

Capital Investment Trends and Needs

OF FEDERALLY QUALIFIED HEALTH CENTERS

April 2021

Introduction

In 2019, the nation's Federally Qualified Health Centers (FQHCs)¹ served more than 30 million patients, employed almost 158,000 staff members, and owned and managed fixed assets (property, plant, and equipment) totaling \$23.7 billion². The more than 13,000 sites operated by FQHCs constitute the physical infrastructure necessary for the delivery of health services to patients that have been disproportionately affected by the COVID-19 pandemic and by the persistent, pre-existing health and economic disparities that the pandemic merely exacerbated. Ongoing investment in this critical infrastructure is required to maintain and build health center capacity to serve a growing proportion of the nation's most vulnerable populations and communities.

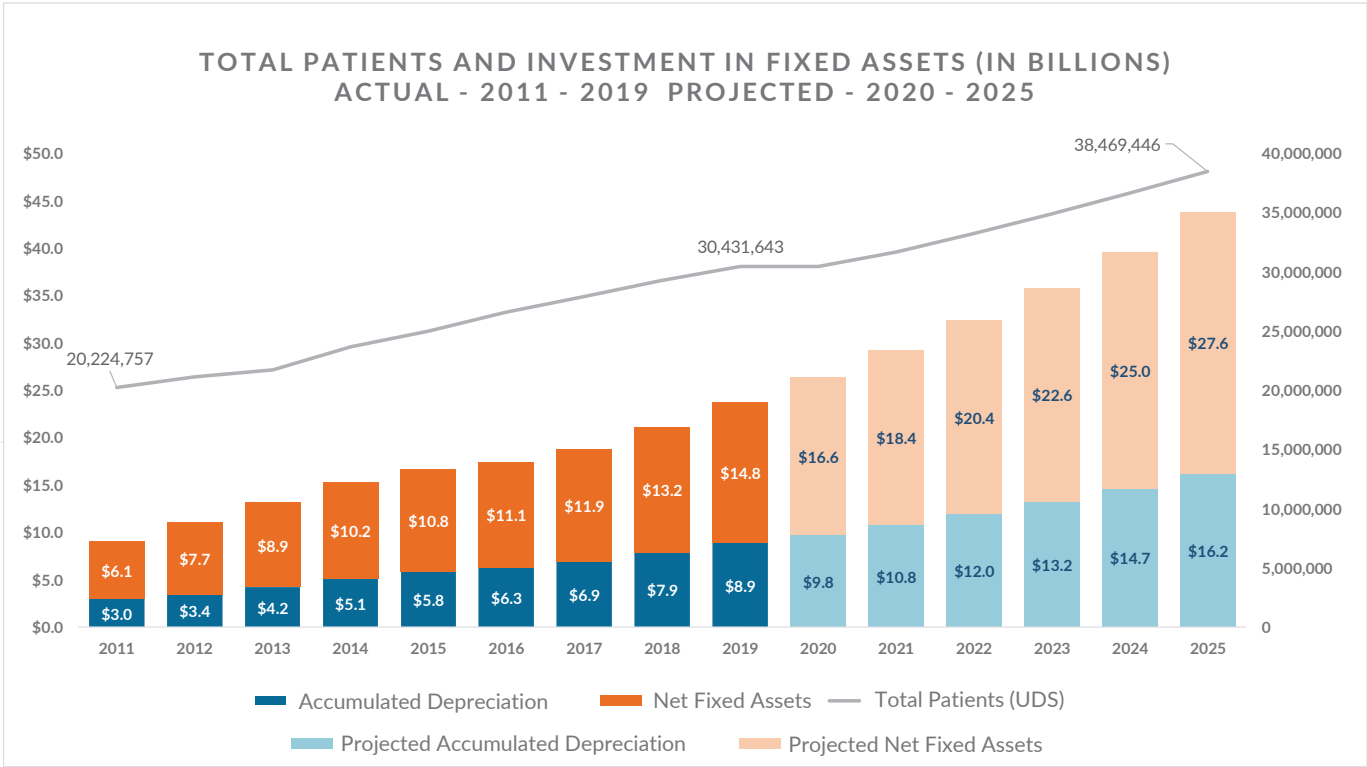
The purpose of this report is to present findings on the current and emerging capital plans and needs of health centers during this unprecedented time. It highlights historical capital investment trends of health centers, projected capital needs through 2025, and current priorities for planned projects.

Part 1: Overview of FQHC Capital Investment Trends and Projections

Based on continued federal investment in operating support and patient growth trends, FQHCs are on track to serve up to 38.5 million patients by 2025. Their ability to do so, however, is dependent on a number of factors, including the ability to attract and retain staff at all levels and the ability to access capital to address their physical infrastructure needs. Based on current and projected construction-related costs and capital investment trends, health centers will need to invest approximately \$17.5 billion in property, plant, and equipment (PP&E) over the next five years.

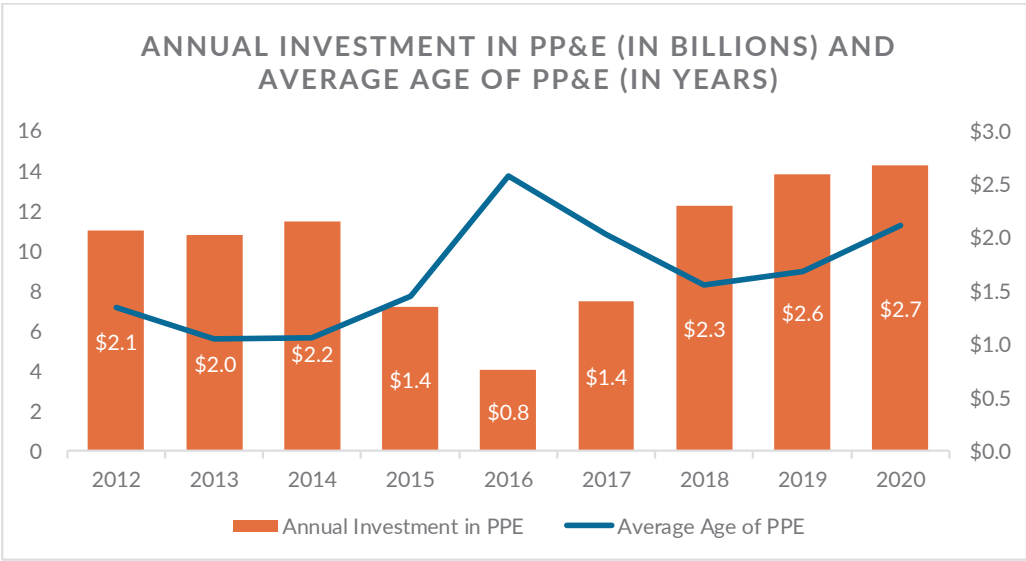
Specific trend highlights include:

- Findings from an analysis of Balance Sheets as of year-end 2011 showed that FQHCs had invested a total of \$9.1 billion in PP&E. During that year they served a total of 20.2 million patients.
- Nine years later, by year-end 2020, on-Balance Sheet PP&E investments grew by an estimated 290%, totaling \$26.4 billion, representing facilities and equipment to serve at least 30.4 million patients (2019 UDS).
- By year-end 2025, FQHCs are projected to need additional PP&E investments totaling \$17.5 billion, enabling them to serve 38.5 million patients, bringing gross PP&E investments to \$43.8 billion.



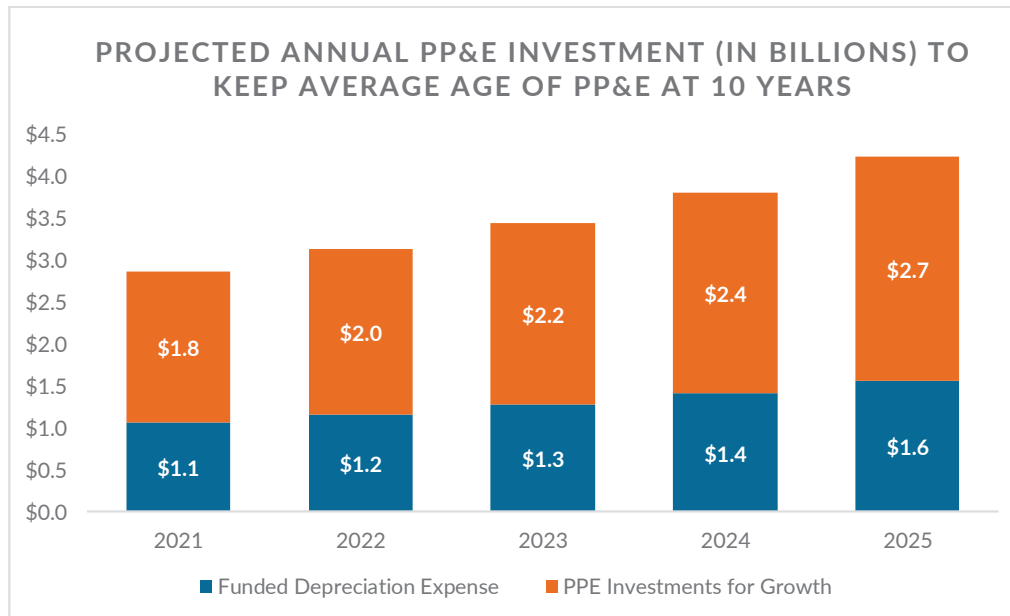
The following chart shows annual capital investment in PP&E from 2012 through 2020. It indicates ebbs and flows in annual investment over this period, coinciding with changes and uncertainties in the policy environment as further discussed below.

Annual Capital Investment and the Average Age of FQHC PP&E



- Annual investments in PP&E have fluctuated over the nine-year period shown above, with 2012-2014 representing the end of the period during which HRSA made major capital grant funding available to health centers through the American Recovery and Reinvestment Act (ARRA) and the Affordable Care Act (ACA); \$1.2 billion in federal capital grant funding was expended during this period.
- In contrast, between 2015 and 2017, only \$350 million in remaining federal grant funds were expended toward capital projects. During this time period, the threatened repeal of the ACA took center stage. In 2017, Congress failed to extend health center operating grant support in a timely manner, creating further uncertainty in the operating environment for health centers. As a result, capital investment slowed dramatically.
- By 2018, with the successful reauthorization of health center federal operating grant funding and threats to the ACA on the backburner, capital investments began to accelerate again, despite the fact that the Health Resources and Services Administration (HRSA) capital grants were almost entirely expended prior to this time period.
- The average age of PP&E (measured in years) decreases when capital investment accelerates and increases when investments decline. Average age of PP&E reached a low of six years in 2013 and 2014, indicating that many health centers had relatively new facilities. The slowing of investment caused the average age of PP&E to increase to 14 years in 2016. By 2018, as a result of additional capital investment, the average age of PP&E decreased to eight years, but has been creeping up since then, to an estimated 11 years in 2020.
- While capital investments did increase in 2019 and 2020, the average age of PP&E has also been increasing because the pace of investment is slower than the pace at which existing assets are depreciating. This finding indicates that as the health center system expands, an increasing level of annual capital investment must be sustained to safeguard the existing infrastructure, in addition to any investments needed to accommodate growth.

Projected Total Capital Need 2021 – 2025

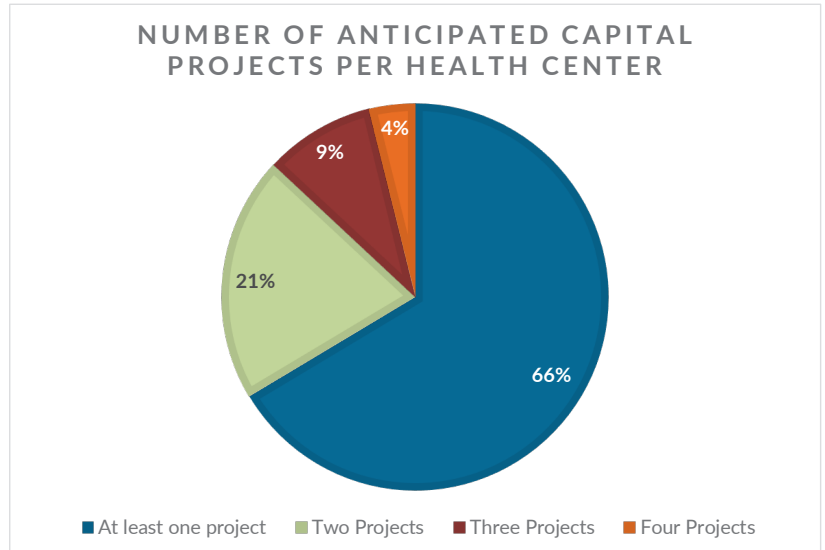


- In order to add capacity to serve up to 38.5 million patients by 2025, annual capital investment is projected to increase from \$2.9 billion in 2021 to \$4.3 billion in 2025. This estimate assumes that health centers will seek to maintain an average age of PP&E of not more than 10 years, to assure that patients can be served in reasonably modern, efficient facilities and with state-of-the art equipment. It also assumes that construction costs will escalate between 3% and 6% per year over this time period.
- In aggregate, health centers will need to invest an estimated \$17.5 billion over five years to meet the projected patient service needs, while maintaining existing system capacity.
- As their balance sheets grow, FQHCs must annually invest an increasing amount to maintain and replace existing physical infrastructure, in addition to making investments to accommodate new patient and service growth.
- As a minimum proxy for the cost of repairing and replacing existing infrastructure, the chart above identifies “funded depreciation,” totaling \$6.5 billion and shown in blue, as the proportion of capital costs necessary to repair and replace existing infrastructure to counteract the natural depletion of assets as they age. The amounts shown in orange, totaling \$11 billion, approximate the amounts needed for expanded capacity to provide a broader range of services to a patient population totaling 38.5 million per year by 2025.

Part 2: Current Capital Priorities Identified by Health Centers

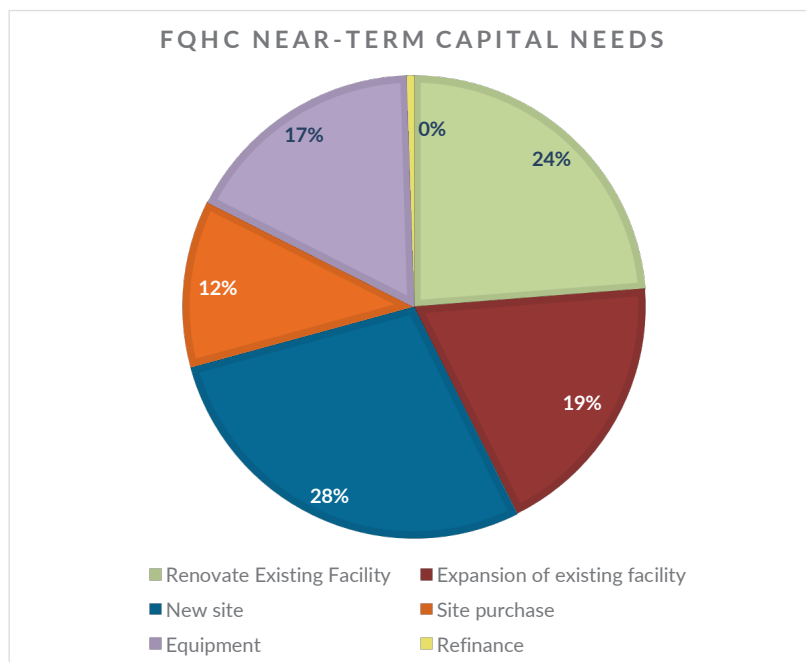
Through an assessment Capital Link conducted between December 2020 through January 2021, a representative sample of 376 FQHCs provided detailed information regarding 551 planned capital projects over the next three years. The information below summarizes their responses.

- **97%** of respondents indicated they had at least one planned project:
 - **66%** had one project
 - **21%** had two projects
 - **9%** had three projects
 - **4%** had four projects

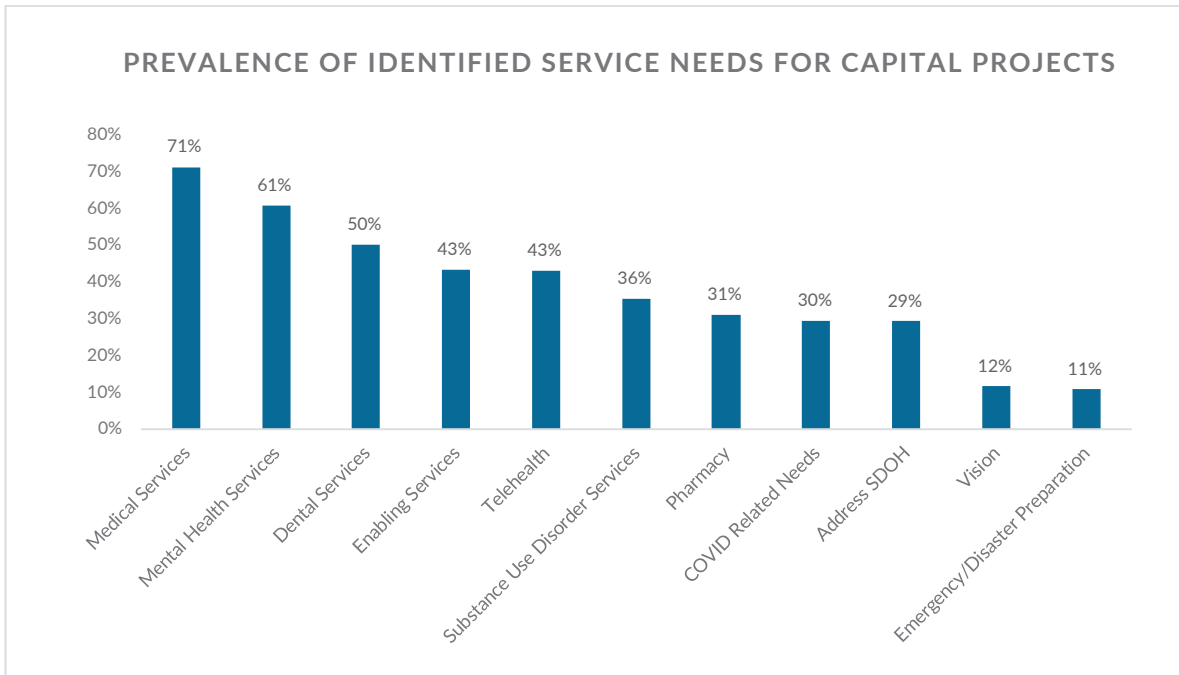


Extrapolated to the total FQHC “universe” of 1,457 FQHCs in 2019, this response suggests that health centers as a group may have more than 2,000 capital projects anticipated over the next three years.

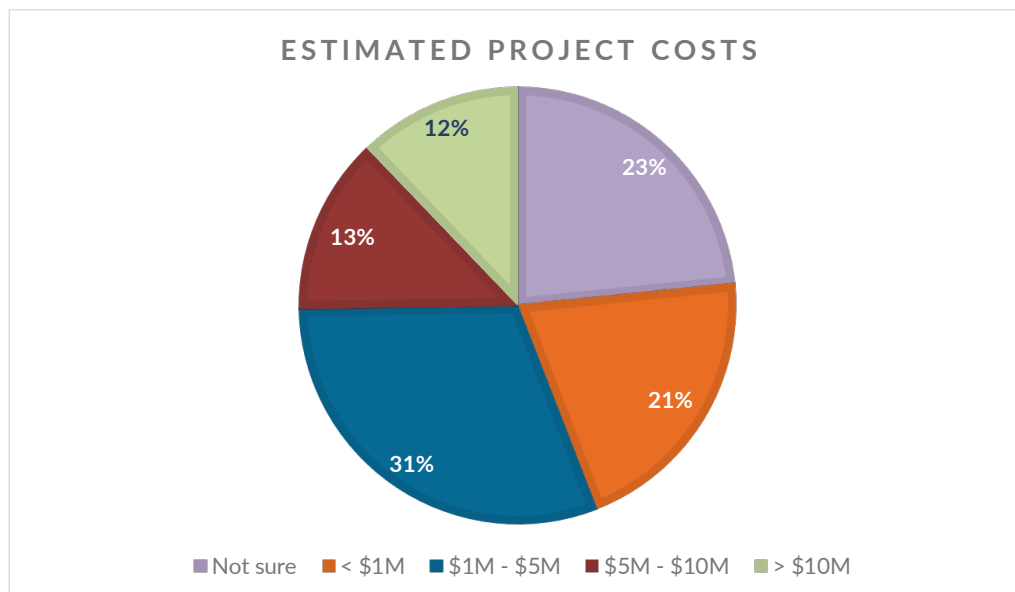
- Respondents indicated a range of project needs, as indicated in the chart below.



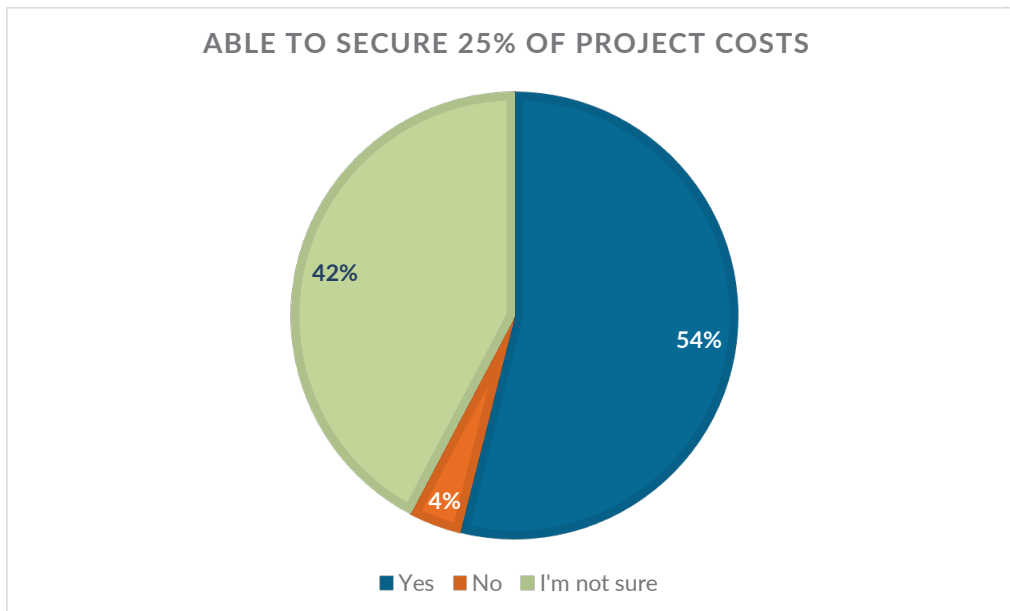
- Planned projects will support a range of critical health center services, with many projects accommodating multiple services and programs.



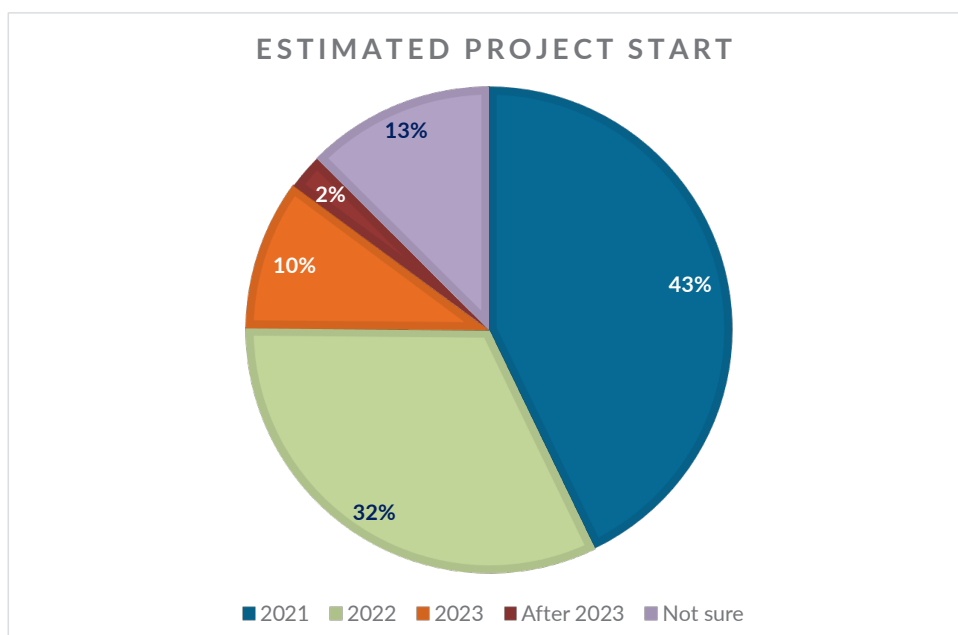
- While 23% of respondents were not sure of their overall capital project budgets, the largest proportion indicated project budgets between \$1 and \$5 million (31%). Twenty-five percent estimated project costs at \$5 million and above, and 21% have projects with costs below \$1 million.



- With respect to funding plans for projects, many centers are still working on financing plans and are not yet sure of their ability to secure funding for their projects. However, more than half believe they will be able to secure at least 25% of their project costs from non-federal sources.



- Respondents indicated some urgency regarding their planned projects, with 75% scheduled to occur in 2021 and 2022.



Conclusion

Ongoing maintenance and growth of health center service capacity is predicated on significant investments in physical infrastructure—whether in new facilities, expanded telehealth capacity, or renovated facilities with updated systems and spaces to support safe, efficient, and effective care in a post-COVID-19 environment. In aggregate, health centers will need to invest an estimated \$17.5 billion over five years to meet the projected patient service needs, while maintaining existing system capacity. Planning for service delivery, staff recruitment and retention, and capital development must go hand-in-hand to ensure the stability and growth of the primary care safety net for underserved communities nationwide.

Methodology and Data Sources

This analysis relies on the following data from Capital Link’s proprietary database, which includes:

- Audited financial statements of FQHCs (including both Section 330 grantees and Look-Alikes)
- Uniform Data System (UDS) reports submitted annually by FQHCs by calendar year to the Health Resources and Services Administration (HRSA)

| Category | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Number of Audited Financial Statements of FQHCs by Fiscal Year | 802 | 812 | 817 | 1,034 | 1,147 | 1,227 | 1,228 | 1,237 | 1,189 |
| Number of UDS reports filed by FQHCs by calendar year | 1,131 | 1,203 | 1,215 | 1,359 | 1,429 | 1,425 | 1,429 | 1,446 | 1,457 |

Given that some FQHCs are public entities or are part of larger health systems, not all FQHCs produce separately audited financial statements that are comparable to “stand alone” health centers. Capital Link’s database of nearly 15,000 health center audited financial statements represent approximately 86% - 92% of all comparable FQHCs nationally in any given year.

To gain a better understanding of current health center capital plans, Capital Link administered a SurveyMonkey assessment between December 2020 and January 2021 to all FQHCs (1,457). The respondent sample was representative of health centers nationally. The charts below indicate the spread of responses across regions and urban/rural categories identified by HRSA.

| | % of Centers Responding in Each Region |
|----------------|--|
| Region 1 | 33% |
| Region 2 | 19% |
| Region 3 | 20% |
| Region 4 | 22% |
| Region 5 | 26% |
| Region 6 | 27% |
| Region 7 | 51% |
| Region 8 | 24% |
| Region 9 | 25% |
| Region 10 | 26% |
| Overall | 26% |

| | Total FQHC Population | Capital Needs Respondents |
|--------------------|-----------------------|---------------------------|
| Total Urban | 58% | 58% |
| Total Rural | 42% | 42% |
| Grand Total | 100% | 100% |

About Capital Link

Capital Link is a national, non-profit organization that has worked with hundreds of community health centers and Primary Care Associations (PCAs) for over 25 years to plan for sustainability and growth, access capital, improve and optimize operations and financial management, and articulate value. Established through the health center movement, Capital Link is dedicated to strengthening health centers—financially and operationally—in a rapidly changing marketplace. For more information, visit us at www.caplink.org.

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Endnotes

1. Federally Qualified Health Centers (FQHCs) are outpatient clinics that qualify for specific reimbursement systems under Medicare and Medicaid. They include federally funded health centers known as “Section 330 grantees” and those that meet certain federal requirements, but do not receive federal grant funding, known as “Look-Alikes.” This document refers to both types as “health centers.”
2. Data cited in this document is drawn from Capital Link’s proprietary database, which includes the sources described in the Methodology and Data Sources section of this publication.