



# Financing Your Capital Project

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*With a Lender's Perspective*



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**If you will need a new or expanded  
facility in the next 15 years....**

**Start planning now!**





**WHY?**

# Window of Opportunity

- Lowest interest rates in history
- Level building costs
- Government Financing Programs Tax Exempt Bonds, NMTC and USDA



# *Interest Rates*



# Interest Rates

## Rates Today

- Fed Funds – .75%
- AAA TE Bond
  - 10 year 2.25%
- Prime – 3.75%

## “Normal”

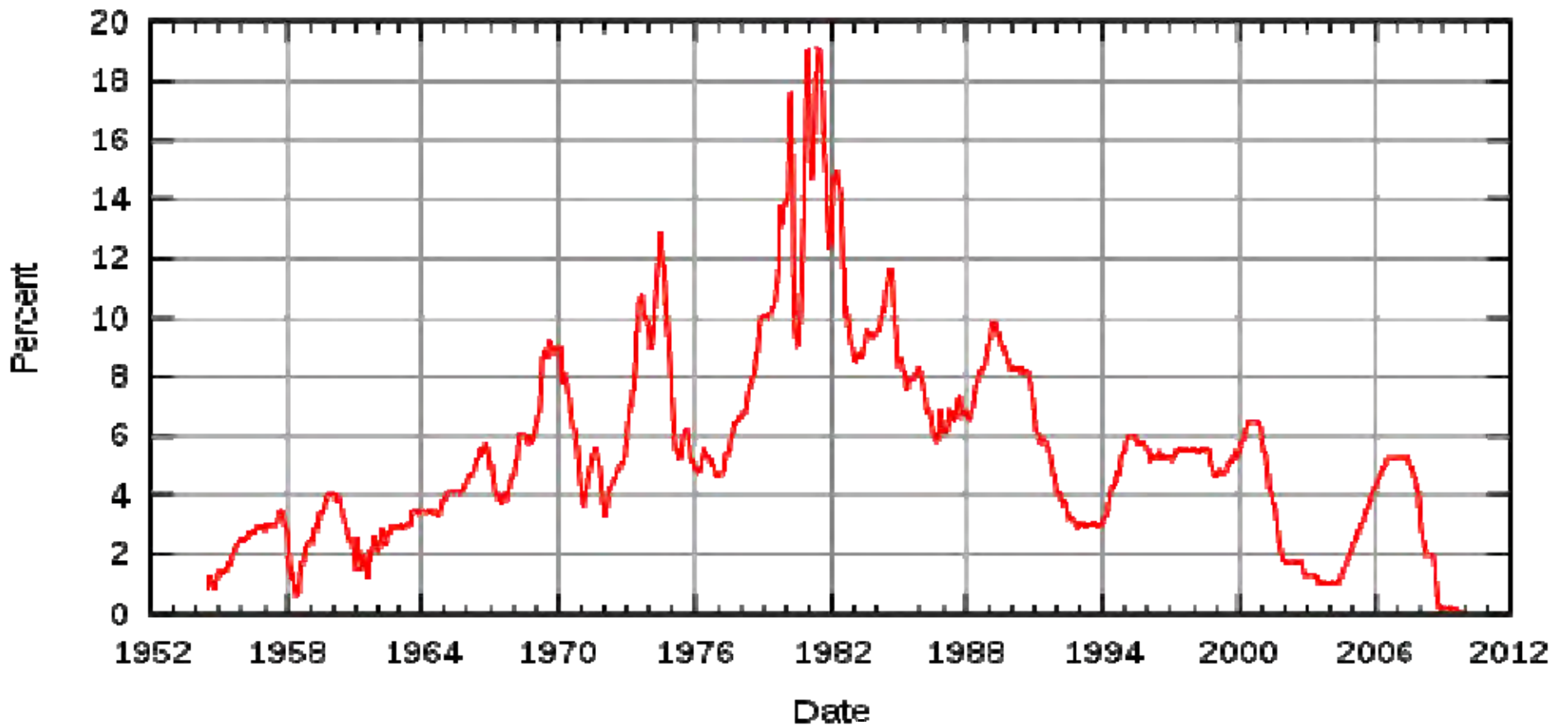
- Fed Funds – 4.00%
- TE Bond
  - 10 year 5.5%
- Prime – 6.0%

## Inflation

January 2017 2.50%  
January 2016 1.37%  
January 2015 -.09%

# Interest Rates

Federal Funds Rate (effective)  
July 1954 to December 2009





# ***Building Costs***





# Building Costs

- Inflation rate – has been below 2%
- Construction bids – at budget
- Prior to 2008 building bids were 10% to 15% above budget

# Helpful Government Programs

- The use of NMTC – authorization expires December 31, 2019. Two more chances?
- Tax exempt bonds – Always talk of limiting these...new tax law may play with this.
- USDA financing – Year to year

# So, How Long Will Things Stay This Way?



How long is a piece of string?



## *Strategic Influences on Policy*

*We don't face a healthcare  
problem so much  
as a economic problem*

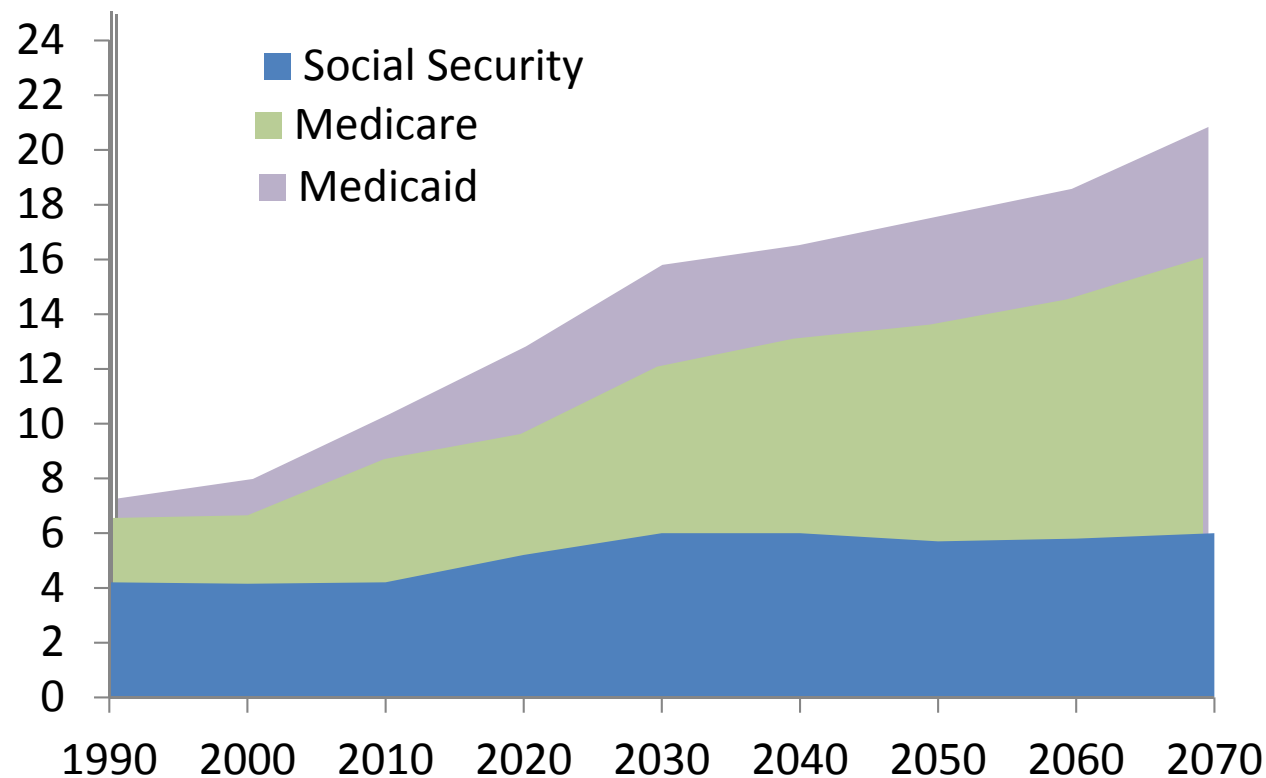
# Healthcare Costs

- 1900 – 3% GDP (Gross Domestic Product).
- 1964 – 6% GDP.
- 1994 – 15% GDP.
- 2016 – 17.5%
- 2020 – 25% GDP.
- Per person expenditure for healthcare:
  - 1965 - \$205
  - 2000 - \$4637
  - 2010 - \$8233
  - 2016 - \$10,345

Source: Office of Economic and Cooperative Development

# Social Security, Medicare & Medicaid

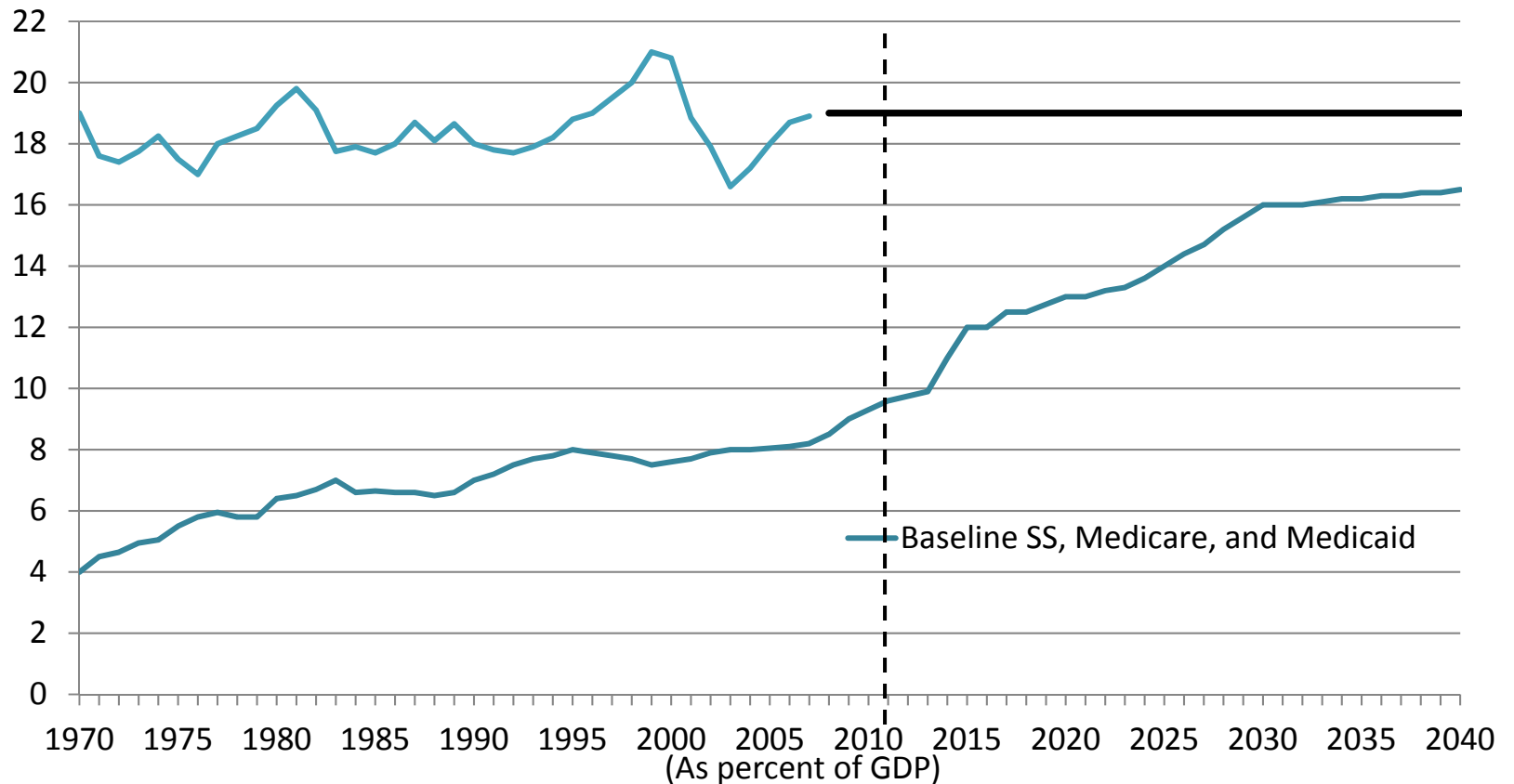
## Outlays as a Percentage of GDP 1990-2075



Source: C. Eugene Steurle and Adam Carasso, (*Budget Crisis at the Door*), The Urban Institute, 2003. Based on data from the Congressional Budget Office, "A 125Year Picture of the Federal Government's Share of the Economy, 1950-2075," July 3, 2002, table 2.

# Influences

## Federal Receipts vs. Entitlement Spending



Source: C. Eugene Steuerle and Adam Carasso, (*Budget Crisis at the Door*), The Urban Institute, 2003 Based on data from *Budget of the U.S. Government, FY 2004* and CBO's "Analysis of the President's Budget, FY 2004."

*Entitlement programs cannot  
be sustained at current levels!*

*SS, Medicaid, and Medicare  
will be altered!*

*Starting now!*



*If you want to finance a capital  
project for 2019  
you must start now!*

# Where do you start?

- Business Plan
- Financial Forecasting
- Funding Considerations
- Financing Options

*Business Plan and  
Financial Forecast are  
Critical!*

# Components of a Business Plan

- CHC description and background
- Market analysis and growth potential
- Organizational experience and structure
- Project details
- Financial history and forecast

# Business Plan: Financial Section

- Financial Feasibility
  - Historical performance (three years audited)
  - 5-7 year forecast
  - Project budget
  - Sources and uses
  - Financing structure

# Balance Sheet

**STATEMENT OF FINANCIAL POSITION  
HISTORICAL AND PROJECTED**
*Months in which fiscal year ends:*

FISCAL YEAR	Audited Results				15.00%		25.00%		10.00%		800.00%		6/30/2018
	2011-06-30	2012-06-30	2013-06-30	%Δ	6/30/2014	%Δ	6/30/2015	%Δ	6/30/2016	%Δ	6/30/2017	800.00%	
<b>ASSETS</b>													
Cash & Investments	240,794	251,548	286,927		1,722,597		3,600,619		5,729,949		8,194,297		10,404,746
Restricted Cash and Investments	0	0	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0
Accounts Receivable	785,048	1,055,330	998,041		1,587,788		1,764,885		2,117,411		2,335,478		2,484,575
Grants Receivable	84,797	866,103	291,629		262,183		267,427		272,775		278,231		283,795
Inventory	111,487	93,892	181,847	0.0%	8,542	0.0%	9,381	0.0%	11,031	0.0%	12,061	0.0%	12,771
Other Current Assets	188,446	82,118	144,439	0.0%	144,439	0.0%	144,439	0.0%	144,439	0.0%	144,439	0.0%	144,439
<b>Total Current Assets</b>	<b>1,410,572</b>	<b>2,348,991</b>	<b>1,902,883</b>		<b>3,725,549</b>		<b>5,786,751</b>		<b>8,275,605</b>		<b>10,964,506</b>		<b>13,330,327</b>
Land, Building & Improvements	2,588,427	2,572,169	6,361,436		6,361,436		6,361,436		27,939,936		27,939,936		27,939,936
	210,898	2,541,410	0										
Furniture, Equipment & Leasehold	1,308,453	1,589,598	2,258,844		2,258,844		2,258,844		3,290,844		3,290,844		3,290,844
Gross Fixed Assets	4,107,778	6,703,177	8,620,280		8,620,280		8,620,280		31,230,780		31,230,780		31,230,780
Accumulated Depreciation	1,785,843	2,143,187	2,570,833		3,032,479		3,494,125		4,656,494		5,818,864		6,981,233
<b>Net Fixed Assets</b>	<b>2,321,935</b>	<b>4,559,990</b>	<b>6,049,447</b>		<b>5,587,801</b>		<b>5,126,155</b>		<b>26,574,286</b>		<b>25,411,916</b>		<b>24,249,547</b>
Other LT Assets	174,551	219,042	214,034	0.0%	214,034	0.0%	214,034	0.0%	214,034	0.0%	214,034	0.0%	214,034
<b>Total Other Assets</b>	<b>174,551</b>	<b>219,042</b>	<b>214,034</b>		<b>214,034</b>		<b>214,034</b>		<b>214,034</b>		<b>214,034</b>		<b>214,034</b>
<b>TOTAL ASSETS</b>	<b>\$3,907,058</b>	<b>\$7,128,023</b>	<b>\$8,166,364</b>		<b>\$9,527,384</b>		<b>\$11,126,940</b>		<b>\$35,063,924</b>		<b>\$36,590,456</b>		<b>\$37,793,908</b>
<b>LIABILITIES AND NET ASSETS</b>													
Accounts Payable	907,188	1,292,918	1,109,667		1,874,214		2,019,874		2,623,185		2,771,844		2,894,586
Accrued Expenses	471,570	560,496	625,761		650,054		754,369		810,751		891,933		959,727
Current Maturities of Long-Term Debt	37,321	131,914	154,458		0		0		0		278,614		266,715
Current Maturities of Capital Leases	0	0	0		0		0		0		0		0
Other Current Liabilities	550,000	0	500,000	0.0%	500,000	0.0%	500,000	0.0%	500,000	0.0%	500,000	0.0%	500,000
<b>Total Current Liabilities</b>	<b>1,966,079</b>	<b>1,985,328</b>	<b>2,389,886</b>		<b>3,024,268</b>		<b>3,274,243</b>		<b>3,933,936</b>		<b>4,442,391</b>		<b>4,621,028</b>
Long-Term Debt	900,572	1,924,346	2,052,125		2,052,125		2,052,125		2,052,125		1,773,511		1,506,796
New Long Term Debt (USDA)	0	0	0		0		0		22,000,000		21,721,386		21,454,671
Other Long-Term Liabilities	0	0	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0
<b>Total Long-Term Liabilities</b>	<b>900,572</b>	<b>1,924,346</b>	<b>2,052,125</b>		<b>2,052,125</b>		<b>2,052,125</b>		<b>24,052,125</b>		<b>23,494,897</b>		<b>22,961,466</b>
<b>Total Liabilities</b>	<b>2,866,651</b>	<b>3,909,674</b>	<b>4,442,011</b>		<b>5,076,393</b>		<b>5,326,368</b>		<b>27,986,061</b>		<b>27,937,288</b>		<b>27,582,495</b>
Total Net Assets	1,040,407	3,218,349	3,724,353		4,450,991		5,800,572		7,077,863		8,653,168		10,211,413
<b>TOTAL LIAB. AND NET ASSETS</b>	<b>\$3,907,058</b>	<b>\$7,128,023</b>	<b>\$8,166,364</b>		<b>\$9,527,384</b>		<b>\$11,126,940</b>		<b>\$35,063,924</b>		<b>\$36,590,456</b>		<b>\$37,793,908</b>



# Income

## STATEMENT OF ACTIVITIES HISTORICAL AND PROJECTED

FISCAL YEAR	Audited Results					25.00%			Projected Results				
	2011-06-30	2012-06-30	2013-06-30	%	%Δ	6/30/2014	%	%Δ	6/30/2015	%	%Δ	6/30/2016	%
Net Patient Service Revenue	5,840,358	8,836,651	10,134,893	81.1%		13,295,111	86.0%		14,778,008	87.0%		17,729,828	88.8%
Total Operating Grants & Contracts	1,824,818	1,950,270	1,757,503	14.1%	2.0%	1,792,653	11.6%	2.0%	1,828,506	10.8%	2.0%	1,865,076	9.3%
Contributions / Fundraising Income	153,096	256,945	224,631	1.8%	2.0%	229,124	1.5%	0.0%	229,124	1.3%	0.0%	229,124	1.1%
Donated Goods & Services	277,266	0	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%
Net Assets Released from Restrictions	0	125,525	236,484	1.9%	0.0%	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%
Other Operating Revenue	69,193	374,345	145,563	1.2%	0.0%	145,563	0.9%	0.0%	145,563	0.9%	0.0%	145,563	0.7%
<b>TOTAL OPERATING REVENUE</b>	<b>8,164,731</b>	<b>11,543,736</b>	<b>12,499,074</b>	<b>100.0%</b>		<b>15,462,451</b>	<b>100.0%</b>		<b>16,981,201</b>	<b>100.0%</b>		<b>19,969,591</b>	<b>100.0%</b>
Salaries & Related Expense	5,410,039	6,715,217	7,534,826	60.3%		7,772,172	50.3%		9,019,381	53.1%		9,693,499	48.5%
Fringes & Payroll Taxes	1,223,464	1,479,018	1,677,094	13.4%		1,731,367	11.2%		2,009,201	11.8%		2,159,371	10.8%
Professional / Contracted / Consultant Fees	662,649	486,538	613,193	4.9%	3.0%	631,589	4.1%	0.0%	631,589	3.7%	0.0%	631,589	3.2%
Admin and Supplies	881,855	1,606,261	2,485,647	19.9%		3,074,963	19.9%		3,376,992	19.9%		3,971,282	19.9%
Insurance	29,668	25,821	32,672	0.3%		40,418	0.3%		44,388	0.3%		52,200	0.3%
Bad Debt Expense	311,334	289,670	0	0.0%		402,024	2.6%		441,511	2.6%		519,209	2.6%
Rent	0	0	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%
Facility Operation & Maintenance	376,995	451,129	481,502	3.9%	5.0%	505,577	3.3%	5.0%	530,856	3.1%	5.0%	557,399	2.8%
Depreciation	229,881	373,089	461,646	3.7%	0.0%	461,646	3.0%	0.0%	461,646	2.7%	0.0%	461,646	2.3%
Depreciation on New Site	0	0	0	0.0%		0	0.0%		0	0.0%		700,723	3.5%
Interest Expense	46,657	102,526	116,056	0.9%	0.0%	116,056	0.8%	0.0%	116,056	0.7%	0.0%	116,056	0.6%
Interest Expense New Site	0	0	0	0.0%		0	0.0%		0	0.0%		829,324	4.2%
Other Operating Expense	0	0	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%
<b>TOTAL OPERATING EXPENSES</b>	<b>9,172,542</b>	<b>11,529,269</b>	<b>13,402,636</b>	<b>107.2%</b>		<b>14,735,813</b>	<b>95.3%</b>		<b>16,631,620</b>	<b>97.9%</b>		<b>19,692,299</b>	<b>98.6%</b>
<b>CHANGE IN NET ASSETS - OPERATING</b>	<b>-1,007,811</b>	<b>14,467</b>	<b>-903,562</b>	<b>-7.2%</b>		<b>726,638</b>	<b>4.7%</b>		<b>349,581</b>	<b>2.1%</b>		<b>277,292</b>	<b>1.4%</b>
Grants / Contributions for Capital	991,880	2,182,379	1,090,950	8.7%			0.0%		1,000,000	5.9%		1,000,000	5.0%
Changes in Temporarily Rest. Net Assets	-272,729	-47,063	248,985	2.0%			0.0%			0.0%			0.0%
Contributions & Donations (Non-operating)	0	0	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%
Investment & Interest Income	1,932	326	514	0.0%	0.0%	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%
Other Non-operating Income	0	27,833	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%
<b>TOTAL NON-OPERATING INCOME</b>	<b>721,083</b>	<b>2,163,475</b>	<b>1,340,449</b>	<b>10.7%</b>		<b>0</b>	<b>0.0%</b>		<b>1,000,000</b>	<b>5.9%</b>		<b>1,000,000</b>	<b>5.0%</b>
<b>CHANGE IN NET ASSETS</b>	<b>-\$286,728</b>	<b>\$2,177,942</b>	<b>\$436,887</b>	<b>3.5%</b>		<b>\$726,638</b>	<b>4.7%</b>		<b>\$1,349,581</b>	<b>7.9%</b>		<b>\$1,277,292</b>	<b>6.4%</b>
Cash available to service Debt						1,304,340			1,927,283			3,385,041	

# Cash Flow

**CASH FLOW STATEMENT  
HISTORICAL AND PROJECTED**

Month in which fiscal year ends:

0

FISCAL YEAR	Audited Results			Projected Results		
	011-06-30	2012-06-30	2013-06-30	6/30/2014	6/30/2015	6/30/2016
<b>CASH FLOW FROM OPERATIONS</b>						
Change in Net Assets		\$2,177,942	\$436,887	\$726,638	\$1,349,581	\$1,277,292
Adjustments:						
Depreciation		357,344	427,646	461,646	461,646	1,162,369
(Increase) Decrease in Restricted Cash/Inv		0	0	0	0	0
(Increase) Decrease in A/R		-270,282	57,289	-589,747	-177,097	-352,525
(Increase) Decrease in Grants Receivable		-781,306	574,474	29,446	-5,244	-5,349
(Increase) Decrease in Inventory		17,595	-87,955	173,305	-839	-1,651
(Increase) Decrease in Othr Current Assets		106,328	-62,321	0	0	0
(Increase) Decrease in Othr LT Assets		-44,491	5,008	0	0	0
Increase (Decrease) in Accounts Payable		385,730	-183,251	764,547	145,661	603,310
Increase (Decrease) in Accrued Exp		88,926	65,265	24,293	104,315	56,382
Increase (Decrease) in Othr Current Liab.		-550,000	500,000	0	0	0
<b>Cash Flow from Operations</b>		\$1,487,786	\$1,733,042	\$1,590,128	\$1,878,022	\$2,739,829
Cash Flow from Investment						
Acquisition of Land, Building & Improv		16,258	-3,789,267	0	0	-21,578,500
Construction in Progress		-2,330,512	2,541,410	0	0	0
Acquisition of Furniture & Equipment		-281,145	-669,246	0	0	-1,032,000
<b>Cash Flow from Investment</b>		-\$2,595,399	-\$1,917,103	\$0	\$0	-\$22,610,500
Cash Flow from Financing Activities						
Proceeds (Paydown) of Long-term Debt		1,118,367	150,323	-154,458	0	0
Proceeds (Paydown) of Capital Leases		0	0	0	0	22,000,000
Proceeds (Paydown) of Othr L.T. Liab.		0	0	0	0	0
<b>Cash Flow from Financing Activities</b>		\$1,118,367	\$150,323	-\$154,458	\$0	\$22,000,000
<b>Net Cash Flow</b>		\$10,754	-\$33,738	\$1,435,670	\$1,878,022	\$2,129,329
<b>Beginning Cash</b>		\$240,794	\$251,548	\$286,927	\$1,722,597	\$3,600,619
<b>Ending Cash</b>		\$251,548	\$217,810	\$1,722,597	\$3,600,619	\$5,729,949



# Patient Revenue

## PATIENT REVENUE HISTORICAL AND PROJECTED

### VISITS

	2013-06-30		6/30/2014		6/30/2015		6/30/2016		6/30/2017		6/30/2018
	Visits	%Δ	Visits	%Δ	Visits	%Δ	Visits	%Δ	Visits	%Δ	Visits
Medical Visits	57971	0%	59114	5%	62070	20%	74484	12%	83422	5%	87593
Dental Visits	2471	0%	4274	5%	4488	5%	4712	5%	4948	5%	5195
Mental Health Visits	2430	0%	2825	5%	2430	5%	4860	5%	5103	5%	5358
Radiology*	2059	0%	3589	5%	3768	5%	3957	5%	4155	5%	4362
Home Visits		0%	714	5%	750	5%	787	5%	827	5%	868
Nursing home		0%	1173	5%	1232	5%	1293	5%	1358	5%	1426
<b>Total Visits</b>			<b>71689</b>		<b>74737</b>		<b>90093</b>		<b>99812</b>		<b>104802</b>

### Reimbursement Rates

	2013-06-30		6/30/2014		6/30/2015		6/30/2016		6/30/2017		6/30/2018
	Ave Rate	%Δ	Ave Rate	%Δ	Ave Rate	%	Ave Rate	%Δ	Ave Rate	%Δ	Ave Rate
Medical		0%	\$ 126.60	2%	\$ 129.14	2%	\$ 131.72	2%	\$ 134.35	2%	\$ 137.04
Dental		0%	\$ 71.20	2%	\$ 72.62	2%	\$ 74.07	2%	\$ 75.55	2%	\$ 77.06
Mental Health		0%	\$ 99.93	2%	\$ 101.92	2%	\$ 103.96	2%	\$ 106.04	2%	\$ 108.16
Radiology*		0%	\$ 119.12	2%	\$ 121.50	2%	\$ 123.93	2%	\$ 126.41	2%	\$ 128.94
Home Visits		0%	\$ 94.82	2%	\$ 96.71	2%	\$ 98.65	2%	\$ 100.62	2%	\$ 102.63
Nursing home		0%	\$ 108.90	2%	\$ 111.08	2%	\$ 113.30	2%	\$ 115.57	2%	\$ 117.88

	2013-06-30		6/30/2014		6/30/2015		6/30/2016		6/30/2017		6/30/2018
	Rev	%Δ		%Δ		%Δ		%Δ		%Δ	
<b>Pharmacy Revenue</b>	<b>\$ 2,185,970.00</b>		<b>\$ 4,601,563</b>	<b>5%</b>	<b>\$ 5,521,876</b>	<b>20%</b>	<b>\$ 6,350,157</b>	<b>15%</b>	<b>\$ 6,667,665</b>	<b>5%</b>	<b>\$ 7,001,048</b>

### Patient Revenue

	2013-06-30	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018	6/30/2019	6/30/2020
	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue
Medical	\$ 7,475,460	\$ 7,484,016	\$ 8,015,381	\$ 9,810,827	\$ 11,207,888	\$ 12,003,648	\$ 12,855,907	\$ 13,768,677
Dental	\$ 197,241	\$ 304,288	\$ 325,892	\$ 349,031	\$ 373,812	\$ 400,353	\$ 428,778	\$ 459,221
Mental Health		\$ 282,292	\$ 247,678	\$ 505,262	\$ 541,136	\$ 579,556	\$ 620,705	\$ 664,775
Pharmacy	\$ 2,185,970	\$ 4,601,563	\$ 5,521,876	\$ 6,350,157	\$ 6,667,665	\$ 7,001,048	\$ 7,351,100	\$ 7,351,100
Radiology*		\$ 427,511	\$ 457,864	\$ 490,373	\$ 525,189	\$ 562,478	\$ 602,413	\$ 645,185
Home Visits	\$ 123,881	\$ 67,698	\$ 72,505	\$ 77,652	\$ 83,166	\$ 89,070	\$ 95,394	\$ 102,167
Nursing home	\$ -	\$ 127,743	\$ 136,813	\$ 146,526	\$ 156,930	\$ 168,072	\$ 180,005	\$ 192,785
<b>Total Patient Revenue</b>	<b>\$ 9,982,552</b>	<b>\$ 13,295,111</b>	<b>\$ 14,778,008</b>	<b>\$ 17,729,828</b>	<b>\$ 19,555,785</b>	<b>\$ 20,804,225</b>	<b>\$ 22,134,303</b>	<b>\$ 23,183,911</b>





# Sources & Uses of Project Funds

<b>ABC Community Health Center</b>			
<b><u>SOURCES AND USES OF PROJECT FUNDS</u></b>			
<i>Sources of Funds:</i>			
	Grants/Contributions for Capital	1,750,000	50.0%
	Cash from Reserves	500,000	14.3%
	Debt Financing	1,250,000	35.7%
	<b>Total Sources of Funds</b>	<b>\$3,500,000</b>	<b>100.0%</b>
<i>Uses of Funds:</i>			
	Real Estate Related Costs	640,000	18.3%
	Total Hard Costs	2,200,000	62.9%
	Total Soft Costs	330,000	9.4%
	Total Equipment Costs	330,000	9.4%
	<b>Total Uses of Funds</b>	<b>\$3,500,000</b>	<b>100.0%</b>



# *Obtaining Financing*



# Financing Components

- Federal Grants
- Grants/Gifts
- NMTC
- State Funds
- Tax-Exempt Bonds
- Foundations
- CDFIs
- Bank Loan
- USDA



# Combining the Best Financing Sources

Structure  
considerations mean  
big financial  
differences!



Example:

**For example:  
a \$10,000,000 project**



# Conventional Bank Loan

- Loan is 80% of project value: \$8,000,000
- Interest rate is 6% with 25 year amortization
- Where will the remaining \$2,000,000 come from?
  - Sale of existing building?
  - Hospital contribution?
  - State?
  - Capital Campaign?
  - Government grant



# Conventional Bank Loan

## Sources of Funds:

Bank Loan.....	\$8,000,000
Other.....	<u>\$2,000,000</u>
Total.....	\$10,000,000

Annual Debt Service (P&I).....\$618,500

# New Markets Tax Credit Program

- “Investment” that isn’t repaid
- 20% to 25% of total project cost
- Finding a Community Development Entity (CDE)
- Application and awards



# Bank Loan and NMTC

- NMTC investment approximately 20% of project cost
- Bank loan for the balance - \$8,000,000 interest only for 7 years – same rate
- **\$2,000,000 in “free” money!**

# Bank Loan: NMTC, Interest Only

## Sources of Funds:

Bank Loan.....	\$8,000,000
NMTC.....	<u>\$2,000,000</u>
Total.....	\$10,000,000

Annual Debt Service.....\$480,000

# US Department of Agriculture

- Usable with other options
- Population 20,000 or under
- Loan guarantee 90%
- Direct Loan 3.5% for 40 years

# USDA Direct Loan Structure

- Loan will be 80% of project cost - \$8,000,000.
- Roughly 3.5% interest rate with 40 year amortization.
- Where will the remaining \$2,000,000 come from?

# USDA Direct Loan

## Sources of Funds:

USDA Loan.....	\$ 8,000,000
Other.....	\$ <u>2,000,000</u>
Total.....	\$10,000,000

Annual Debt Service.....\$ 371,982

# Tax Exempt Bonds

- With other options
- NMTC
- State issuing authority
- Private purchase by bank



# Tax Exempt Bonds and NMTC

- NMTC investment approximately 20% of project cost - \$2,000,000
- TE Bonds for the balance - \$8,000,000 ***interest only*** for 7 years
- Interest rate – 3.5% (fixed 10 years)
- **No need for additional financing**

# TE Bond: NMTC

## Sources of Funds:

TE Bonds.....	\$ 8,000,000
NMTC.....	\$ <u>2,000,000</u>
Total.....	\$10,000,000

Annual Debt Service.....\$280,000

# Foundation PRI

- Program Related Investment
- With NMTC

# Foundation and NMTC

- NMTC investment approximately 20% of project cost: \$2,000,000
- **80% federal guarantee**
- **No need for additional financing**
- *Loan for the balance - \$8,000,000 interest only for 7 years*
- *Interest rate of 3.0%*

# Foundation PRI and NMTC

## Sources of Funds:

Tax Bonds.....	\$ 8,000,000
NMTC.....	<u>\$ 2,000,000</u>
Total.....	\$10,000,000

Annual Debt Service.....\$ 240,000



*Now a Lender's  
Perspective*





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## YOUR LENDER AND PARTNER

  
**CAPITAL IMPACT  
PARTNERS**  
 a mission-driven Community  
 Development Financial Institution



**30**  
**YEARS**  
 experience working in  
 underserved communities



**\$2**  
**BILLION**  
 Invested in projects that  
 deliver social impact



**ADDRESS  
SYSTEMIC POVERTY**



**CREATE  
EQUITY**



**BUILD HEALTHY  
COMMUNITIES**



**PROMOTE  
INCLUSIVE GROWTH**



# NEW MARKETS TAX CREDITS

## Capital Impact's NMTC Success:

**32,000**

permanent jobs created

**1.5 MILLION**

patients given access to health care

**231 MILLION**

charter school seats created

**35,000**

affordable housing units built

**2 MILLION**

people given access to healthy food



## What are CDFIs?

- Community Development Financial Institution (CDFI)
- Common goal: Expanding economic opportunity in low-income communities by providing access to financial products and services
- CDFIs can be banks, credit unions, loan funds, microloan funds, or venture capital providers



## What do CDFIs look like today?

- From grassroots beginnings, CDFIs now form a robust sector within the larger financial services industry
- There are 1,000 CDFIs operating nationwide.
- They are a collaborative force that brings together diverse private and public sector investors to create economic opportunity in low-income communities.





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# Considerations

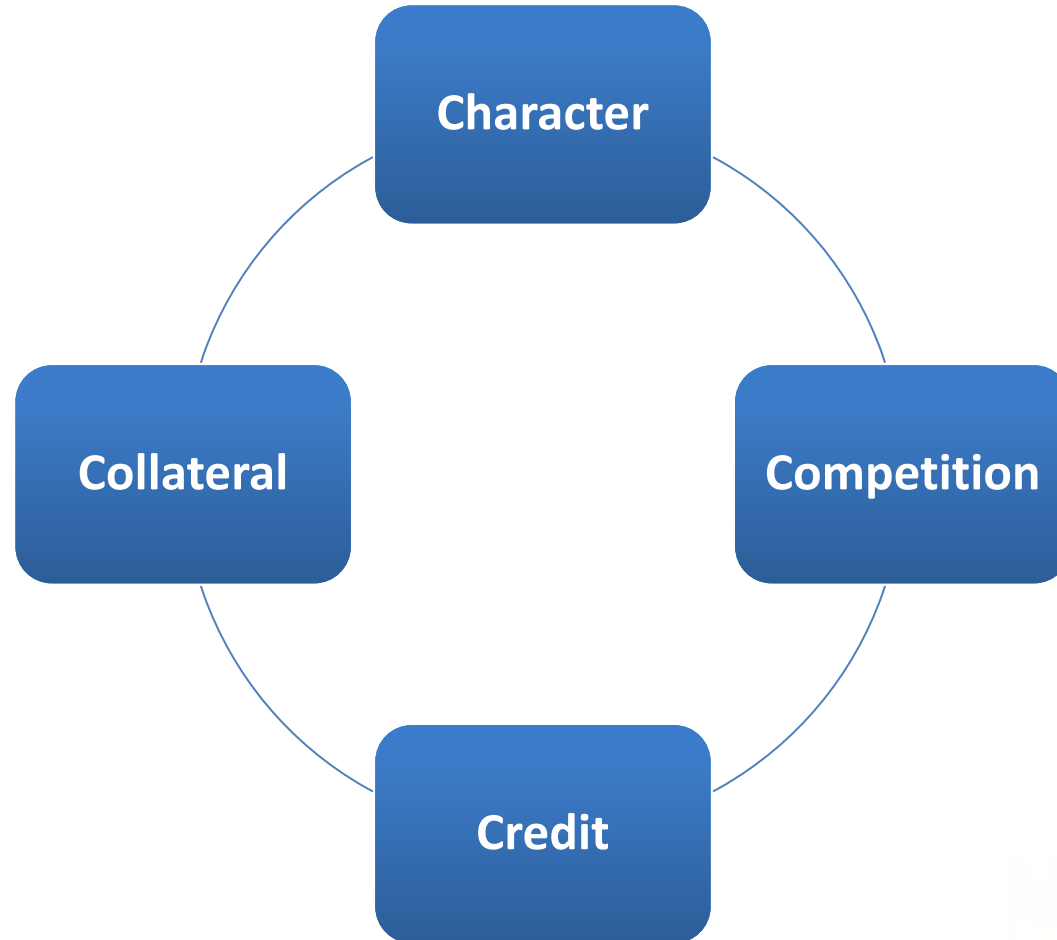
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- Timing
  - What stage is your facility project in
  - If you have existing debt, when does it mature
  - Always start the process early!
- Size of transaction / financing need
- Available equity / fundraising plans
- Future facilities plans



# Four Cs of Credit

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# Character

## Experience & Trust

Organization Management	Project Management	Services
<ul style="list-style-type: none"> <li>• Board</li> </ul>	<ul style="list-style-type: none"> <li>• General Contractor</li> </ul>	<ul style="list-style-type: none"> <li>• Payor Source Make Up</li> </ul>
<ul style="list-style-type: none"> <li>• Executive Director</li> </ul>	<ul style="list-style-type: none"> <li>• Architect</li> </ul>	<ul style="list-style-type: none"> <li>• Variety of services</li> </ul>
<ul style="list-style-type: none"> <li>• Chief Financial Officer</li> </ul>	<ul style="list-style-type: none"> <li>• Project Manager</li> </ul>	<ul style="list-style-type: none"> <li>• Quality indicators</li> </ul>
<ul style="list-style-type: none"> <li>• Chief Medical Officer</li> </ul>		<ul style="list-style-type: none"> <li>• History in the community</li> </ul>
<ul style="list-style-type: none"> <li>• Providers</li> </ul>		

# Competition

## Charter and Performance

Market	Performance
<ul style="list-style-type: none"><li>• Community Demographics</li></ul>	<ul style="list-style-type: none"><li>• # of patients</li></ul>
<ul style="list-style-type: none"><li>• Other providers</li></ul>	<ul style="list-style-type: none"><li>• # of encounters</li></ul>
<ul style="list-style-type: none"><li>• Local programs and incentives</li></ul>	<ul style="list-style-type: none"><li>• Year over year trends</li></ul>

# Credit

## Financial Condition and Performance

Balance Sheet	Income Statement	Cash Flow
<ul style="list-style-type: none"> <li>• Cash on Hand / Liquidity</li> </ul>	<ul style="list-style-type: none"> <li>• Operating Income</li> </ul>	<ul style="list-style-type: none"> <li>• Operating EBIDA</li> </ul>
<ul style="list-style-type: none"> <li>• Existing Debt / Leverage</li> </ul>	<ul style="list-style-type: none"> <li>• Net Income</li> </ul>	<ul style="list-style-type: none"> <li>• Debt Service Coverage Ratio (DSCR)</li> </ul>
<ul style="list-style-type: none"> <li>• Net Assets</li> </ul>	<ul style="list-style-type: none"> <li>• Trends</li> </ul>	

# Collateral

## Recourse After Cash Flow

Real Estate	Credit Enhancement	Reserve Accounts
<ul style="list-style-type: none"> <li>• Down Payment / Equity</li> </ul>	<ul style="list-style-type: none"> <li>• Guarantees</li> </ul>	<ul style="list-style-type: none"> <li>• Debt Service</li> </ul>
<ul style="list-style-type: none"> <li>• Loan-to-Value</li> </ul>	<ul style="list-style-type: none"> <li>• Letter of Credit</li> </ul>	<ul style="list-style-type: none"> <li>• Maintenance</li> </ul>
<ul style="list-style-type: none"> <li>• Appraisal</li> </ul>	<ul style="list-style-type: none"> <li>• HRSA/Foundations</li> </ul>	



# New Markets Tax Credits: Overview



- Part of the Community Renewal Tax Relief Act of 2000
- 39% federal tax credit
- Spur investment in low income areas
- Competitive award process



# New Markets Tax Credits: Overview

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- Credits awarded to Community Development Entities (CDEs)
- 14 rounds awarded so far
- Tax credit is claimed over a 7-year period
- At least 20% of revenue for a project must come from non-residential sources
- Typical structure creates a “B Note” that is put to the borrower for a nominal fee after 7 years.



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# New Markets Tax Credits

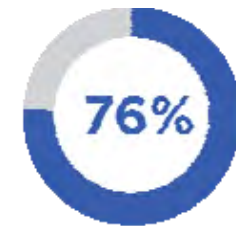
# 8:1

private investment dollars leveraged for every federal dollar

# 164,000,000



sq. ft. of office, retail, & manufacturing spaces in low-income communities



NMTC projects located in severely distressed census tracts

# 1,200 projects built,

including health clinics, schools, healthy food retailers, affordable housing, and mixed-used facilities



# \$985 MILLION

in federal tax revenue **+** \$542 MILLION in state and local tax revenue, far offsetting the costs of tax credit allocations



# New Markets Tax Credits: Eligible Areas

---

- Facility or project must be in census tract with:
  - At least 20% poverty rate and/or
  - Median income below 80% of area or statewide median
- “Highly Distressed” criteria:
  - At least 30% poverty rate and/or
  - Median income below 60% of area or statewide median and/or
  - Unemployment > 1.5x national average *or*
  - Multiple other criteria (Enterprise Zone, Medically Underserved Area, etc.)
- Capital Link & Capital Impact can perform a complete analysis based on address or census tract number



# New Markets Tax Credits: Process

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1. CDEs apply to CDFI Fund for NMTC allocation
  - *Not all CDEs are CDFIs. All types of entities (banks, governments, etc can form CDEs)*
  - *Next NMTC allocation application due this week!*
  - *Awards likely in early 2018*
2. CDFI Fund competitively award CDEs NMTC allocation
3. CDEs choose how to allocate NMTCs  
based on requirements in their allocation  
agreement



# Transaction Benefits to Borrower

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- ✓ Favorable blended interest rate
- ✓ Potential for high LTV (90%+)
- ✓ Minimizes debt service due to low rate and long interest-only period
- ✓ Potential for substantial debt forgiveness (20-25% of financing)

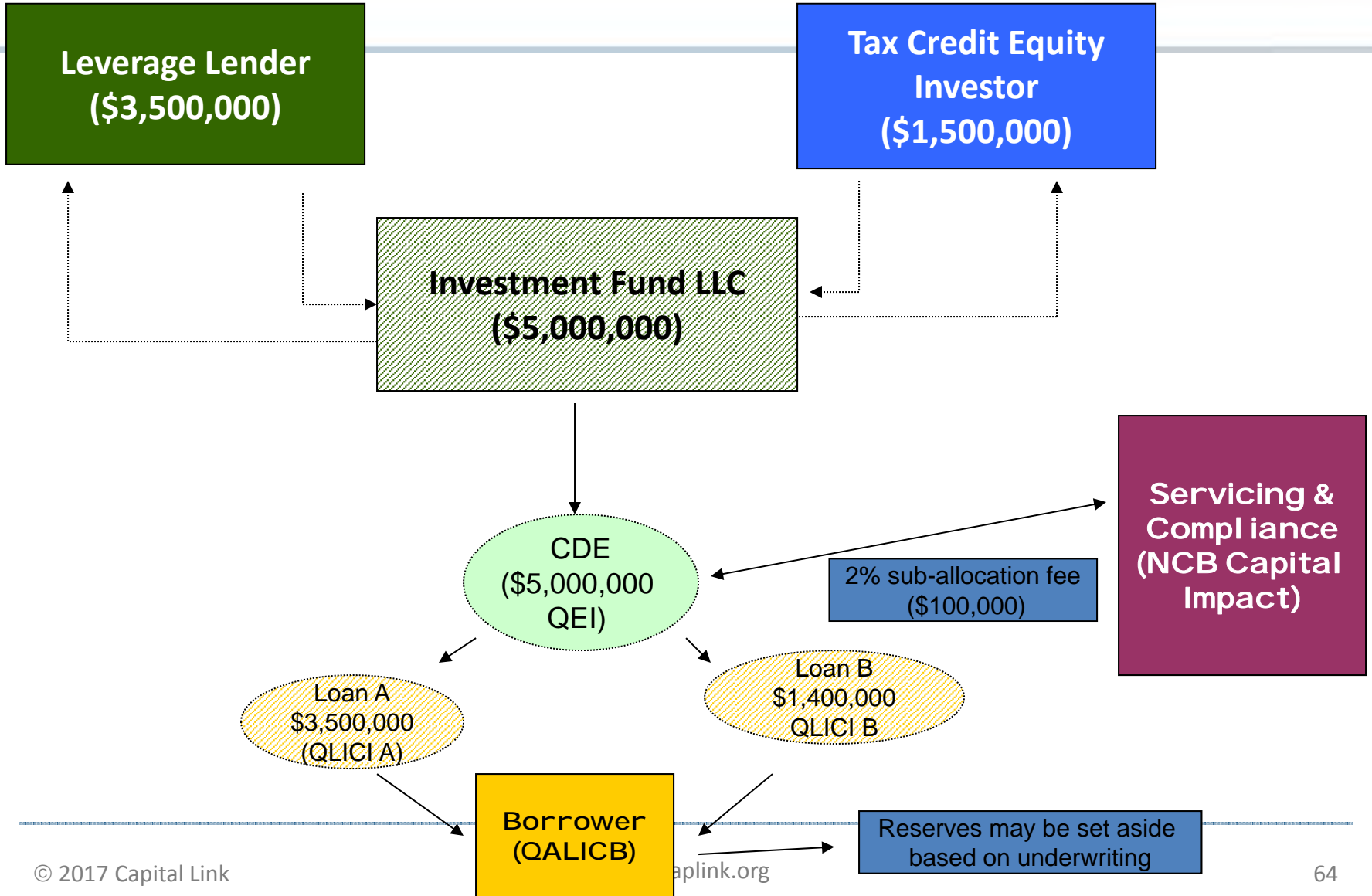


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# New Markets Tax Credits: Overview

	Traditional Products	New Markets Tax Credits	Tax Exempt Bonds
Loan Amount	Loan amounts vary	Typically at least \$5 million + based on cost of issuance	Typically \$5 million + based on cost of issuance
Loan Structure	Terms and amortization vary	Generally 7 years	Up to 30 years, amortizing
Loan-to-Value	Up to 90%	Can be in excess of 100%	Can be in excess of 100%
Benefits	Appropriate for smaller, less complex transactions. Quicker underwriting.	Interest only period; 20%–25% “debt forgiveness”; attractive interest rates	Long-term financing; attractive interest rates
Challenges	May have to refinance	Property must be located in an eligible census tract; need to refinance after 7 years; complex transaction with higher legal costs; no prepayments; based on availability of allocation	Only the strongest school applicants are eligible, can be difficult for new schools; complex transactions with higher legal costs; locked into longer terms







# NMTC Leverage Structure

---

Structure maximizes the amount of the tax credits and enables tax credits to be separated from the loan cash flow, allowing the investor to take the tax credits and lender can take the loan cash flow.

It is not uncommon for there to be multiple CDEs and or multiple leverage lenders.

It is possible for a sponsor to leverage its own funds through this structure.

# NMTC Leverage Structure: Who gets what?: Equity Investor

---

- \$1.95 Million in tax credits (39% of \$5 Million) for an equity investment of \$1.5 Million.
- ↳
- *This represents about 77 cents on the dollar. Current market is closer to 85 cents on the dollar, which means more equity to the project. That price per tax credit would have generated an additional \$157,500.*



## NMTC Leverage Structure: Who gets what?: CDE & Borrower

---

- CDE gets 2% allocation fee of \$100 Thousand.
- ↳ • *CDE fees vary. Current market is between 3% and 5%. A 5% fee would have been \$250 Thousand, leaving \$150 Thousand less for the project.*
- Borrower gets a \$1.4 Million loan that will be put to it in 7 years.

# Questions?

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