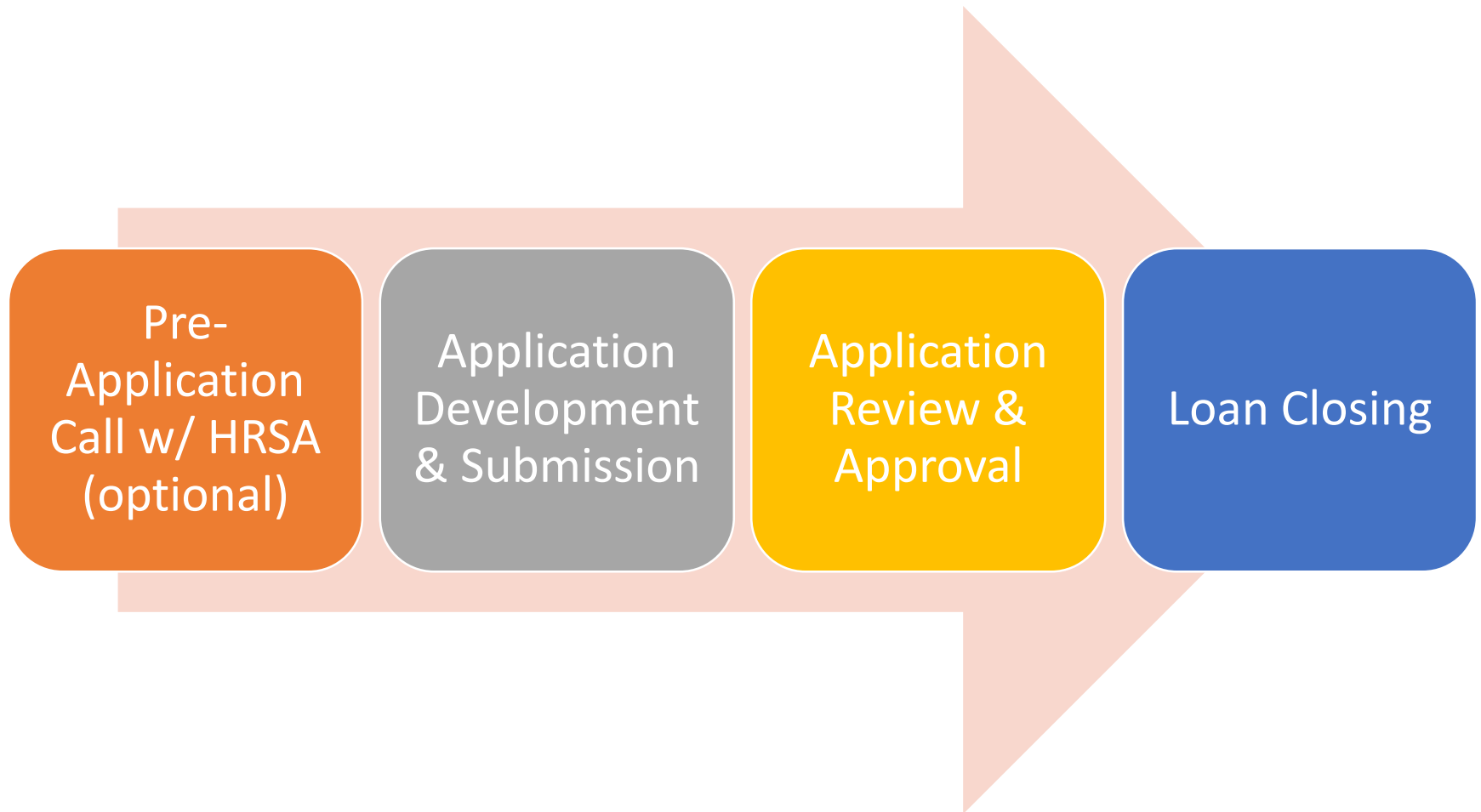


<https://bphc.hrsa.gov/programopportunities/loan-guarantee-program>

- ❑ 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.
- ❑ Recently re-appropriated, the guarantee program can cover up to **80% of the principal and 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



Financing Process with LGP



Prelim. Project Readiness



Contact the HRSA LGP at LGProgram@hrsa.gov once you have the following information:

- Anticipated Project Scope;
 - Type of construction activity (i.e., new construction, renovation, new site, replacement facility);
 - Estimated project cost (preliminary)
 - Financing needs and potential lender(s); and
 - Timeline and status of project planning and financing.
 - EID Checklist Form - your **Architect** knows how to address <https://bphc.hrsa.gov/sites/default/files/bphc/programopportunities/fundingopportunities/hcf-lgp/environmentalchecklist.pdf>
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El Dorado Community Health Center:

Cameron Park & and Placerville

Overview, Behavioral Health and Substance Use Disorder Treatment



Terri Stratton, MPH
Chief Executive Officer
El Dorado Community Health Centers



Limitations and Challenges of Current Space:

- **Predominant patient population is in Placerville area.**
- **All Sites are leased – no room for expansion.**
- **In Placerville – no dental, pharmacy, limited MAT/SUD**
- **Virtually No Optometry in county for Medicaid**

Opportunity

- **Engagement with staff and Board**
 - **Purchase of 12 acre parcel in Placerville south of US 50**
 - **Participation in Capital Link Learning Collaborative**
 - **Development of Feasibility Study**
 - **USDA Loan: Application result: 37 year loan, 2.125%**
 - **HRSA CADRE Grant – \$1 million**
-

Soon to be completed site at 4212
Missouri Flat Road – mid-October











What planning phase are you in for your own capital expansion project?

- Currently no capital expansion plans
- Preliminary/Early Planning (2-3+ yrs out from project)
- Predevelopment Planning: early stage (concept design, feasibility planning)
- Predevelopment Planning: late stage (construction docs; looking for financing)

<https://caplink.org/rural-fqhcs>

Resources

Publications

Client Case Studies

Newsletter ▾

Blog

Webinar Recordings

Disaster Relief

Health Center Resource
Clearinghouse

Publications: Rural FQHCs



Performance Benchmarking Toolkit for Rural Health Centers

This toolkit provides guidance in applying data analysis tools to help rural health centers more effectively track performance, understand key drivers, and incorporate operational insights for financial sustainability. This resource was supported by the Health Resources and Services Administration. (Released 2021)



FQHC Roles and Opportunities Related to Rural Hospital Distress and Closure

This publication, prepared with support from the Health Resources and Services Administration, provides a high-level examination of the lived experiences of Federally Qualified Health Centers (FQHCs) that serve rural communities, particularly in the context of rural hospital financial distress and closure. Utilizing a recently conducted national assessment of rural FQHCs, it seeks to document health centers' experiences with hospital distress and closure over the past five years and to evaluate the extent to which these centers have and can play an instrumental role in preserving access to care under these difficult circumstances. (Released in 2021)



Rural Federally Qualified Health Centers Financial and Operational Performance Analysis 2016-2019

Other Resources



Rural Philanthropy & Foundation support – Allen Smart

- ❑ <https://philanthropyworx.com/>



Rural Health HUB

- ❑ <https://www.ruralhealthinfo.org/topics/capital-funding>
- ❑ <https://www.ruralhealthinfo.org/funding>



USDA capital funding toolkit:

- ❑ https://www.rd.usda.gov/files/RDCFIToolkit_Jan2016.pdf



HRSA's Federal Office of Rural Health Policy

- ❑ <https://www.hrsa.gov/rural-health>



NACHC's Health Center Resource Clearinghouse

- ❑ <https://www.healthcenterinfo.org/>



Questions?



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