Winter 2011

CAPITAL LINK

Connecting Health Centers to Capital Resources

capitalink newsletter

A Message from the CEO

The start of a new year is always a good time to reflect on the lessons of the past year and resolve to continually improve as the calendar page turns and the holiday bustle becomes a memory. Just as one draws up a list of resolutions before tackling the year's goals, this issue of Capital Ink highlights the importance of preliminary planning before embarking on a major initiative such as a capital project. The key to success is seeking the right information before beginning the work.

When contemplating the potential for expansion, it's an excellent idea to look closely at the current financial position of the health center to examine how existing operations can be improved. The article entitled ***How a Financial Ratio Analysis Can Help CHCs Monitor Their Own Health,*** by Falayi Adu, Director of Data Resources and Services, explains how a financial ratio analysis can help health center leadership make informed decisions. Similarly, ***How Market Assessment Planning Can Prepare Your Health Center for Strategic Growth*** by Capital Link project consultant Jonathan Chapman, describes how a market assessment can help a health center effectively evaluate its current and future markets and identify opportunities for growth, competition, and demand for health center services.

This issue also includes a 2011 regulatory and legislative update entitled ***Federal Outlook for 2011: Time to Move!*** by Washington D.C. project consultant Joe McKelvey. In addition, ***An Overview of New Markets Tax Credits*** gives a high level description of a creative financing option well-suited to some community health center projects. Finally, we highlight several health center projects and list upcoming Capital Link conferences and training sessions. We especially hope to see you at our two presentations at this year's **NACHC Policy & Issues Forum** on March 25th.

All of us at Capital Link hope this information helps you understand your growth objectives and how to make your wishes a reality.

Best regards,

Allison Coleman
Chief Executive Officer

Federal Outlook for 2011: Let's Move!

First Lady Michelle Obama has been eagerly promoting kids fitness through her "Let's Move!" campaign that encourages kids to become more active and eat healthier foods. Ironically, 2011 may turn out to be the year the Federal government finds itself on a more strict diet. With the return of divided government, ambitious new programs will likely be few and the pressure to trim budgets will be great.

Time to Work Quickly

With the 112th Congress now underway, we can expect a contentious, though not necessarily productive legislative year. Unfortunately for health centers, that may mean playing quite a bit of defense as the new House majority is expected to aggressively seek to roll back the Affordable Care Act. Although President Obama is certain to fight direct efforts to repeal the law, health centers will need to work quickly to implement the law effectively, and to use Affordable Care Act funds quickly and efficiently. This is especially true for CHCs that received major capital awards via ACA in 2010. Keeping expansion and renovation projects moving ahead is the best way to show communities and legislators how the new law is expanding access to care. To date, HRSA has already awarded $727 million of the $1.5 billion available for capital grants. They are likely to announce a new competition for the remaining funds this summer.

Although conservatives are unlikely to succeed at direct repeal efforts, they will probably seek to use the appropriations process to unfund many of the key aspects of the new law. The new House leadership has pledged to trim non-defense, non-entitlement spending by $100 billion. That would mean a 20% cut for affected programs, including 330 spending. In fact, the existence of the primary care trust fund could be used as an excuse to dial back baseline health center appropriations.

Another major change this year will be the effective end of health facilities earmarks in appropriations legislation. Although health centers have historically lagged behind hospitals and universities as recipients of these awards, they have remained a viable source of capital for health centers—providing more than $22 million for capital projects in FY10 alone.

Need for Creative Financing Greater Than Ever

The tightening of government purse strings will require health centers to be more creative in developing affordable ways to finance expansion projects. Fortunately, at the end of last year, Congress provided a 2-year extension of the New Markets Tax Credit (NMTC) program—designed to encourage investments in projects in low-income areas. Given their geographic locations, health centers have often benefitted from the NMTC program and will likely seek to take advantage of it more than ever. HRSA also recently distributed a communication to health centers outlining an important way that HRSA capital grant funding may be approved for use in a NMTC transaction—through the use of bridge loans. This policy adjustment will allow HRSA resources and the NMTC program to work in tandem to improve health center access to capital during this important time for growth.

This year, NACHC is also expected to work in a bipartisan way with Congressional allies to promote legislative improvements to the HRSA loan guarantee program. Although the final bill language has not been determined, the bill will increase the guarantee from 80% to 99% and also allow the guarantee to be used with tax-exempt bonds. Finally, the legislation aims to dramatically streamline the application process to make it faster and more efficient for health centers and lenders.

Capital Link is committed to helping health centers, PCAs, NACHC and legislators maximize existing opportunities and craft innovative and effective financing strategies for health center capital projects. Contact Joe McKelvey, Project Consultant, at jmckelvey@caplink.org for more information.

An Overview of New Markets Tax Credits

The President recently signed the Reid-McConnell Tax Bill (277-148) into law. The bill includes a two-year extension of New Markets Tax Credits – 2010-2011 – at $3.5 billion in annual credit authority. The New Markets Tax Credit Program has helped many community health centers cost-effectively finance their capital projects, so a high level understanding of what it can offer is valuable.

What Is NMTC?

The New Markets Tax Credit Program, administered by the U.S. Treasury Department's Community Development Financial Institutions Fund, was created in 2000 as an incentive to provide private investment capital to businesses and nonprofits located in qualifying urban and rural low-income communities that cannot otherwise obtain traditional financing. NMTC financing has offered some borrowers access to project financing with below-market interest rates and the potential for forgiveness of a portion of the debt after seven years.

How Does It Work?

NMTC allocations are competitively allotted to Community Development Entities (CDEs), organizations that provide investment capital for low-income communities or persons. Using these tax credits, CDEs have created low-risk investment opportunities for large-scale investors – such as banks, corporations and pension funds – to invest, through the CDE, in projects that strengthen and develop low-income communities.

The NMTC program allows taxpayers to receive a credit against Federal income taxes for making qualified equity investments in designated CDEs. Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities.

The credit provided to the investor totals 39% of the cost of the investment and is claimed over a seven-year credit allowance period. In each of the first three years, the investor receives a credit equal to 5% of the total amount paid for at the time of purchase. For the final four years, the value of the credit is 6% annually. Investors may not redeem their investments in CDEs until the end of the seven-year period. With this new influx of capital, CDEs have created NMTC funded programs, such as fixed-rate or low interest rate loans. Through these programs, CDEs invest in the projects of qualified low-income community businesses.

Community health center (CHC) capital projects are ideally suited for NMTC funded programs. CHCs are qualified businesses under the NMTC legislation. Also, CHCs are typically located in low-income communities and require low-cost, long-term financing for capital projects. A health center is considered to be eligible if it is located in a NMTC-eligible census tract and it generates at least 50% of gross income from doing business in a Low-Income Community. Areas that qualify as Low-Income Communities either have census tracts with a poverty rate of at least 20% or have census tracts where the median family income is below 80% of the area's median family income.

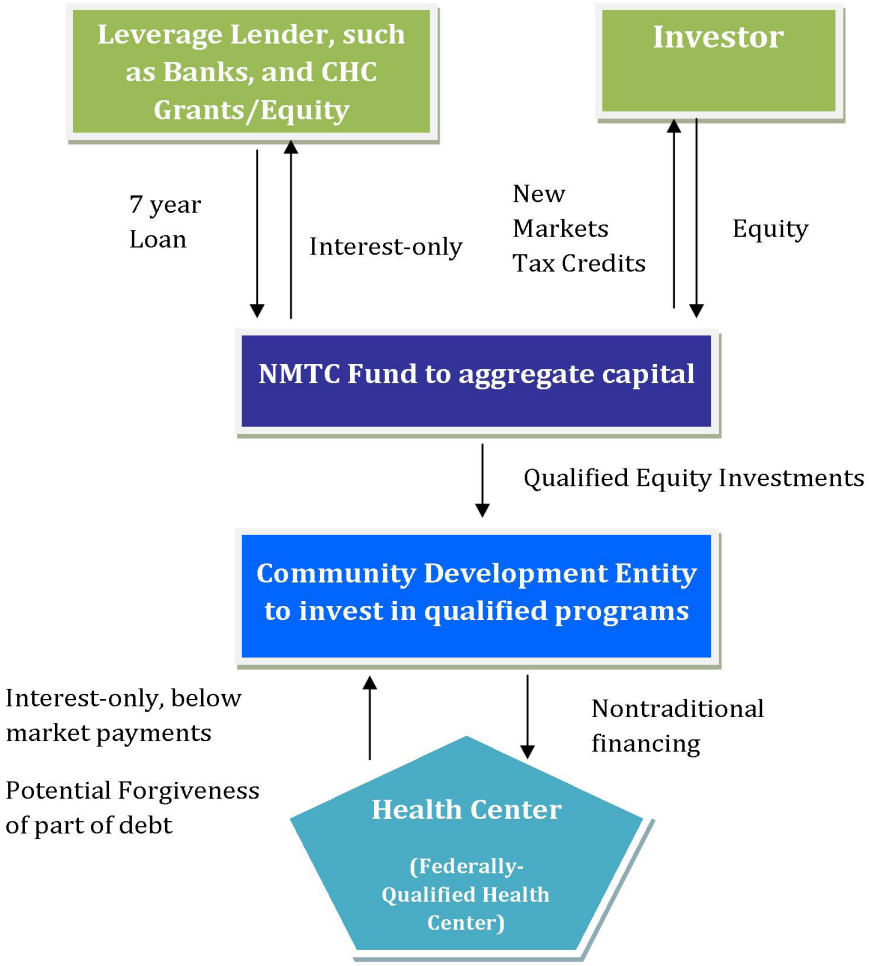
Costs and Benefits

The benefits to NMTC are that the tax credit portion of most transactions adds "near equity" to the project, up to 25% in some cases. In most leveraged NMTC projects, the investor receives its return on investment and the principal value of the investment primarily from the tax audits. As a result, most transactions are structured with a "put-call" feature, which makes it likely that the investor will put its equity in the deal back to the health center - effectively cancelling a portion of the health center's debt obligation. If a project is also able to leverage grant funds through a NMTC structure, there is potential for little to no debt following the NMTC seven year period.

An Overview of New Markets Tax Credits

Loans are typically structured as interest only for the first seven years of the transaction, and many structures carry below market interest rates and longer terms. However, the costs of NMTC must be considered. NMTC do have higher transaction and legal costs and are the most complex financing to set up. The complexity could result in a longer time to closing. NMTC cannot be prepaid during the initial seven year period. Capital campaign funds that will be used for debt repayment will need to be invested during this time until repayment is allowed. NMTC are most economically feasible for larger projects, usually those that exceed $5 million.

The diagram below shows the basic NMTC structure:



The following website provides more information about the NMTC program and a list of tax credit allocatees in your area: www.cdfi fund.gov.

Additional information can also be found at Novogradac's New Market Tax Credit Resource site at www.novoco.com/new_markets.

Capital Link can assist health centers in determining whether a project site is eligible for NMTC financing and with assembling the financing. Contact Mark Lurtz, Senior Director of Marketing & Project Consulting at mlurtz@caplink.org for more information.

How Market Assessment Planning Can Prepare Your Health Center for Strategic Growth

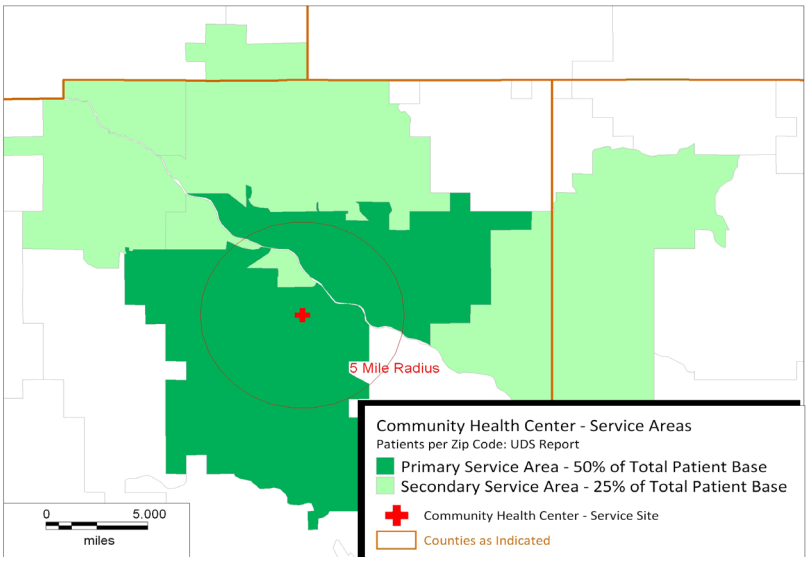
As part of an ongoing strategic planning process and the current need for increased access to care, most health centers are actively considering their opportunities for growth. Quantifying these opportunities is helpful to any effort to expand a center's reach into a community it seeks to serve because it provides answers to a number of key questions such as:

- Who are the center's patients and where are they coming from?
- What is the demand for health center services and is the center prepared to meet it?
- What are the medical needs and economic outlook of the center's service area?
- Are patients in the community served by other providers and are there overlaps or gaps in service?

Market assessment planning (MAP) helps the center evaluate its current and future markets to determine the potential for expansion. It describes the center's market in geographic and demographic terms, identifies opportunities for growth, evaluates competition in the marketplace and estimates projected market share or potential demand for health center services.

This information greatly aids decision-making because it documents and justifies the health center's growth plan. It can pinpoint unmet needs or emerging trends that can inform the center's program and workforce planning. Finally, the data generated in a comprehensive market assessment can form an excellent basis for financial forecasting and operations grant proposals.

The Market Assessment begins with an understanding of the health center's objectives, mission and history, including its current sites and preliminary plans for expansion. Data is then gathered from a number of secondary sources to pinpoint the health center's patient demographics, primary and secondary service areas and evidence to support health center growth. Geographical Information Systems (GIS) technology improves the clarity of the representation of the data, as shown in the following example of a service area analysis:



What information does a MAP provide?

MAP Data	What It Shows
Geographic description of the city, county or neighborhood (key industries and retail sales, total population, land area, persons per square mile)	The community the health center serves and opportunities or limitations for future sites
Demographic Information (Comparison of statistics by city or county, state and nation detailing the population by age, race, education, household income, persons per household, languages spoken, disabilities, employment, health indicators, insurance status)	The specific health needs of the community and the means to provide culturally sensitive care
Primary Service Area (zip code mapping based on UDS data of top 50% of the patient base based on visits)	A visual representation of the area where the majority of patients are coming from
Secondary Service Area (zip code mapping of an additional 25% of the patient base)	A visual representation of the potential for an expanded service area, compared with the primary service area
Other Health Care Providers (in the Primary and Secondary Market and their specialties); **Health Professional Shortage Areas**	Current access to primary or specialty services, the number of providers offering them, unmet medical needs
Estimate of Future Demand (with service area assumptions, population estimates and county level insurance information, the overall population can be categorized to better understand payer mix and predict future service levels, including market share and potential number of patient visits)	Patient base and their needs in the future, which can give insight into operational productivity and workforce management

Where Does the Data Come From?

Data can be accessed from numerous sources, many of which are free of charge. For example, the UDS Mapper (www.udsmapper.org) is an online mapping and decision-support tool driven primarily by the Uniform Data System (UDS). This tool can assist health centers in evaluating the geographic reach, penetration, and growth of the Section 330-funded Health Center Program and its relationship to other federally-linked health resources.

UDS Mapper

AMERICAN FactFinder

Other valuable avenues for information are the U.S. Census Bureau's American Fact Finder (factfinder.census.gov), third-party estimates and projections, local reports and surveys, medical societies, Medicaid/Medicare and a wide array of demographic and mapping websites.

To help make sense of this data, Capital Link has developed a MAP process specifically for health centers and has collaborated with hundreds of centers to provide evidence supporting the need for expansion and target areas of potential growth. If you would like more information, contact Jonathan Chapman at jchapman@caplink.org.

How a Financial Ratio Analysis Can Help CHCs Monitor Their Own Health

With the exception of health center staff with specialized training in finance and business, financial statements to most staff may look like a mass of endless numbers with little meaning. There is too much information in financial statements to digest easily for most people or even for financial professionals who may not have the time to examine every detail.

A financial ratio analysis can help health centers to more readily evaluate their financial condition because it looks at the relationship between various pieces of financial information to reveal trends. Trends uncover more than information found in free standing financial statements and can also indicate if a deeper analysis is warranted in any particular area.

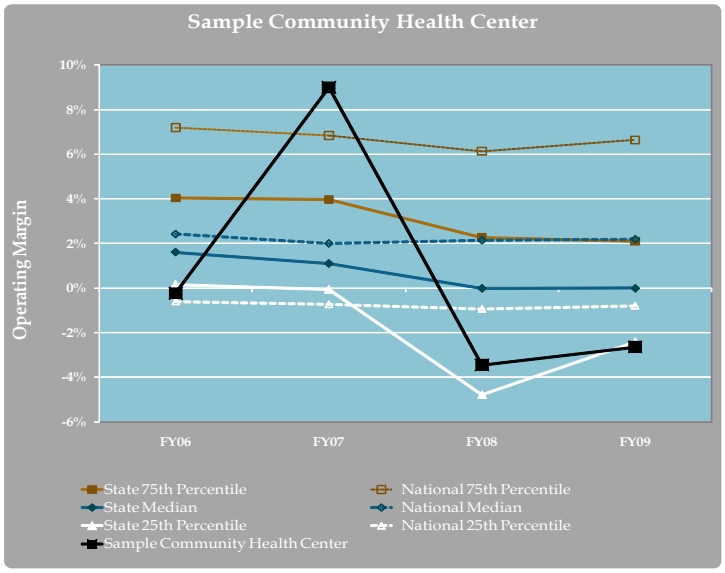
Providing Context

Looking at a series of ratios allows for a deeper level of analysis, known as a temporal comparison, by comparing a health center's year-end ratios to prior-year values and reviewing historical trends over time. This type of analysis tests the validity of projections and reveals information that allows health centers to make adjustments to strategic plans as necessary. Finally, comparing an individual health center's ratios and trends to industry measures provides valuable insights, especially when the information is taken in context by including characteristics such as budget size (large, medium, small), location (urban or rural) or region (state, or national).

Capital Link generally analyzes four areas of a health center's financial condition:

Profitability: The Operating Margin and Bottom Line Margin are key indicators of health centers' ability to generate income needed to sustain current operations and to support both short-term and long-term growth.

The example to the right shows, in chart form, a temporal comparison of a health center's Operating Margin within the context of comparative state and national trends.



Growth: Year-to-year growth rates for Operating Revenue, Net Patient Service Revenue and Grant and Contract Revenue, as well as for Operating Expense.

Solvency: Current Ratio, Days Unrestricted Cash on Hand, Days in All Accounts Receivable, Days in Patient Accounts Receivable, Days in Accounts Payable reflect the health centers' ability to maintain a positive cash flow and to meet immediate obligations.

Debt Capacity: The Leverage Ratio and the Debt Service Coverage Ratio examine the ability to meet long-term obligations to creditors and other third parties.

How Is a Financial Ratio Analysis Useful to Health Centers?

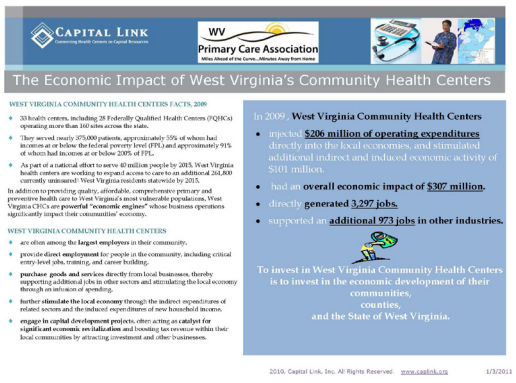
Financial ratios are critical in measuring and predicting an organizations financial success, or uncovering potential problems before they get out of hand. They are used by boards to evaluate solvency, profitability, viability, and to establish a framework for decision making; by department managers to assess operations and impact on financial position; and by lenders and creditors to determine amounts and terms of credit and to evaluate risk.

Financial ratio analysis not only allows for indications of an individual health center's financial position and performance, but also provides the immense added benefit of up-to-date, comparative industry financial benchmark data so the health center can see how its financial position compares to that of its peers. By seeing where it falls on the overall spectrum of financial performance, a health center can better understand and judge its status relative to other health centers, and determine how it needs to adjust its plans.

Financial indicators are particularly crucial in helping a health center to develop appropriate strategies for capital project funding. Capital Link routinely assists health centers with compiling and analyzing health center financial data, almost exclusively derived from audited financial statements, so health centers can assess their ability to support loans for a planned capital project and the relative need for grant and other non-debt sources of funding. For more information about financial ratio analysis, contact Falayi Adu, Director of Data Resources and Services, at fadu@caplink.org

Services, Reports & Publications

Recent Study Proves Health Centers Boost Economy: At the request of the West Virginia Primary Care Association, Capital Link recently completed a study indicating that health centers provide a significant economic impact to the community. Released January 11th, the study found that Community Health Centers generate more than $300 million annually in West Virginia's economy, and account for nearly 4,300 jobs while serving 20 percent of the state's population. In addition, patients who utilize health centers for their care saved the overall system $1,262 each in 2009, a figure which is projected to reach $1,520 per patient by 2015. To access the release and a copy of the study, "The Economic Impact of West Virginia's Community Health Centers," visit the WV PCA's website at www.wvpca.org.


CAPITAL LINK
Connecting Health Centers to Capital Resources

WV Primary Care Association
Miles Ahead of the Curve...Minutes Away from Home

The Economic Impact of West Virginia's Community Health Centers

WEST VIRGINIA COMMUNITY HEALTH CENTERS FACTS, 2009

- 33 health centers, including 28 Federally Qualified Health Centers (FQHCs) operating more than 160 sites across the state.
- They served nearly 375,000 patients, approximately 35% of whom had incomes at or below the federal poverty level (FPL) and approximately 91% of whom had incomes at or below 200% of FPL.
- As part of a national effort to serve 40 million people by 2015, West Virginia health centers are working to expand access to care to an additional 261,800 currently uninsured! West Virginia residents statewide by 2015.

In addition to providing quality, affordable, comprehensive primary and preventive health care to West Virginia's most vulnerable populations, West Virginia CHCs are **powerful "economic engines"** whose business operations significantly impact their communities' economy.

WEST VIRGINIA COMMUNITY HEALTH CENTERS

- are often among the **largest employers** in their community,
- provide **direct employment** for people in the community, including critical entry-level jobs, training, and career building,
- **purchase goods and services directly** from local businesses, thereby supporting additional jobs in other sectors and stimulating the local economy through an infusion of spending,
- **further stimulate the local economy** through the indirect expenditures of related sectors and the induced expenditures of new household income,
- **engage in capital development projects**, often acting as **catalyst for significant economic revitalization** and boosting tax revenue within their local communities by attracting investment and other businesses.

In 2009, **West Virginia Community Health Centers**

- injected **$206 million of operating expenditures** directly into the local economies, and stimulated additional indirect and induced economic activity of $101 million.
- had an **overall economic impact of $307 million.**
- directly **generated 3,297 jobs.**
- supported an **additional 973 jobs in other industries.**

To invest in West Virginia Community Health Centers is to invest in the economic development of their communities, counties, and the State of West Virginia.

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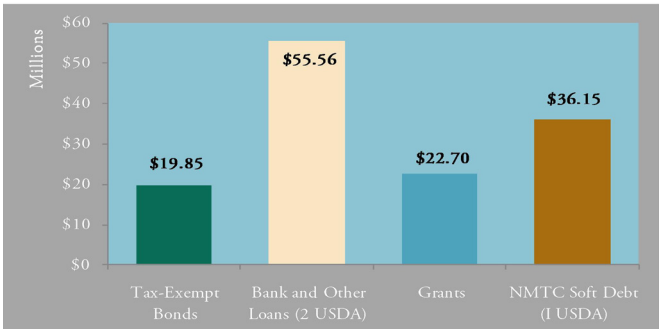
The recent study for West Virginia PCA

Capital Link developed the Economic Impact Analysis (EIA) to promote health centers as viable platforms for economic development both locally and at the state level. The EIA educates decision-makers on the dual roles of health centers as important service providers and as engines for economic development, demonstrating that an investment in the health center and its capital project is an investment in the community. Contact Falayi Adu at fadu@caplink.org for more information.

2010 Health Center Projects

In 2010, Capital Link was proud to assist 9 health centers in leveraging over $134.2 million in financing/funding for capital projects totaling over $144 million. When completed, these facilities will offer nearly 407,000 in square footage and serve over 140,000 patients. These projects required a creative mix of resources, as shown in this chart:



Health Center Highlights

Whittier Street Health Center, MA completed financing in December, 2010 for a new, 78,000 square foot facility that will double its clinical operations. Founded in 1932, WSHC offers comprehensive family health care, dental care, mental health services and low-cost pharmacy services to one of the most impoverished areas of Boston. Responding to the need to expand access to primary care services and address health disparities in its service area, WSHC began planning the $36.6 million project in 2006, engaging Capital Link three years ago to assist management with planning and implementing the project.

Capital Link assisted the health center with a market assessment to clarify WSHC's patient base, staffing and facility plans, pro-forma financial forecasts through 2017 and identification of the most advantageous financing structure. Capital Link then helped procure sources of project capital, including a $25 million New Markets Tax Credit transaction, long-term debt, bridge financing and a loan guarantee from the Health Resources and Services Administration (HRSA). Capital Link also assisted the health center with its application for Facilities Investment Program funding, which resulted in a $12 million award.

The new facility will give WSHC its first permanent home and capacity for more than 100,000 patient visits by 2015. It will also provide space for the co-location of the Dana-Farber Cancer Institute, Whittier Pharmacy and a physical therapy office. It will be built in the U.S. Green Building Council's LEED Rating System Silver Standard and incorporate advanced health information technology. Construction of the new facility is expected to be complete in January of 2012.

Bread for the City, Washington D.C., celebrated the grand opening of its new 11,000 square foot Northwest Center medical facility on January 7th. Hundreds of well-wishers, including donors, volunteers, clients, neighbors, civic leaders, and a few Capital Link staff members, were on hand for the ceremony. Capital Link assisted Bread for the City with its capital project from the initial work plan in 2005 to the closing of its financing in the fall of 2009, helping Bread for the City complete a market assessment, program and staff planning, space planning, business plan and preliminary and refined financial forecasts. In addition, Capital Link helped BFC determine the best structure for financing its $6.8 million capital project.

HealthFirst Family Care Center, MA., broke ground on its new 78,000 square foot community health center in Fall River on January 17th. The new facility will be less than a quarter mile from the current site and enable HealthFirst to double its capacity to serve patients. The new site will allow the health center to provide multiple services in one location, providing a model of coordinated care which will result in a reduction of wait time for referrals, elimination of transportation to specialists' offices, and enhanced communication among the various providers. Capital Link assisted HealthFirst with a business plan, space plan, and preliminary and refined financial forecasts to help the center determine sources of financing for the $13 million project, which benefitted from a $11.5 million Facility Investment Program (FIP) grant award. The facility will be built using energy efficient and sustainable design principles and is expected to be complete in October 2011 to coincide with HealthFirst's 40th anniversary of service.

EHR Incentive News

First payment for the adoption and use of certified Electronic Health Records distributed. The Winn Community Health Center, LA, received $63,750 worth of federal incentive money for showing "meaningful use" of the electronic health records system, the first health center to do so. According to the Department of Health and Human Services' Office of the National Coordinator for Health Information Technology, "meaningful use" certifies that the health center is "engaged in efforts to adopt such a system" in their first year, and that they can show they are using it through use of certain billing and reporting methods in years 2 through 6. Health centers are mandated to adopt EHR systems by 2014.

Upcoming Conferences and Training

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 www.caplink.org/events.html. for more information.

Date/Time	Place	Details
February 23, 2011	National Housing & Rehabilitation Association 2011 Annual Meeting and Pre-Conference Symposium on New Markets Tax Credits, Hyatt Regency Coconut Point, Bonita Springs, FL	Terry Glasscock, Project Consultant "A Case Study in Targeted Population Financing using NMTC"
March 25, 2011, 8 a.m. - 9:30 a.m., Room: Thurgood Marshall South	NACHC Policy & Issues Forum, Marriott Wardman Park Hotel, Washington, D.C.	Joe McKelvey, Project Consultant, "Laying the Bricks and Mortar: State Funding for Capital Projects" (PFF1)
March 25, 2011, 3 p.m. - 4:30 p.m., Room: Marriott Ballroom 2-3	NACHC Policy & Issues Forum, Marriott Wardman Park Hotel, Washington, D.C.	Cindy Barr, Operations & Facilities Planner, and Terry Glasscock, Project Consultant, "Ready or Not? Getting your Capital Project Ready to Move Ahead" (PFJ3)
April 12, 2011 (day long training seminar)	North Carolina Community Health Care Association, Morrisville, NC	Terry Glasscock, Project Consultant, Cindy Barr, Operations & Facility Planner, and Jonathan Chapman, Project Consultant, "Preparing a Competitive Capital Grant Application for HRSA Funding"

Capital*ink*

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About Capital Link:

Since 1998, Capital Link has provided planning and capital solutions for hundreds of health center building projects. 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. Additionally, Capital Link provides targeted loans to help health centers leverage other sources of capital. For more information, visit **www.caplink.org**