Funding Sources for FQHC Capital Projects:
Updates on New Markets Tax Credits and HRSA's Loan Guarantee Program

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Capital Link

- Launched in 1995, nonprofit, HRSA national cooperative partner
- Offices in CA, CO, FL, LA, MA, MO, and WV
- **Over $1.1 billion** in financing for at least **230** capital projects
  - **Direct assistance** to health centers and complementary nonprofit organizations in planning for and financing operational growth and capital needs
  - **Industry vision and leadership** in the development of strategies for organizational, facilities, operational and financial improvements
  - **Metrics and analytical services** for measuring health center impact, evaluating financial and operating trends and promoting performance improvement
Today’s Topics

• Utilization of the HRSA Loan Guarantee Program

• An Introduction to the Federal Treasury’s New Markets Tax Credit Program

• La Clínica Health Center’s (Oakland, CA) Capital Financing Experiences

• Capital Related Resources
Steps to Capital Project Success

- Strategic Planning
- Financial Strength
- Operational and Clinical Excellence
- Assessing Market Opportunity
- Developing a Business Plan
- Leadership and Project Planning Expertise
- Identifying Capital Sources
HRSA Loan Guarantee Program
- LGP -
HRSA Loan Guarantee Program
For 330 Funded Health Centers

- Defined: ...contractual obligation between the health center, Federal
government, and private creditors—such as banks and other commercial
loan institutions—that the Federal government will cover 80% of the
health center’s debt obligation to the creditor(s) in the event that it
defaults.

- Utilizing a LGP reduces the risk the lender is taking in the borrower

- For approximately 20 years HRSA has made available a LGP guaranteeing
loans made by non-federal lenders to eligible Health Center Program
awardees for the construction/expansion, alteration/renovation and
modernization of health center medical facilities. [renovation portion of
budget may be limited to 1/3]

- USDA Rural Development also has a LGP for rural businesses that FQHCs
have utilized - but we won’t be addressing this program today
HRSA Loan Guarantee Program
For 330 Funded Health Centers

• Program can only be used by 330 funded health centers; can not be used by Look-aikes.

• Federal guarantee on 80% of the principal amount of loans made by non-federal lenders for the construction, renovation and modernization of medical facilities owned and operated by Section 330 health centers

• May be a limit on percentage of principal used for refinancing

• Credit enhancement like the HRSA LGP can help a non-Federal lender to approve a loan application they may have otherwise not approved

• Has been combined with NMTC but can not combined with tax exempt bonds

• While there has been no limit on loan size, the HRSA LGP has typically guaranteed loans for projects of $5 - $7 million or more.
Revised HRSA Loan Guarantee Program for 330 Funded Health Centers
Revised HRSA Loan Guarantee Program for 330 Funded Health Centers

- Congress recently put $20 million dollars into a subsidy for loan loss reserve for the HRSA LGP so now the HRSA LGP can guarantee up to about $890 million of new loans.
- HRSA is currently working to streamline its administrative and documentation processes and anticipates a spring 2019 roll-out.
- The revised LGP may be the only capital resource available to health centers through HRSA for the foreseeable future.
- We hope other federal funding sources like Market Tax Credits and the USDA’s community facilities program will continue to be available.
Revised HRSA Loan Guarantee Program for 330 Funded Health Centers

• HRSA LGP applications are accepted year-round

• If interested, you should consider and gather the following:
  - Type of construction activity (i.e., new construction, renovation, new site, replacement facility);
  - Total project cost; Sources and Uses
  - Financing needs and potential lender(s); and
  - Timeline and status of project planning and financing.

• [https://bphc.hrsa.gov/programopportunities/loan-guarantee-program.html](https://bphc.hrsa.gov/programopportunities/loan-guarantee-program.html)
If You are Planning or Even Considering A Capital Project in the next 12 Months

- Be proactive by getting started on the creation of a business plan - In most cases, if you ask for a loan you will need a business plan regardless of whether you also seek a HRSA Loan Guarantee as a credit enhancement

- Reach out to your HRSA Project Officer

- Go to a CDFI or your preferred or community bank with your business plan and make your best case

- Don’t hesitate to check out Capital Link’s website and/or contact us for guidance – we have been a resource for FQHCs for 20 years
New Markets Tax Credits
- NMTCs -
NMTC’s: Background & Overview

- Federal program authorized in 2000 and renewed repeatedly since 2006
- To date over $54 billion in investment authority allocated to approximately 1,105 awardees, called “Community Development Entities” (CDEs) – due to repeat awards, there are about 325 distinct CDEs who have won
- Program was renewed for 5 years (2015 – 2019) with additional $17.5 billion in investment authority
- Between 2003 and October 2018, $49.2 billion in direct NMTC’s investments have been made in businesses (leveraging over $80 billion in total capital investment); $4.7 billion not yet closed
NMTC’s: Community Health Centers

- Health center capital projects are a highly desirable asset type for NMTC’s investors
- Geography: CHCs are usually located in qualified low-income census tracts which are considered to be “severely distressed” due to higher poverty and/or lower median family incomes – rural census tracts are also desirable
- Mission: CHCs provide multiple positive community benefits – positive health outcomes, economic impacts, other related services
- Compliance: CHCs seen as low-risk for violating NMTC’s regulations, e.g. non-qualified businesses or uses
- Financial Stability: healthcare is seen as stable and growing industry that can support long-term debt (often needed as part of the NMTC’s financing structure)
NMTC’s: Benefits

• “Gross NMTC’s Equity Investment” includes transaction costs + a portion of dollars that usually don’t need to be repaid after 7 years (the project cost subsidy)

• Investors purchase NMTC’s in exchange for tax benefits – investors get their ROI from their tax benefits over time

• Subsidy/ “Net Benefit” from NMTC’s roughly **20-25% of total project cost**

• Can be used with a variety of financing sources including the HRSA LGP and tax exempt bonds (you can mix almost any capital source with NMTC’s)
New Markets Tax Credit Program

- “Debt” that isn’t repaid after 7 year compliance period
- “Effectively ultimately equity disguised as debt”
- 20% to 25% of total project cost = NET BENEFIT
- Finding a Community Development Entity (CDE)
- Application and Awards
- Timing (“shovel ready”)
NMTC’s: Challenges

• Complex structures
  - Three tiers of financing, with multiple parties
  - No two NMTC deals look exactly alike (despite efforts to streamline)
  - Takes longer to close than you (or anybody else) think
  - High transaction costs (but the NMTC related costs don’t come out of the HC’s pocket); many expert advisors needed

• Compliance: reporting requirements for 7-year period

• Takes great coordination & patience!
NMTC Hypothetical FQHC Project

Assumes $10 Million in Project Costs

Equity Investor

Equity investment ~ $3.5 million

$4.29 million in tax credits (39% over 7 years)

Investment Fund

Tax credits & distributions to pay Leverage Lender

$11 million investment into sub-CDE (QEI)

Sub-CDE LLC

$10 million in loans – QLICI Loans

“A Loan”: $7.5 million

“B Loan”: $2.5 million

Affiliated Entity of HC ("SPE")

Lender (bank)

Fees & Reserves ~$1 million

HC Leveraged Lender (Sponsor)

$7.5 million Leverage Loan

SPE pays below 2% interest-only for 7 yrs; Loan A refi after 7 years; Loan B extinguishment of debt in YR 8
How Does Your Project Qualify?

• Basic Eligibility
  - Look up census tract by street address – various mapping tools
  - Median family income of tract must be equal to or less than 80% of AMI (Area Median Income); or
  - Poverty rate of households within tract must be equal to or greater than 20%

• Severely Distressed (the bar that **most projects** need to reach)
  - Poverty rate greater than 30% or
  - Median family income less than 60% of AMI or
  - Two of a list of 17 other criteria such as “Medically Underserved Area”

• Targeted Populations Rule (very difficult to qualify)
  - There are some exceptions to geographic eligibility but due to the complexity for qualifying it’s better to discuss on a case by case basis
How Do NMTC’s Get To Your Project?

• Community Development Entities (CDEs) Apply for Tax Credits

• Get “Pitch Package” in front of CDEs, Investors, and Lenders
  - 8 year financial projections for underlying HC operations in new site; Sources & Uses; preliminary NMTC leveraged structure for discussion purposes
  - Project budget well formulated; feedback from contractor
  - Project Summary: Site control, design development, evidence of ‘shovel readiness’, estimated construction time table; estimated permit timeline environment/city/other); key project management (including NMTC advisors); list of positive community impacts including jobs created
  - Business Plan

• Underwriting and Closing Process (can easily take 4 months or more)
Combining the Best Financing Sources

Financing Structure Considerations Can Mean **Significant** Project Cost Differences Over Time
Example

A New $10,000,000 Health Center Project
Conventional Bank Loan

- Loan is 80% of project value: $8,000,000
- Interest rate is 6% with 15 year amortization
- Where will the remaining $2,000,000 come from?
  - Sale of existing building?
  - Hospital contribution?
  - State (opportunity zone grant)?
  - Capital Campaign / local foundations?
  - Other Government grant?
  - Cash the HC can afford to invest?
Conventional Bank Loan

Source Funds:

Bank Loan.......$8,000,000
Other..............$2,000,000
Total..............$10,000,000

Annual Debt Service (P&I)..................$810,103
Bank Loan with NMTC

- NMTC “net benefit” approximately 25% of project budget
- $2,500,000 subsidization from NMTC’s Program
- Bank loan for the balance reduced to $7,500,000
- The NMTC subsidy can leverage many other capital sources, not just bank loans
Bank Loan: NMTC, Interest Only

Sources of Funds:

Bank Loan ........ $7,500,000
NMTC ............... $2,500,000
Total ................ $10,000,000

Annual Debt Service ........ $791,971 During 1st 7 yrs
Then ........... $759,471
Tax-Exempt Bonds

- With other options
- NMTC
- State issuing municipal authority
- Private purchase by bank
Tax Exempt Bonds and NMTC’s

• NMTC net benefit approximately 25% of project cost
  - $2,500,000

• TE Bonds for the balance - $7,500,000

• Interest rate – 4.0 % (fixed 10 years); 15 YR AMORT
TE Bonds Leveraged with NMTC’s

Sources of Funds:

TE Bonds..........$7,500,000
NMTC..............$2,500,000
Total................$10,000,000

Annual Debt Service......$709,474 During 1st 7 yrs
Then..... $665,724
Program Related Investment and NMTCs

- NMTC subsidy approximately 25% of project budget: $2,500,000
- PRI Loan for the balance - $7,500,000
- Interest rate of 3.0%
- 40 year term
- PRI investments/loans further the tax exempt missions of a foundations; interest rates may be even lower
Foundation PRI and NMTC

Sources of Funds:

Loan ........................................ $ 7,500,000
NMTC........................................... $ 2,500,000
Total........................................... $10,000,000

Annual Debt Service.....$365,936 During 1st 7 yrs
Then.....$322,186
New Market Tax Credits - Summary

• “Gross Tax Credit Equity Investment” includes transaction costs + a portion of dollars that usually don’t need to be repaid after 7 years (the project cost subsidy)

• Investors purchase NMTCs in exchange for tax benefits – investors get their ROI from their tax benefits over time

• Subsidy/ “Net Benefit” from NMTCs roughly 20-25% of the project cost

• Can be used with a variety of financing sources, credit enhancement and certain other tax credit programs
La Clínica de La Raza Inc.
Oakland, CA
Overview of La Clínica

• Founded in Oakland, CA, in 1971 by students & community activists
• Federally Qualified Health Center (FQHC)
• Began in Fruitvale District in Oakland, CA and expanded across Alameda, Solano, and Contra Costa Counties
• Medical, dental, vision, behavioral health, health education services
Overview of La Clínica

In CY 2017:

• 86,884 served
• 360,570 visits
• $100M budget
• 874 FTE employees

Vallejo Medical 2017
La Clínica Locations

- 35 service locations in three counties in San Francisco Bay Area, including:
  - Stand-alone primary care facilities
  - Clustered campus settings
  - School-based health centers
  - Mixed-use complexes
Patient Demographics: All Sites

Primary Insurance Coverage

- Medicare: 69%
- Medicaid/CHIP/Other Public: 23%
- Private: 4%
- Uninsured: 5%

Race and Ethnicity of La Clínica Patients

- Latino: 58%
- African American: 9%
- White (Non-Latino): 11%
- Asian/Pacific Islander: 4%
- Multiple: 1%

UDS, 2017, N=86,884
La Clínica Major Capital Projects

Fruitvale Transit Village
2003 – 40K sf; $14.2 M

San Antonio
2009 – 16K sf; $10M

Monument
2012 – 17K sf; $10.6 M
Latest Project in Vallejo
Site for Construction
Proposed Expansion: Vallejo

- 26,000 square feet
- Relocation and Expansion of existing medical clinic and dental clinic
- Expand service capacity – 6,000 to 15,000 patients
- 24 exam rooms (LC Vallejo has 14 currently)
  - Additional rooms for consultation, group visits, special procedure
- 16 dental operatories (LC Vallejo Dental has 5 currently)
- Classroom/conference room areas, staff break areas, and offices for administration, health education, patient enrollment
- Additional Service Enhancements: optometry service, telehealth capacity, teaching (e.g., internships, rotations, residencies) capacity
- Construction to begin December 2018 / Projected to Open in January/February 2020
- Total Projected Cost: $19M
Rendering of Proposed New Facility
La Clínica – NMTC Experiences

• Health Center Preparation for Project and Financing
• Health Center Staff Contributions to Processes
• Roles and Responsibilities of Partners/Consultants
• Coordination between Health Center and “Everyone Else”
• Financing Benefits to Health Center
Timely Activities and Resources
Timing and Preparation:

• HRSA LGP Roll-out Spring 2019

• NMTC
  - Next NMTC Allocation: Expected to be Released Late 2018/Early 2019
  - Next NMTC Application: Expected during Summer 2019
Related Resources:

- **Strategic Planning for Capital Project Success** webinar - December 19, 2018
  [http://www.caplink.org/events/upcoming-webinars](http://www.caplink.org/events/upcoming-webinars)

- **Preparing for a Capital Project: Are You Ready?**
  (publication: [http://www.caplink.org/resources/publications](http://www.caplink.org/resources/publications))

- **Creating a Healthcare Facility that Supports the Patient-Centered Medical Home**
  (publication: [http://www.caplink.org/resources/publications](http://www.caplink.org/resources/publications))

- **Spotlight On Capital Resources: New Markets Tax Credits** series (publications: [http://caplink.org/resources/publications#NMTC](http://caplink.org/resources/publications#NMTC))

- **Capital Project Financing Resources**
  (publications: [http://www.caplink.org/resources/publications](http://www.caplink.org/resources/publications))

- **Selecting the Right Capital Project Financing**
  (publication: [http://www.caplink.org/resources/publications](http://www.caplink.org/resources/publications))

- **Capital Funding Options for Rural Community Health Centers**
  (publication: [http://www.caplink.org/resources/publications](http://www.caplink.org/resources/publications))
Questions?

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