Summer 2012

CAPITALink

A Quarterly Newsletter by Capital Link

A Message from the CEO

Allison Coleman, CEO

Since Capital Link's ultimate goal is to support the expansion of community-based health care, we regularly highlight opportunities for health centers and PCAs to advance their capital improvement plans. While the Supreme Court's Affordable Care Act decision certainly paves the way for further health center growth, significant challenges still lie ahead, including managing uncertainties regarding Medicaid, navigating changes to the payment environment through Exchanges and Accountable Care Organizations and raising funds for facilities expansions – just to name a few.

Concurrent with the Supreme Court's ruling, Capital Link released *Capital Plans and Needs of Health Centers: A National Perspective*, the results of a study conducted to determine the current capital plans of community health centers across the United States and whether those plans, if funded and implemented, would be sufficient to provide the facilities necessary to serve 40 million patients, the Affordable Care Act goal for access to care through health centers. The results, which confirm the significant need for health center expansion, are summarized in this issue with links to our infographic and complete report.

Considering that no new federal capital grant opportunities are available, many health centers will need to seek additional funding/financing options to complete their projects. This issue of ***Capital Ink*** offers suggestions for health centers to investigate, ranging from financing through banks and lenders to the latest news on New Markets Tax Credits and the benefits of ensuring that health centers maximize their current facility before building.

Finally, we are pleased to release our newest publication, *Building Community Support for Your Health Center*. We also invite you to attend our presentations or visit us in the Exhibit Hall at the ***2012 NACHC Community Health Institute (CHI) & EXPO*** from September 7-11 in Orlando, FL.

Best regards,
Allison Coleman, CEO

Inside this Issue:

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CAPITAL LINK

Supreme Court Ruling Preserves Affordable Care Act, but Presents New Challenges for Medicaid Expansion

On June 28th, the Supreme Court announced its ruling on the Affordable Care Act (ACA). In a 5-4 ruling, the court upheld the constitutionality of the individual mandate, and left the majority of the law untouched. The only area of the ACA that was struck down related to the expansion of Medicaid. On that issue, the Court ruled that the Federal government could not threaten states with a loss of all Medicaid funding if they chose not to implement the Medicaid expansions included in the law. Ultimately, the Court's decision will impact health centers in a variety of ways including:

- The $11 billion provided specifically for Community Health Centers will continue to be invested to insure that health centers can serve as many new patients as possible. This includes the $1.5 billion in capital grants already awarded to health centers to support expansion and growth.

- States will need to move quickly to finalize state-based insurance exchanges before the 2014 deadline. Residents of states that choose not to develop their own exchanges will have the option of choosing insurance via the federal exchange.

- States will need to make decisions concerning the Medicaid expansions provided in the law. Although the financial incentives for doing so are strong, under the ruling states cannot be compelled to adopt the Medicaid expansions available via the Affordable Care Act. Governors and legislatures will need to decide which provisions of the Medicaid expansion they want to adopt. Health Centers and Primary Care Associations will need to monitor these developments closely since many of the patients likely affected by the Medicaid expansions will seek care at health centers.

- Under the ACA, an additional 16 million people will have an opportunity to purchase health insurance coverage via the exchanges. At the same time, as many as 16 million people could benefit from the Medicaid expansions. Health centers must continue working hard to ensure they have the space and workforce to meet this expected demand.

New Markets Tax Credits Application Round Opens with Authorization in Limbo

The US Treasury Department announced a new competition for tax credit allocation under the New Markets Tax Credit (NMTC) Program in July. Up to $5 billion in tax credits will be available under the 2012 round, pending Congressional authorization. This year marks the tenth award round of the program, which was created in 2001. Capital Link is working to ensure that health centers are prominently featured in applications in this upcoming allocation round.

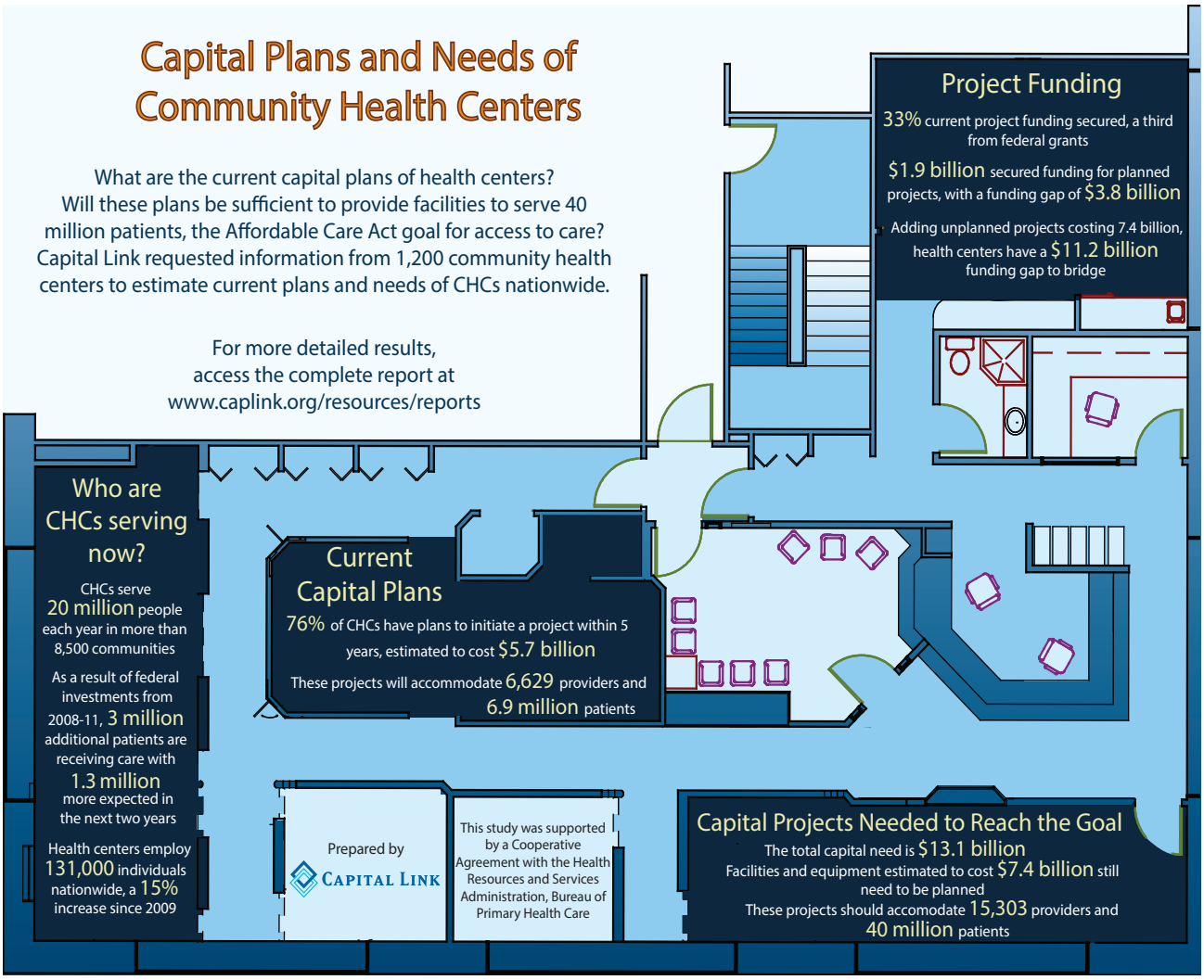
The NMTC Program is an important source of low-cost capital for health center facility projects. For more information about the program and to learn how it works, health centers and PCAs can access Capital Link's recently released ***Spotlight on Capital Resources: New Markets Tax Credits*** here: http://www.caplink.org/resources/publications

Results of National Capital Needs Assessment Released

In June, Capital Link released ***Capital Plans and Needs of Health Centers: A National Perspective,*** the results of a study to determine the current capital plans of community health centers across the United States and whether those plans, if funded and implemented, would be sufficient to provide the facilities necessary to serve 40 million patients, the Affordable Care Act goal for access to care. This study was supported by a Cooperative Agreement with the Health Resources and Services Administration, Bureau of Primary Health Care.

A summary of results is available in our infographic below.

For detailed results, access the complete report online at http://www.caplink.org/resources/reports



Financing Healthcare's Lowest-Risk Providers: Federally Qualified Health Centers

Banks are becoming increasingly concerned about the financial stability of healthcare providers, and yet, with healthcare comprising nearly 20% of the country's GDP, they cannot afford to avoid the largest (and most rapidly growing) industry in the country. Health centers seeking debt financing must educate potential lenders on the multiple facets of the complex healthcare industry to make the case that health centers offer a financially stable investment opportunity with relatively predictable outcomes.

Lenders must understand the issues that are creating the uncertainty. Despite the Supreme Court's decision, the Affordable Care Act remains under attack and yet there seems to be no stabilizing political consensus for an alternative. State budgets are paring back funding pools to cover uninsured patients, Medicaid is under verbal assault from Congress and is suffering reductions in many states, and reimbursement rates from both Medicaid and Medicare are threatened. And, make no mistake, federal healthcare entitlements are not merely critical but essential as financial fuel to the healthcare engine. Moreover, every healthcare provider, for-profit and non-profit hospitals, private clinics, medical specialists, behavioral health professionals, and others are irrevocably influenced by government programs.

In the midst of this uncertainty, the safest lending opportunity for banks may just be Federally Qualified Health Centers (FQHCs). FQHCs have quietly become the most economically efficient providers of healthcare in the country, surpassing other classes of healthcare providers in the quality of care and managing to "do more with less" than any other industry segment.

But, there is even more evidence that FQHCs are "best-in-show" when it comes to healthcare providers. Let's look at Medicaid. There is no question that lenders should be cognizant and anticipatory of changes proposed for Medicaid. Demographic certainties brought by the aging baby-boomer generation will stress both Medicaid and Medicare over the next decade. These alterations will affect all healthcare providers, but not all providers equally.

So, how do FQHCs stack up against other provider classes in how Medicaid changes may distress them? Medicaid reimbursement rates for FQHCs are more favorable than any other healthcare provider. Whereas Medicaid establishes reimbursement rates uniformly for hospitals and physicians by geographic location, FQHCs are reimbursed using a formula based on their actual costs. Every other Medicaid provider in the country will confirm that their reimbursement rates are well below their cost of delivery. Thus, regardless of what happens to Medicaid, FQHCs will always be better off than any other healthcare provider as long as their cost-based reimbursement remains intact. This is a fact very few lenders realize.

Financing Healthcare's Lowest-Risk Providers (cont.)

Another aspect of Medicaid that is worthy of attention is the minuscule impact FQHCs have on Medicaid spending. Of the total U.S. Medicaid expenditures of $375 billion, last year less than 1% went to FQHCs while they served 14% of Medicaid patients. To understand why this fact is of particular import one must appreciate the bi-partisan political support FQHCs enjoy in Congress. For many years FQHCs have benefitted from strong support from every political party and ideology represented in Congress; even members of Congress who opposed the Affordable Care Act, commented for the congressional record that they supported the provisions in the Act that funded FQHCs. Therefore, considering the small impact FQHCs have on the Medicaid budget and the bi-partisan support in Congress, any serious alterations to Medicaid may be significantly softened for FQHCs.

It should also not go unnoticed that the Affordable Care Act increased funding for FQHCs by $11 billion over the next five years. This is a colossal increase in operating funding and should be recognized as a mandate for FQHCs from both the administration and Congress. No other segment of healthcare has enjoyed this level of enhanced federal funding.

Finally, it is indisputable that FQHCs are universally recognized by federal and state officials as being at the "front line" of healthcare for low-income individuals. At both the federal and state level there is an acknowledgement that FQHCs must be maintained at all cost; without them the hospital emergency rooms and urgent care facilities would be overwhelmed with patients who cannot afford the enormously high costs of those facilities. In other words, there is an educated belief that without healthy FQHCs, the entire healthcare industry will be stressed to the point of crisis.

Certainly it's not difficult to see why banks and other lenders are taking care when approaching financing opportunities in the healthcare industry. However, there is a reasonable case for community health centers as a stable choice even in this current political and financial environment.

Redefining Your Facility to Maximize Function

The Facility Maximization Process helps identify existing redundancies in program, staffing and facility areas so health centers can operate most efficiently and effectively in their current buildings. This process can be extremely useful for health centers in the early stages of planning and funding expansions and must make the best use of the facilities at their disposal. During these uncertain times, Capital Link is increasingly working with health centers to make sure that they are maximizing their current facilities while planning for future expansion. The process is shown below, and explained on the next page:

The Facility Maximization Process

Redefining Your Facility to Maximize Function (cont.)

Phase 1
The Program Plan

The purpose of *The Program Plan* is to define the scope of services and volume/demographics of patients to be served at the site. This phase integrates current experience, grant or cooperative agreement opportunities, market/needs assessment findings, and current referral barriers, building on information from the health center's Strategic Plan. Health centers are provided with internal assessment tools, which are completed and sent to the Program and Facilities Planning Consultant prior to a site visit. During the site visit, the Program Plan is analyzed in the context of current operations, peer experiences and community-based opportunities.

Phase 2
The Staffing Plan

This step defines what type and number of staff are required to support the defined Program Plan now and in the future (5 to 7 years), building on a listing of current staff by department and service. *The Staffing Plan* may be refined as needed during the site visit, based on the Operational Plan. Also considered are Train-to-Retain and Recruitment Plans.

Phase 3
The Operational Plan

For each service and the organization as a whole, *The Operational Plan* defines the most effective and efficient methodology for delivery of the prescribed services in light of the available staff resources, financial resources, cultural realities and community norms. With existing facilities, this plan works within the constraints of the buildings. During the site visit, the planning team and the consultant assess the current operational plan/patterns and define if they are most effective for the current facility.

Phase 4
The Facility Maximazation Plan

This step determines what adjustments are required in the physical space in order to accomplish the defined program, operational and staffing plans. The completed *Facility Maximization Plan,* which is organized by site and priority, includes recommendations for the repurposing of existing spaces with and without renovation, as well as changes in equipment and furnishings to maximize the utilization of the current space.

Phase 5
The Financial Impact

Sometimes maximizing the use of an existing facility requires at least some type of investment, whether it's a capital investment to modify the space or an investment in staff or other resources. How can you be sure that the investment will be "worth it" and financially sustainable over the long term? By modeling *The Financial Impact* through the development of pro forma financials based on the new/revised operating model, health center managers can determine whether the needed investment makes sense and whether financing will be necessary to accomplish the needed changes. The financial impact analysis allows the health center to feel confident that the Operational Plan is financially feasible.

Has your health center completed a facility maximization process? If so, share your experience on Capital Link's blog: http://capitallinksblog

The Community-Wide Impact of a Capital Project

Capital Link is pleased to release the first of a series of case studies developed to illustrate the challenges health centers face while developing facilities and offer potential solutions. Based on the experience of one health center, Primary Care Providers for a Healthy Feliciana (Healthy Feliciana) in Louisiana, the analysis provides insights into the components of a successful capital project, from the planning stages to the impact of the expanded facility on its community, financial stability and operations. This article provides a summary, but the complete analysis can be downloaded at http://www.caplink.org/client-impact/client-stories.

Healthy Feliciana is a Federally Qualified Health Center (FQHC) located in Clinton, Louisiana. Like all FQHCs, Healthy Feliciana provides quality, affordable health care to all local residents without regard to their ability to pay. In addition to the main site located in Clinton, LA, Healthy Feliciana operates four school-based health clinics in East Feliciana Parish and an additional clinic site in Port Allen, LA. Faced with a vast array of patients in need of care and a critical shortage of primary care options in their community in 2008, Healthy Feliciana resolved to undertake an expansion of its main service delivery site.

Although planning indicated that the need was considerable, Healthy Feliciana did not have the debt capacity to finance the project up front. As a result, health center leadership methodically pursued all available funding and financing options. Through persistence and planning, Healthy Feliciana was able to fully fund the project in June 2009 and the new facility opened its doors in April 2010.

The exterior of Healthy Feliciana's new facility.

As a result of this expansion, Healthy Feliciana has significantly improved access to quality care while generating considerable economic growth in an otherwise challenging environment. Overall, visits have increased nearly 50% following the completion of the project. The new facility also allowed Healthy Feliciana to dramatically expand its services to the neediest in the community. Since it opened, the center has been able to serve 54% more uninsured patients and 32% more Medicaid patients. In addition, Healthy Feliciana's innovative financing structure helped the health center maintain a stable financial performance following its move to the new building, minimizing operational disruption while the center expanded services. Although growth is never without challenges, several lessons can be drawn from Healthy Feliciana's experience.

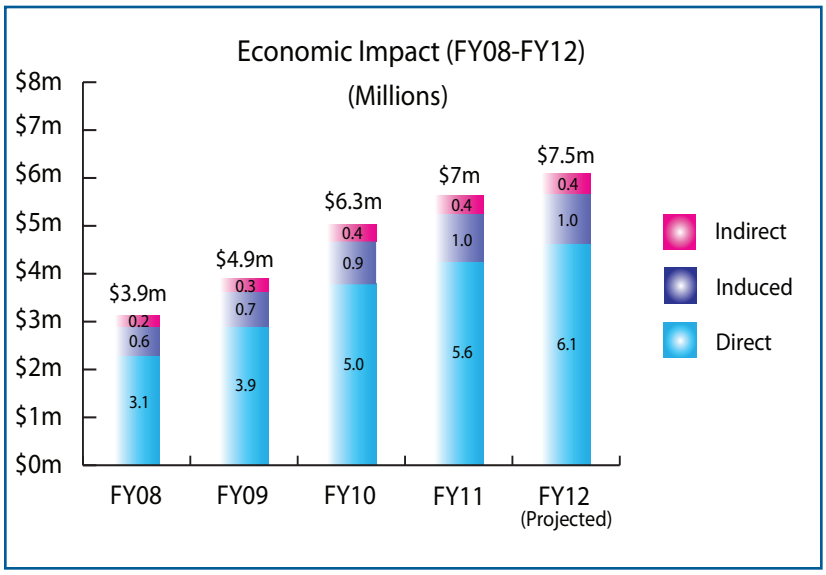
Strategic capital planning is essential. Health center leadership took steps to improve operational efficiencies, maintain a good financial condition, and plan long-range facility requirements given patient population needs before expansion plans were finalized. Early in the process, Healthy Feliciana carefully assessed its market and completed thorough financial projections. Payer mix projections helped the health center make decisions about how large a facility was affordable. Ultimately, the project helped generate considerable patient service revenue, helping the health center expand its medical, dental, behavorial health and bereavement services aned move several previously "referred" services in-house, including optometry and cardiology.

The Community-Wide Impact of a Capital Project (cont.)

Exploring a variety of funding/financing strategies pays off. Healthy Feliciana's willingness to explore new and creative financing approaches resulted in a $4.8 million facility financed with only $1.4 million in hard debt. Not only was the health center's overall debt reduced, but it was able to complete financing with an effective interest rate of 3.5%--far lower than the 6.25% market rate financing available at the time. The perseverance of the staff and Board resulted in a facility that was affordable and allowed for future growth. State New Markets Tax Credits (NMTC) generated by the project also helped fund the construction of a new administrative/wellness center at the main clinic location which also benefits the community.

The project benefitted from community and state-wide involvement, and positively impacted the community after its completion. Healthy Feliciana's new facility has attracted local and state support and raised its profile, allowing the health center to build new connections in the community and draw attention to its mission. The project also benefitted from its participation in the Louisiana Facility Expansion Initiative, a statewide capital development program that provided both the impetus to continue aggressively planning the project as well as direct funding.

In return, Healthy Feliciana's growth has generated a steady increase in the number of jobs in the communities it serves, not only temporary construction-related jobs, but full time employment in well-compensated medical sector jobs. This job growth occurred despite an overall downturn in the economy. In addition to considerable economic impact, the project has also allowed the health center to expand access to care to the underserved while attracting more patients with insurance. This diversification not only improves the health center's financial standing overall, but allows it to provide preventive care such as vaccinations and screenings to a broader range of the community.



Economic Impact

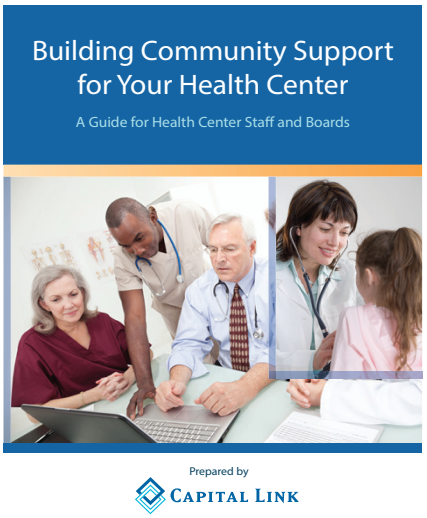
This chart shows Healthy Feliciana's growing economic impact on the communities it serves.

Job Growth

In 2008, prior to the project start, Healthy Feliciana employed 42 FTE (Full Time Equivalent) employees. In 2012, Healthy Feliciana planned to employ 98 FTEs.

Operational flexibility is critical to sustainability, especially the first year. Despite thorough projections, the operational and financial performance of any new facility cannot be truly known until after opening day. Health centers should expect to have an unprofitable first year when a new facility opens as providers ramp up and adjust to the new building configuration.

New Resources



Now Available: Building Community Support for Your Health Center

In celebration of National Health Center Week, Capital Link developed this new resource to aid health centers and PCAs in their efforts to empower healthy communities. The publication offers insights about how to develop strong relationships with community leaders and stakeholders, essential for achieving your health center's mission and important to understand before embarking on expansion plans.

Health centers and PCAs can access this free resource at: http://www.caplink.org/resources/publications.

Fall Webinar Series

This fall, Capital Link continues our series of webinars designed to offer useful information for health centers in the midst of capital development. The webinars have no charge, but participation is limited to the first 100 registrants. Register today! Contact Joe McKelvey at jmckelvey@caplink.org or 202-331-4602 with any questions. Access our registration form via the link below: http://surveys.verticalresponse.com/a/show/614760/47af83d8fc/0

For complete descriptions of the webinars, visit our website at www.caplink.org/resources/webinars.

Strategic Capital Planning Series

Wednesdays, September 19th, October 3rd and October 10th, 2-3 PM EDT
Presented by Terry Glasscock, Senior Project Consultant, Capital Link

Strategic management is essential if health centers are to survive and thrive in the turbulent years ahead. Offered in three segments, this webinar will teach health center leaders to anticipate possible changes; assess their implications; and develop an action plan to minimize the negative impacts and maximize the potential opportunities.

Rural Initiatives: Innovative Ways to Expand and Grow Rural Health Facilities

Tuesday, October 16th, 2-3 PM EDT
Presented by Joe McKelvey, Project Consultant, Capital Link

Community Health Centers located in rural areas face unique challenges when planning an expansion or new clinic construction. This webinar will explore solutions to these challenges including unique opportunities for funding and low-cost financing, including the latest developments with USDA financing.

Engaging Your Patients in the Capital Development Process
Wednesday, October 24th, 2-3 PM EDT
Presented by Cindy Barr, Operations and Facilities Planner, Capital Link

This session will explore ways to incorporate patient input to improve your facility design and ensure your health center invokes Patient-Centered Medical Home principles early in the design and planning process.

Upcoming Conferences

Capital Link regularly presents information related to capital development to health centers and primary care associations at industry conferences. Below are a few of our upcoming events. Visit our website at http://www.caplink.org/newsevents/events for more information.

Date/Time	Place	Details
Monday, August 13, 10:30 a.m.	2012 Michigan Primary Care Association Annual Conference, Crystal Mountain Resort & Spa, Thompsonville, MI	*"Preparing for Growth: Planning and Financing for Expansion"* Presented by Rebecca Polan, Project Consultant
Monday, September 10, 8-9:30 a.m.	NACHC 2012 CHI & EXPO, Peabody Orlando, Orlando, FL Also visit us in the Exhibit Hall	*"Cheap is Almost as Good as Free: Using Market Conditions to Assemble Low-Cost Financing for Your Capital Project"* Presented by Terry Glasscock, Senior Project Consultant, Capital Link
Tuesday, September 11, 1-2:30 p.m.	NACHC 2012 CHI & EXPO, Peabody Orlando, Orlando, FL Also visit us in the Exhibit Hall	*"CHC Capital Campaigns: Tools You Can Use"* Presented by Rebecca Polan, Project Consultant, Capital Link and Ray German, Principal, BMG Associates
Tuesday, October 16, 4-5:30 p.m.	2012 Opportunity Finance Network Conference, San Antonio, TX	*""Financing Options to Meet Health Center Needs""* Presented by Allison Coleman, CEO, Capital Link

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CAPITAL LINK'S LOCATIONS

Main Office

40 Court Street
10th Floor
Boston, MA 02108

Satellite Offices

California

District of Columbia

Maryland

Missouri

Washington

West Virginia

Visit our website for more information:

www.caplink.org

About Capital Link:

Since 1998, Capital Link has provided planning and capital solutions for hundreds of health center building projects. A non-profit organization, we assist health centers and primary care associations in accessing capital for building and equipment projects, and we provide extensive technical assistance throughout the entire capital development process.

For more information, visit **www.caplink.org**