

Capital Financing

Understanding the Lessons from ARRA, The
Opportunity of Reform, and the Future Need

October 2010
Honolulu, HI



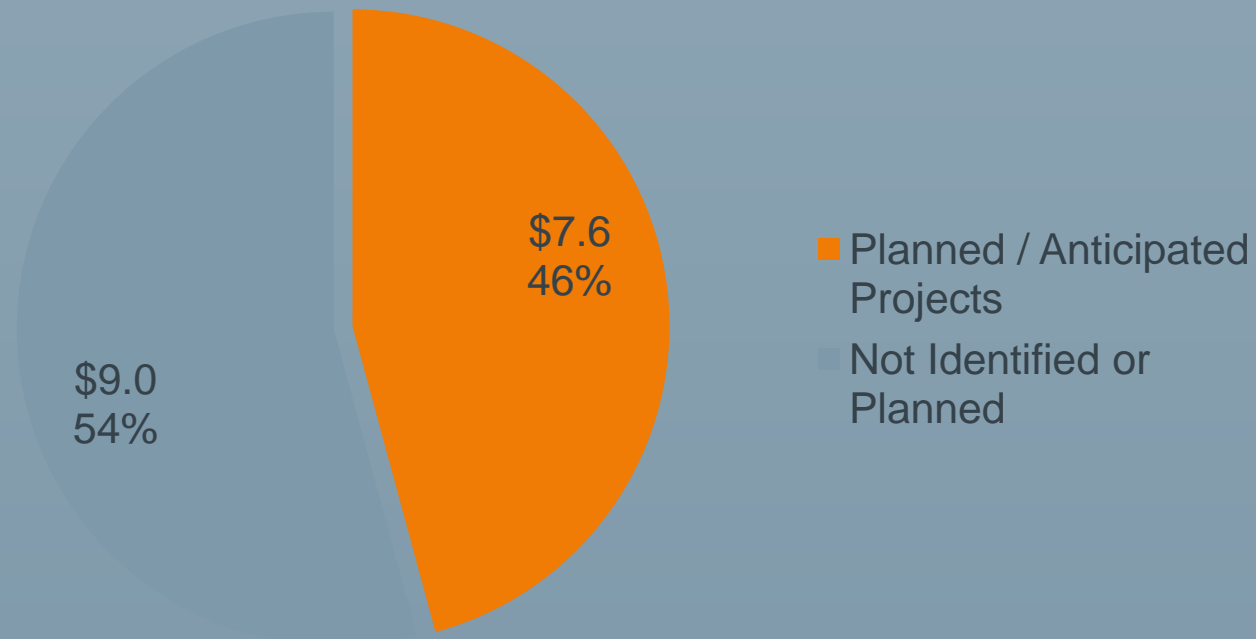
Capital Needs of Health Centers

- Capital Link estimates that health centers will need to invest **\$16.6 billion into their facilities and equipment in order to serve 40 million people by 2015.**
 - Health Centers received \$1.5 billion in capital funding through ARRA
 - Health Centers will receive \$1.5 billion in capital funding through health reform

.... But a sizable funding gap remains



Status of Health Center Capital Plans (in Billions)



FIP and Health Reform



- ARRA, NMTC, USDA
- 1.5 billion available through 2015
- More FIP Awards?
- Future Capital Programs?

Health Reform: Investing in Primary Care

- Recently passed legislation includes \$11 billion to support health center expansion and growth
- Medicaid enhancements will also increase patients served
- More than 95% of Americans will be insured
- MA experience shows that newly insured will have limited provider options – expansion of health centers will be critical



The Feds Can't (or Won't) Do it All

- Financing will be Critical
- HRSA Loan Guarantee Program Improvements
- USDA to address \$6.2 billion in rural needs



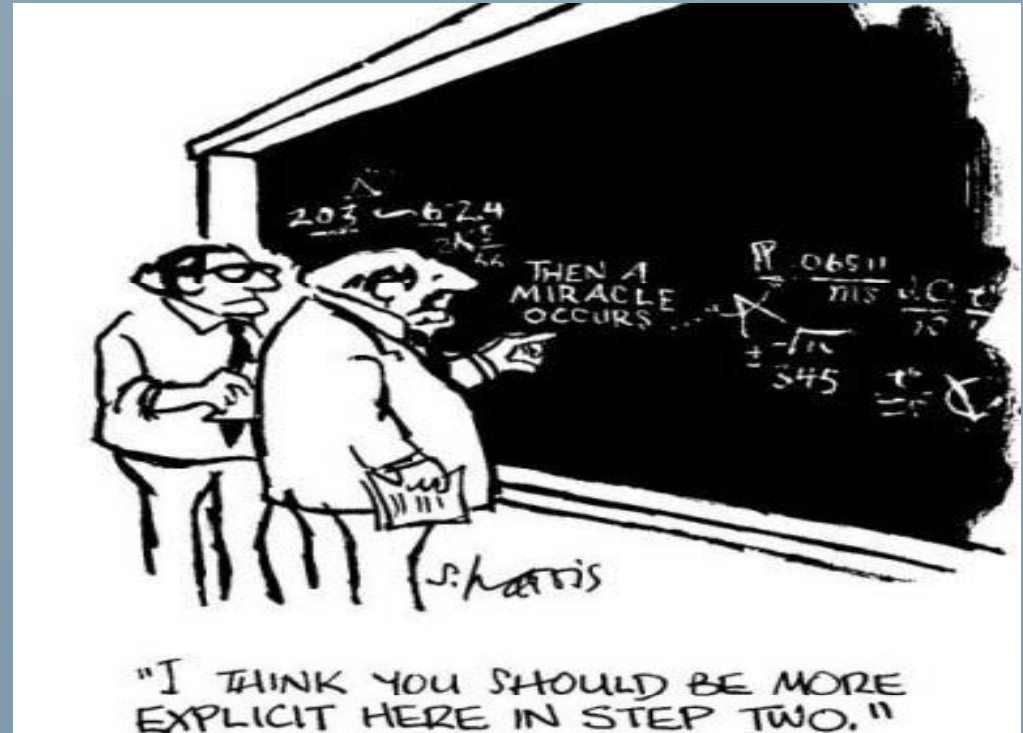
Keys to Success

- Careful and Ongoing Planning Process
- Needs Assessment
- Economic Impact
- Building Connections
- Expect Red Tape
- Multiple Funding Sources



Keys to Success: *Planning*

- Thorough and Ongoing
- Always Ready for New Opportunities



Keys to Success: *Needs Assessment*

- How much space do you need now? 2015?
- How many providers will you need to hire?
 - Can the space be designed with recruitment in mind?
- How many patients do you hope to serve?
- What services will they need?



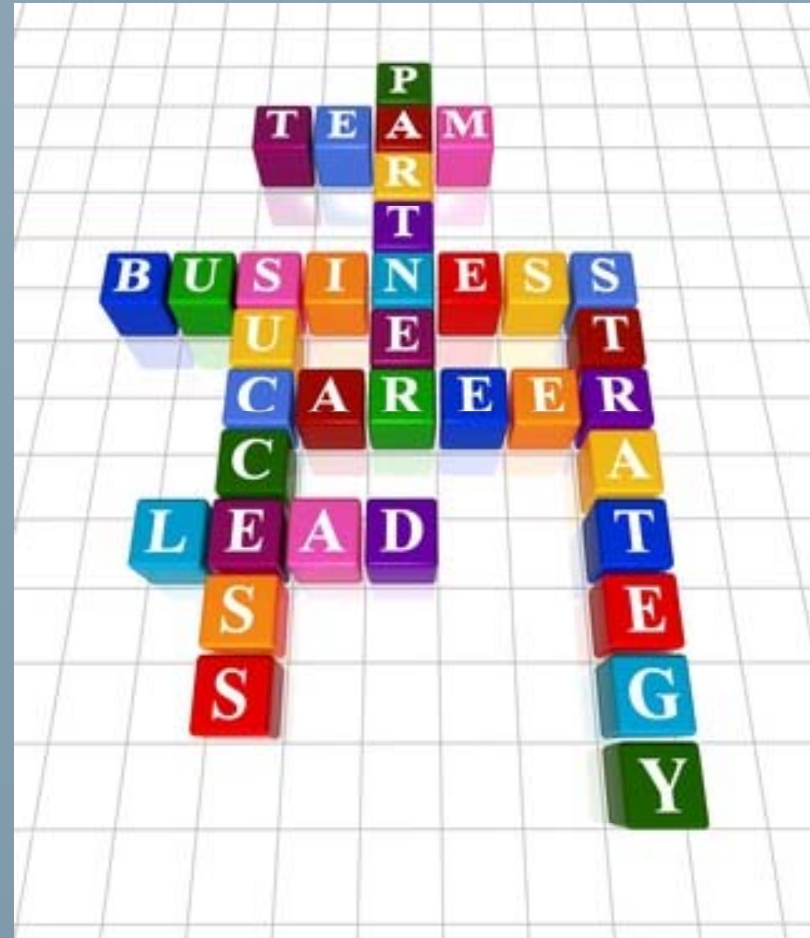
Keys to Success: *Economic Impact*

- Jobs/FTEs
 - Creation and Development—Ladders of Success
- Direct, indirect, and induced
- Construction and Ongoing
- Health Centers as Community Anchors
- Primary Care Revolution Report



Keys to Success: *Connections*

- Primary Care Associations
 - Needs Assessment
 - Financial Trends Reports
 - Economic Impact
 - Grantwriting
 - Best Practices
- Legislators
- Community Partners
- Foundations
- Corporate Support



Keys to Success: *Expect Red Tape*

- NEPA
- Davis- Bacon
- HPA
- NOFI



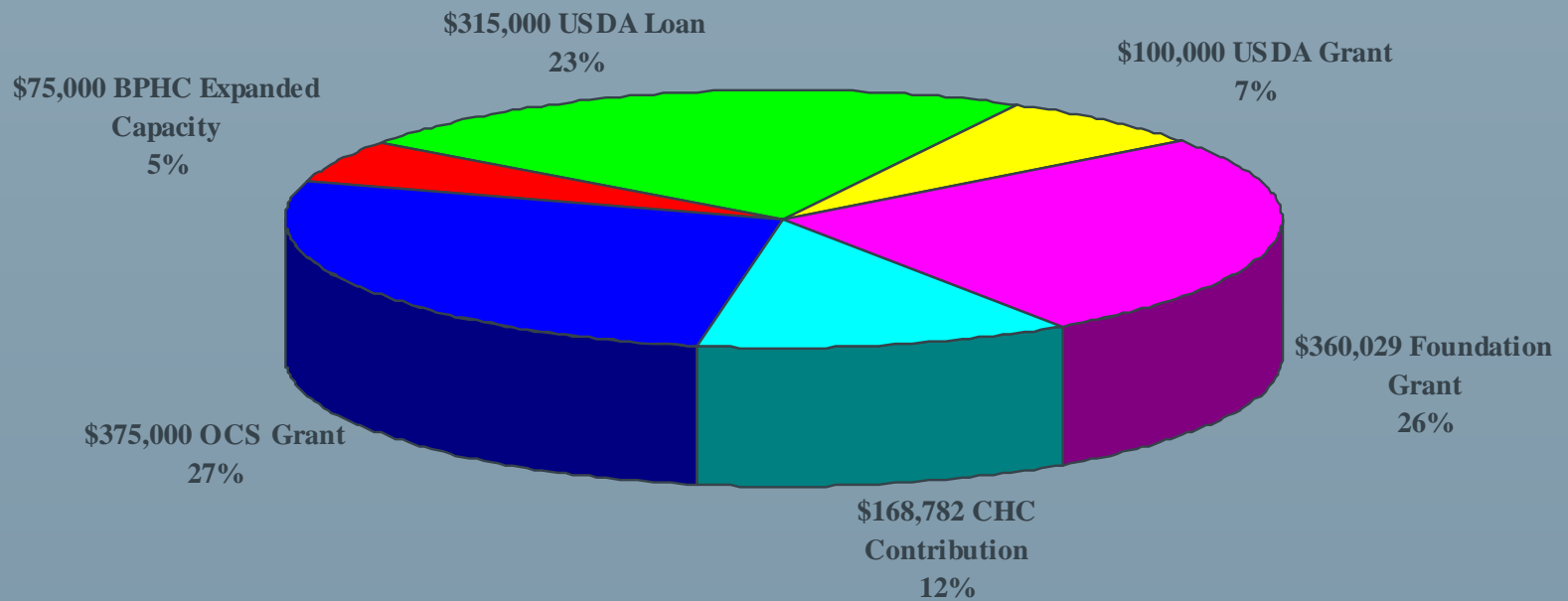
Enid was finally ready to admit that compliance was a bit more complicated than she first thought.

Keys to Success: *Multiple Funding Sources*

- Federal Support is Limited and Highly Competitive
- Be Creative in Patching Together Funding From Multiple Sources
- Recognize the Costs of Avoiding Debt –
More Fundraising Needed & A Longer Development Timetable
- Tell the Story and Take Advantage of Health Reform Gains



Sample Funding Plan for a \$1.4 Million Project



Types of Equity/Grant Funding

- Health Center Cash Reserves
- Federal Government: ARRA, CDBG, EDA, USDA, OCS, NMTC, earmarks
- State/Local Government Grants/Appropriations
- Foundation Grants—Private or Corporate
- Hospital or Other Partners
- Community Capital Campaigns
- In-Kind Gifts, e.g. Donated Land/Equipment, \$1.00/Year Lease for 99 years



New Markets Tax Credits

- Designed to encourage investment in low income areas
- Can generate an additional 20-25% equity
- Most health centers geographically eligible
- Requires project size greater than \$4M
- Next round on hold pending Jobs Bill
- www.cdfifund.gov



Financing Strategies



Financing Sources: Conventional Lenders

- Market rate
- May be quicker and less expensive than below market options
- May be able to leverage relationship with current bank
- May offer structural flexibility
- Consider other local & national banks



Financing Sources: Tax-Exempt Bonds

- Two primary bond issue types:
 - Publically Offered (sold on secondary market)
 - Private Placement Issues (buyer pre-identified)
- Fixed and Variable rates
- Issued by State or Local Authority
- Low rates, higher transaction costs (legally complex)
- Public Issue Bonds need to be “credit enhanced”



Financing Sources: Community Development Financial Institutions (CDFIs)

- Specialized lenders that work in market niches such as community facilities that have not been adequately served by traditional financial institutions
- Community development banks, credit unions, loan funds, and micro-enterprise loan funds.
- Examples include NCBCI, Non-Profit Finance Fund, Low-Income Investment Fund, etc.
- May be able to be more creative, though not necessarily below market rates



Other Financing Alternatives

- State/County loan programs
- New Markets Tax Credits
- Local partner financing
- Owner financing



Credit Enhancement for Debt Funding

Credit Enhancement can improve a health center's ability to obtain a loan, lower the interest rate and/or otherwise improve the terms of a loan.



Credit Enhancement Options

- HRSA/BPHC Loan Guarantee Program
(80%, 330s only)
- USDA Community Facilities Guarantee Program
(90%, Rural CHCs only)
- Letter-of-credit from a bank (FHLB) or mortgage insurance (for tax-exempt bonds)
- Hospitals or other partners
- Other special guarantee programs



Lots of options – Consider tradeoffs

Financing Source	Complex ?	Time to closing	Upfront Costs	Interest Rates	Size of Borrowing	Term
Commercial Loan	Low - Medium	1-3 mos.	Medium	Medium	Small-Large	5-10 yrs.
Tax Exempt Bond	High	4-6 mos.	High	Low	Med-Large	20-30 yrs.
NMTC Loan	High	4-6 mos.	Low-Med	Low-Med	Med-Large	7 yrs+
Community Dev. Loan (CDFI)	Medium	1-3 mos.	Low	Low-High	Small	3-7 years
Government Program	High	4-6 mos. or more	Low	Low	Small – Medium	3-40 years
Owner Financing	Low	1-2 mos.	Low	Low-High	?	?

Which Financing Option?

Factors to Consider

- Location/Eligibility
 - Urban or Rural?
 - 330 or not?
 - NMTC or Empowerment Zone-eligible or not?
- Size of Loan
- Interest rate and “all-in” rate
- Credit Strength/Need for Credit Enhancement
 - Spotty financial performance?
 - Much larger loan than clinic could have supported historically?
 - Loan-to-Value issues?
- Need for long-term vs. shorter term financing
- Interface with capital campaign



Contact Capital Link

Joe McKelvey, Project Consultant, Government Relations

Capital Link

1400 Eye St., Suite 910

Washington, DC 20005

Phone: 202-331-4602

Email: jmckelvey@caplink.org

