The Impact of a Capital Project:

Primary Care Providers for a Healthy Feliciana

Introduction

Community health centers now serve over 20 million patients nationally per year, but are expected as a result of the Affordable Care Act (ACA), or health reform, to grow to serve 40 million over the next five years. This aggressive goal means that many health centers[i] may need to rebuild or renovate their facilities in the near future, as well as expand the breadth of services they offer to meet the growing needs of their market. In fact, 76% of health centers indicate they have plans to expand, according to an assessment conducted by Capital Link in 2011[ii].

Many health centers are daunted by the capital development process, especially if they have never planned, financed and built a new or expanded facility. This case study was developed to illustrate the challenges health centers face in developing facilities, and potential solutions to those challenges by examining the experience of one health center, Primary Care Providers for a Healthy Feliciana (Healthy Feliciana) in Louisiana. The study also demonstrates the impact that a health center capital project can have on the broader community. The analysis that follows provides insight into the components of a successful capital project, focusing on four areas: (1) strategic capital planning prior to initiating a project; (2) creativity in funding/financing projects to minimize the cost; (3) community engagement and benefits, and (4) flexibility in responding to changing conditions after facility completion. The case study describes the key lessons from Healthy Feliciana's capital project, from the planning stages to the impact of the expanded facility on its community, financial stability and operations.

An exterior view of Healthy Feliciana's new facility.

[i]In this document, unless otherwise noted, the term "health center" is used to refer to organizations that receive grants under the Health Center Program as authorized under section 330 of the Public Health Service Act, as amended (referred to as "grantees") and FQHC Look-Alike organizations, which meet all the Health Center Program requirements but do not receive Health Center Program grants. It does not refer to FQHCs that are sponsored by tribal or Urban Indian Health Organizations, except for those that receive Health Center Program grants.

[ii]Capital Plans and Needs of Health Centers: A National Perspective, Capital Link, 2012

Primary Care Providers for a Healthy Feliciana (Healthy Feliciana) is a Federally Qualified Health Center (FQHC) located in Clinton, Louisiana, that serves the residents of Louisiana's East Feliciana Parish, West Baton Rouge Parish and Livingston Parish. The service area also includes East Baton Rouge Parish, St. Helena Parish as well as Wilkinson and Amite counties in Mississippi. 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, Healthy Feliciana resolved to undertake an expansion of its main service delivery site in 2008.

Although planning prior to the capital project indicated that the community need for increased access to primary care and ancillary services was considerable, Healthy Feliciana did not have the debt capacity to finance the project up front. Determined to complete the project, health center leadership methodically pursued all available funding and financing options. With persistence and careful planning, Healthy Feliciana was able to fully fund the project in June 2009 and the new facility opened its doors in April 2010.

As a result of this effort, Healthy Feliciana has significantly improved access to quality care while at the same time generating considerable economic growth in an otherwise challenging economic 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 enabling the center to expand services. With a combination of careful planning and attentive leadership, Healthy Feliciana has been able to consistently grow to meet the needs of its community. Although growth is never without challenges, several lessons can be drawn from Healthy Feliciana's experience.

Key Lessons

Strategic capital planning is essential. This capital project benefitted from strategic capital planning; 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 critical decisions about how large a facility was affordable. Ultimately, the project helped generate considerable patient service revenue, which helped the health center expand its medical, dental, behavorial health and bereavement services. It also allowed the health center to move several previously "referred" services in-house, including optometry and cardiology. These planning processes also allowed the health center to consider how new programs and staffing needs would affect financial performance, which were incorporated into financial feasibility analyses.

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. This increased visibility allowed 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.

Operational flexibility is critical to sustainability, especially during 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. Healthy Feliciana has done a remarkable job maintaining its financial performance in the new location. Through strategic capital planning, responsiveness to patient demand by adding providers, and ongoing monitoring, Healthy Feliciana has brought the new facility online while ensuring strong and stable operations.

Strategic Capital Planning

> ***By The Numbers:***
>
> - 44% of East Feliciana residents live below 200% of the Federal Poverty Level and
> - 17% of residents live below 100% of the Federal Poverty Level.
> - 40% of local residents are enrolled in Medicaid.
> - Nearly 27% of local residents are uninsured.

Before the capital project was planned, Healthy Feliciana endeavored to fully understand the market and unmet medical needs of its service area. The health center contracted with a CPA firm to perform initial financial projections. When these initial projections did not appear to line up with the health center's own knowledge of the community, Health Feliciana began a much more thorough market analysis that evaluated not only their existing patient base and financial performance, but also the area's unmet need and the number of patients that might be served in a new facility. Using that highly detailed market assessment, Healthy Feliciana was able to bolster the assumptions behind its financial projections, building consensus both internally and externally that the projections were realistic for the new facility. This information was crucial for forming operations, program and facility plans that were well-thought out and reasonable in size and scope. The health center also worked closely with architects and facilities experts during design development to ensure that the facility supported the intended model of care delivery.

The health center's service area is economically distressed. 44% of East Feliciana residents live below 200% of the Federal Poverty Level (FPL) and 17% of residents live below 100% of the FPL. 40% of local residents are enrolled in Medicaid. Nearly 27% of local residents are uninsured. Along with these economic challenges, the area faced a shortage of health providers for both primary and specialty care. Prior to the construction of the new facility, there were only two other medical offices and one private outpatient mental health provider within East Feliciana Parish, with one medical physician expected to soon move out of the area. Similarly there were just two other dental offices within the service area and neither accepted new Medicaid patients. One dentist was in the process of reducing his practice in preparation for retirement.

Because of this provider shortage, by 2008, Healthy Feliciana's existing sites were operating at capacity, providing more than 22,000 visits to 6,500 patients. Attempts were made to expand operating hours and add providers wherever possible, but these responses led to increasingly inefficient operations in the existing Clinton, LA facility.

Beyond the goal of adding space to expand medical capacity, Healthy Feliciana staff also identified the need for specialty care services. The health center could not meet the demand for dental care, or respond to the community's unmet mental health needs. In addition, health center staff noticed that referrals for services not offered on site were not always followed up, most likely because of the challenge of getting to Baton Rouge, which is over 40 miles away and cannot be accessed via public transportation.

Structuring the Capital Project

Having assessed its market, the health center began working on a detailed program and facilities plan that would allow it to match the new building configuration with the exact programs and services the community lacked. Ultimately, the completion of a detailed market assessment, financial projections, and facilities plan enabled Healthy Feliciana to "right size" their new facility so that it was big enough to meet its expansion goals and also remain affordable in the long term.

To address the overwhelming patient demand for additional primary care and the need for auxiliary services, Healthy Feliciana crafted plans for a new state-of-the-art 20,000 square foot clinic behind their existing 3,600 square foot clinic. The new site would allow Healthy Feliciana to extensively expand medical, dental, and mental health services. In all, the facility would offer 23 medical exam rooms and 5 dental operatories; 1 telehealth and 2 procedure rooms. In addition, the existing 3,600 square foot clinic would be renovated to become the Behavioral Health Clinic, housing 6 offices for mental health providers- including psychology and psychiatry via tele-mental health and a community room for outside functions and meetings.

An interior view of Healthy Feliciana's new facility.

Funding the Project with a Variety of Sources

Although the need was clear and immediate, the new site was likely to cost nearly $5 million to construct. Unfortunately, Healthy Feliciana's projected debt capacity appeared to be insufficient to meet the need and the Board of Directors was anxious to avoid long-term debt commitments that could threaten future flexibility. Eager to keep the project moving forward, Healthy Feliciana became an active participant in state and local efforts to expand primary care capacity.

One such opportunity was Louisiana's Facility Expansion Initiative (FEI), a state-wide strategic initiative begun in 2006 by the Louisiana Primary Care Association (LPCA) and the state's health centers. The FEI was tasked to compile a list of specific capital needs that would be pivotal to the continuing expansion of primary care, dental and mental health services within the state. These projects were estimated to cost more than $100 million. Working with and through the State Legislature and Governors office, the FEI ultimately received $41.5 million in state appropriations.

To maximize their share of the FEI resources, Healthy Feliciana opted to take advantage of New Markets Tax Credits (NMTC), a federal program designed to stimulate investment in low-income communities. The NMTC transaction generated $990,000 in equity for the project in addition to the $1.9 million provided via the FEI. Although this structure increased the complexity of the project, it allowed the health center to fully finance its $4.8 million facility using only $1.4 million in hard debt.

The creative pairing of funding from the Louisiana Federal Expansion Initiative with the federal NMTC program enabled Healthy Feliciana to leverage state resources to attract additional equity to the project. If Healthy Feliciana had not utilized this unique financial structure, the funding gap for the capital project would have increased by nearly $1 million. Further, the health center would not have received the low interest rate of 3.5% if it had simply gone to a local bank, which offered a rate of 6.25% at the time of the transaction. The NMTC financing made the project affordable for the health center, enabling it to take on a much more substantial project than would otherwise have been feasible.

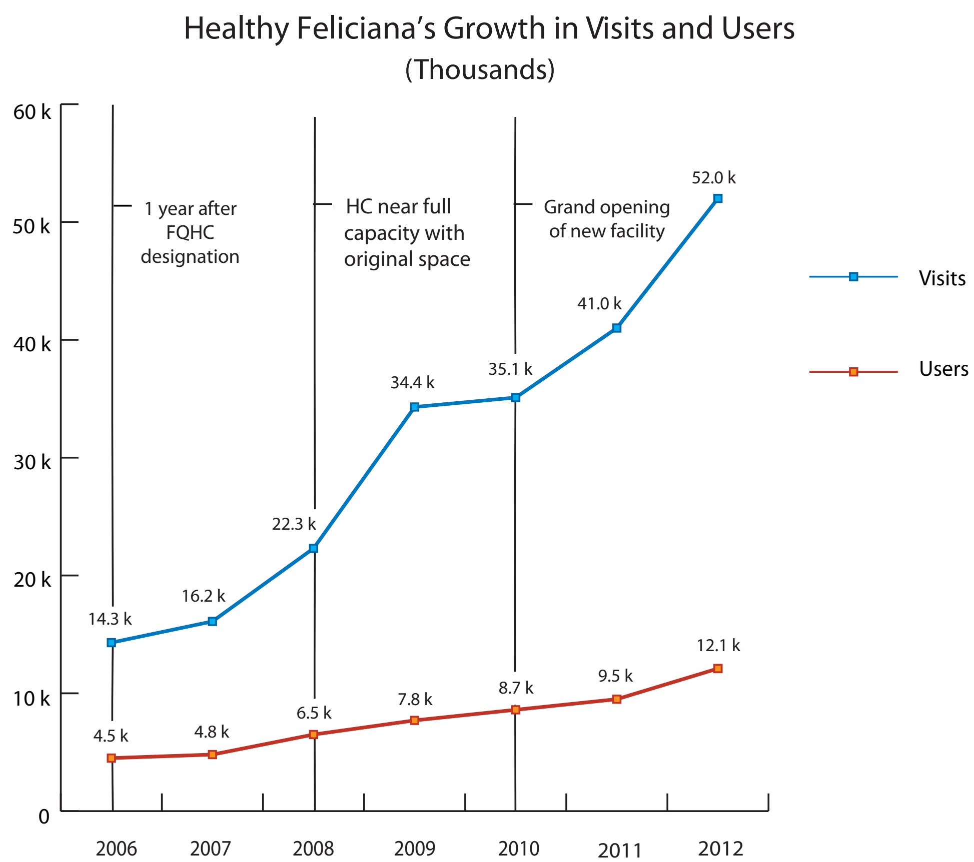
Additionally, Healthy Feliciana was one of the last LA health centers to take advantage of the remaining Louisiana State NMTC program, which generated additional equity. This program, which was not approved for funding in subsequent years, provided partial funding for the new administrative/wellness building the health center subsequently built on the site of the new clinic.

Community Benefits: Increased Access to Quality Care and Convenient Services

The new building included enough space to bring previously referred services in-house, including cardiology and optometry. The increased convenience of these previously hard to access services helped Healthy Feliciana deliver better care to its community. These program expansions and increased primary care capacity have helped Healthy Feliciana to serve more patients each year and to provide a more comprehensive level of care to all patients and increase mental health service capacity.

The new clinic also paved the way for a second phase of the project, the construction of a 6,200 square-foot Administrative/Education and Wellness Center on the same site. The facility houses all administrative functions including employee training and continuing education for employees, staff, and management, as well as providing community access for small-group educational services addressing chronic illnesses such as diabetes, hypertension and smoking cessation. Services at Healthy Feliciana also continue to expand. In 2011, Healthy Feliciana launched a significant mental health expansion within a nearby local school district, adding ten new social workers and other supporting staff. This program will add five more schools in the 2012-2013 school year.

The chart below depicts the growth Healthy Feliciana has experienced since 2006, the year after it was awarded FQHC status. That year, the clinic counted 14,346 visits for 4,513 users, using a staff of 36 full-time-equivalent (FTE) employees. By 2008, a few years after receiving FQHC status, Healthy Feliciana's patient base grew significantly by 44% to approximately 6,502 patients. In the post-construction calendar year 2010, the health center reported visits of 35,101, 63% higher than in 2008. At the same time, the number of patients in 2010 increased by 34%. Visits per user also increased, from 3.4 in 2008 to 4.3 in 2011, an indication that patients were coming to Healthy Feliciana more frequently and no longer just for medical services.

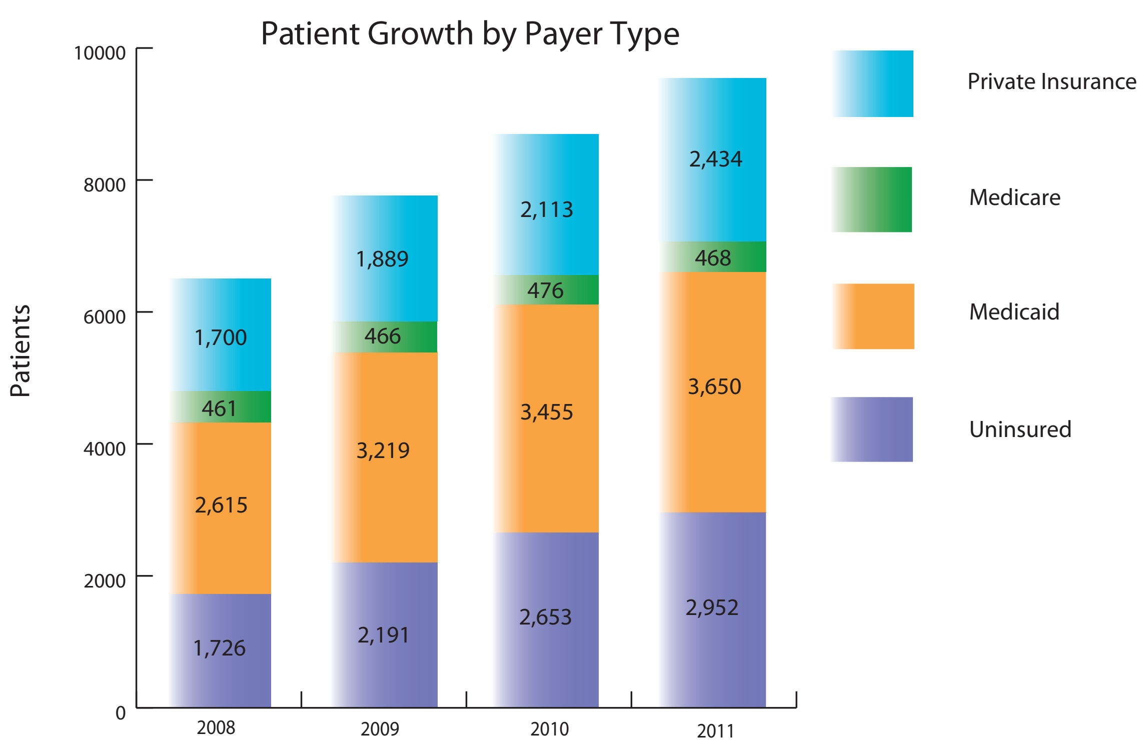


In its first full calendar year of operating the new building (2011), Healthy Feliciana continued to report growth in all the above categories, with 9% more patients and 17% more visits over 2010. Healthy Feliciana projects that the completion of the new facility will enable the organization to provide 52,000 visits to 12,093 patients by the end of 2012 using a staff of 98 FTEs. According to the latest estimates, the health center is likely to meet that goal.

It is important to break down the total number of visits to understand the extent to which Healthy Feliciana was responding to previously unmet needs for primary care and other services. Between 2008 and 2011 (the first full year following construction):

- Primary care visits increased by 90.2%
- Dental visits increased by 92.2%
- Mental health visits increased by 47.1%

Healthy Feliciana's new facility has not only increased the volume of patients receiving care, but has also enabled the health center to further reach the medically disenfranchised. Due to the facility expansion Healthy Feliciana was able to see an additional 2,981 people whose incomes were at or below 200% of the Federal Poverty Level (FPL); of these patients, 2,242 or 75% had incomes below 100% of the poverty level. As the chart below shows, the health center now serves more of the uninsured than ever before, as well as providing care to more Medicaid patients.



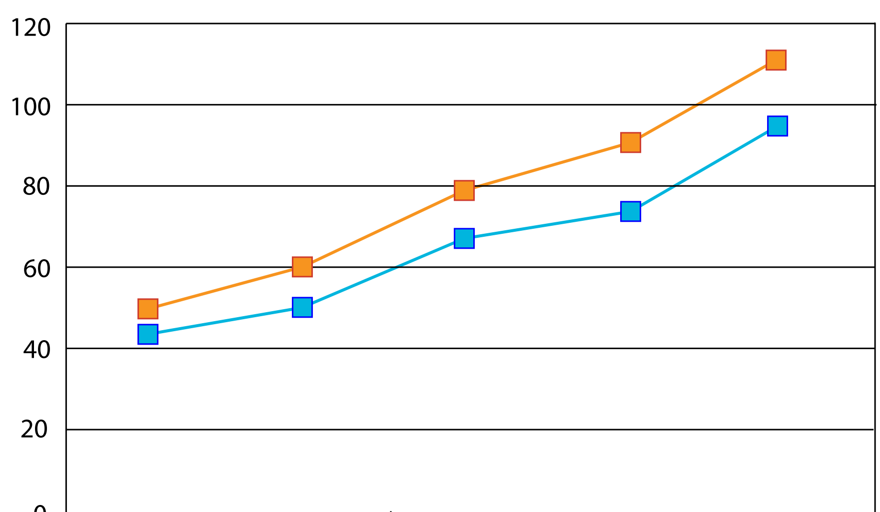
Notably, the number of privately insured patients has also increased, up by 24% from 2008 to 2010 and another 15% by the end of 2011. This remarkable growth suggests that the new Clinton facility has changed and raised Healthy Feliciana's profile in the community so that it is now seen as a medical home for the insured population as well as the uninsured.

The added visibility and broader client base attracted by a new state of the art facility has also helped the health center provide critical preventive care. Specifically, the health center has been able to significantly expand cervical cancer screenings as well as childhood vaccinations. In 2011, 84% of children treated received age-appropriate vaccines—well above the 67% national average.

Economic Impact to the Community

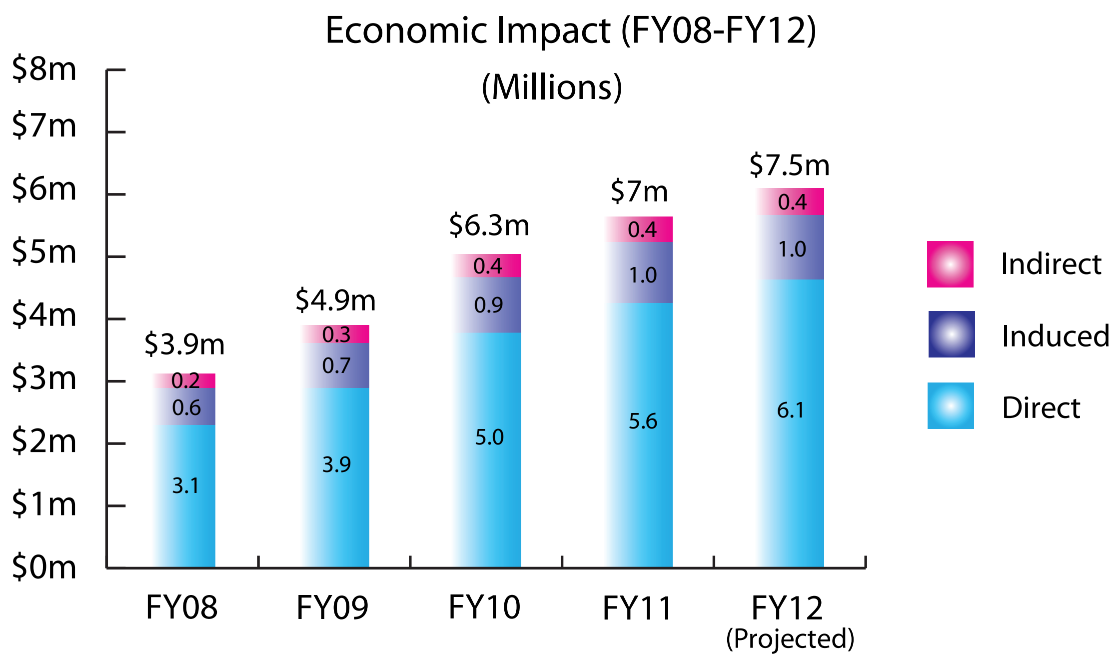
Healthy Feliciana's growth has provided significant economic benefits to its community. Starting in 1998 with a small staff operating within a tiny 800 square foot clinic, Healthy Feliciana has now become a major local employer. In 2008, prior to the start of the project, Healthy Feliciana employed a total of 42 FTE (Full Time Equivalent) employees. In 2012, Healthy Feliciana expects to employ 98 FTEs, more than doubling its staffing from the pre-construction period, despite being in the midst of a challenging recession.

Employment Growth
(FY08 - FY12)



	FY08	FY09	FY10	FY11	FY12 (Projected)
Direct Jobs	42	50	66	77	98
Total Jobs	50	60	79	90	112

The health center's business operations have positively impacted the local economy, particularly following the expansion. In 2008, the year before undertaking its capital project, Healthy Feliciana injected $3.1 million of operating expenditures into the local economy. These expenditures produced additional indirect and induced economic activity of approximately $800,000 for an overall economic impact of $3.9 million[iii]. By the end of 2012, the health center is likely to inject over $6 million of operating expenditures into the local economy. These expenditures will produce additional indirect and induced economic activity of $1.4 million *for an overall economic impact of over $7.5 million.*



In addition to the overall increase in economic activity, the construction project itself had a positive financial impact on the community. While the total project cost of Healthy Feliciana's capital project was $4.8 million, the total overall economic impact of the project on the community was $6 million. The building process generated 49 construction-related jobs. During the planning, construction and fitting-out phases, the center contracted with other businesses to provide technical assistance in areas such as feasibility studies, financial planning, government approvals, architectural design and engineering assessments.

[iii]This analysis applies the "multiplier effect", using an integrated economic modeling and planning tool called IMPLAN (IMpact analysis for PLANning), to capture the direct, indirect, and induced economic effects of an organization's business operations. IMPLAN was developed by the US Department of Agriculture and the Minnesota IMPLAN Group (MIG) and employs multipliers, specific to each county and each industrial sector, to determine total output, employment, and earnings. IMPLAN's output, earnings, and employment figures are aggregated based on:

- **Direct effects:** represents the response for a given industry (in this case Total Operating Expenditures of health centers).
- **Indirect effects:** represents the response by all local industries caused by "the iteration of industries purchasing."
- **Induced effects:** represents the response by all local industries to the expenditures of new household income generated by the direct and indirect effects.

As previously mentioned, Healthy Feliciana's expansion is also part of a larger investment in Louisiana Health Centers, the Facility Expansion Initiative. To date, estimates indicate that in addition to the $41.5 million original appropriation from the state of Louisiana, health centers raised approximately $70 million for FEI related activities. In total, the $111.5 million FEI initiative produced an economic impact of $182 million and, in addition to hundreds of health care positions, almost 1,500 non-healthcare related jobs were generated in the state.

Operational and Financial Performance Following Project Completion

While each FQHC is unique in its operations and the population it serves, several observations regarding Healthy Feliciana's expansion can help provide health centers with realistic expections related to their own capital projects, as discussed below.

First, while health centers should expect dramatic growth in patient visits and revenues as a result of a well-planned expansion project, this growth will most likely happen over a longer period than they might expect. The table below demonstrates the growth in Net Patient Service Revenue (NPSR) for the period between 2008 and 2011, with projections for 2012 based on 6-month year-to-date financial statements. Not surprisingly, the growth in users and visits has been matched by the growth in NPSR. Even though NPSR growth ultimately nearly doubled (increasing by 96%), it happened over a **four-year** period from pre-construction (2008) to post-construction (2011).

	2008	2009	2010	2011	2012 (projected)
Net Patient Service Revenue (NPSR)	$1,545,688	$2,034,521	$2,293,996	$3,037,854	$3,809,427
NPSR Growth Rate		*32%*	*13%*	*32%*	*25%*
NPSR as % of Total Operating Revenue	46%	46%	47%	56%	61%

These growth rates are a result of Healthy Feliciana's plans to slowly adjust its operations in phases. Healthy Feliciana prepared for the additional patients by adding staff as it was feasible and sustainable. Rather than projecting a dramatic increase in the first year, the health center ramped up its staffing starting in 2009 and further increased it in 2010, the year the building opened. Healthy Feliciana also did not project its maximum growth in the first full year of operating the facility (2011), but rather staged the growth to occur through 2012 and 2013 as well. This is wise especially in the rural market in which Healthy Feliciana operates, where provider recruitment can be especially challenging. The health center planned and executed a smooth trajectory for growth in staffing that helped preserve its strong financial position, as demonstrated by the strong balance sheet indicators discussed later in this section. It should also be noted in the previous table that Net Patient Service Revenue has also increased as a percent of total operating revenue, thereby leaving Healthy Feliciana less reliant on grant revenue.

Healthy Feliciana's operating results for the first full year post-construction are listed in the table below. In the first year of operations Healthy Feliciana reported a positive bottom line of 1%, but a negative operating margin of 3.9%. Staffing expenses as a percentage of total revenues were within what Capital Link considers a buffer zone of 70 to 75% (beyond which health centers typically report operating losses), but this ratio in 2011 was higher than Healthy Feliciana's historic rate of personnel expenses which had been closer to 68% revenues.

Income Statement Indicators:	**First Full Fiscal Year Post-Construct ion (FY2011)**	**Capital Link Suggested Benchmark**
Bottom Line Margin	1%	*3% or higher*
Operating Margin	-4%	*1 to 3%*
Employment Expense as % of Total Operating Revenue	72%	*Buffer zone: 70% to 75% - beyond this losses are typically reported.*

While the operating margin was negative in the first year, a temporary set-back to profitability should be expected as a result of a capital project. This setback is the result of several factors, but primarily due to the time lag associated with an upfront investment of staffing expenses, supplies, and in many cases electronic medical records systems.

Some of the effects health centers should expect to experience in year one after completing a capital project (and prepare for in their planning for operating reserves) are listed below.

1. **Temporary decrease in productivity due to:**
   a) Existing providers adjusting to the new facility.
   b) New providers ramping up their practices while also adjusting to the new facility.
   These cause staffing expenses to increase more quickly than revenues as fewer visits are completed by the same physician. For example in 2010, Healthy Feliciana's visits per medical provider (visits per physician and mid-level) dropped by 12% from 2009.

   c) Introduction of an electronic medical records system, which is often completed simultaneously with a large capital project, which may decrease productivity while staff adjust to the changes the implementation creates in operations.

2. **Increase in new operating expenses:**
   a) Depreciation on a large capital project, while a non-cash expense, will pull from the bottom line. For example, Healthy Feliciana had additional depreciation of approximately $230,000 in its first full year of operations, or 4% of its total operating revenues in fiscal year 2011.
   b) Interest expense on new debt will also be added to expenses, if the capital project is financed.

Despite the challenges above, Healthy Feliciana's operations in the current fiscal year are beginning to stabilize, with a 2.3% operating margin reported for the year to date.

Although Healthy Feliciana did experience a temporary setback in its operations in the first full year post-construction, the health center was able to maintain a strong balance sheet. The table below presents Healthy Feliciana's balance sheet ratios for fiscal year 2011, as well as the range Capital Link suggests.

Balance Sheet Indicators:	Definition	First Full Year Post-Construction (FY 2011)	Capital Link Suggested Benchmark
Days Cash on Hand	Measures how long a health center can operate with no new inflows.	47	*30 to 45 days*
Days in Patient Accounts Receivable	Measures how long it takes to turn revenue received into cash.	45	*Less than 60 to 75 days*
Days in Accounts Payable	Measures how long it takes to pay bills.	44	*No greater than 60 days*
Current Ratio	Measures how many times the health center can pay its current obligations with current assets.	2.3	*No less than 1.25 days*
Leverage	Assesses proportion of net assets financed externally.	2.2	*1 to 3 times*

In line with historical performance, Healthy Feliciana performed well relative to all balance sheet benchmarks in FY11. In the case of the days cash on hand ratio, the results were greater than the recommended range. The current ratio is greater than 2.0, indicating sufficient resources to pay all short-term liabilities two times over. Accounts receivable and accounts payable have also remained within the normal ranges they were prior to the project. The most notable change to the health center's balance sheet is the increase in leverage (the ratio of liabilities to net assets), which is a result of the debt financing. This ratio has increased from 0.6 to 2.2, which is still within Capital Link's suggested range.

Conclusion

Confronted by a community with tremendous unmet need, Healthy Feliciana has grown from a small start-up to a major provider of primary care and other services. The construction of a new main site has helped it dramatically expand access to care across the region. Although there have been challenges throughout this process, Healthy Feliciana has been able to keep growing because of its strong leadership and sound financial management. Specifically, its experience constructing a new main site consistently demonstrates the need for early and ongoing strategic capital planning to ensure a "right-sized" project that meets patient demand and also maintains the health center's financial performance. By steadfastly keeping to these principles, Healthy Feliciana has built an affordable facility that meets today's challenges and offers opportunities for future growth.

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About Capital Link

Capital Link, established in 1998, is a non-profit organization dedicated to assisting community health centers in accessing capital for building and equipment projects. From market feasibility and program, staff and facility plans to comprehensive financing assistance, Capital Link provides extensive technical assistance to health centers to strengthen their abilities to plan and carry out successful capital projects. Additionally, Capital Link works in partnership with primary care associations, the National Association of Community Health Centers and other entities interested in improving access to capital for health centers. For more information, visit www.caplink.org.