



FOM/IT

Leveraging HRSA Funding For Post-COVID Growth

Tuesday, October 19, 2021



THE NACHC MISSION

America's Voice for Community Health Care

The National Association of Community Health Centers (NACHC) was founded in 1971 to promote efficient, high quality, comprehensive health care that is accessible, culturally and linguistically competent, community directed, and patient centered for all.



Leveraging

- Lever - used to help move a heavy or firmly fixed load with one end when pressure is applied to the other
- Leverage - use (something) to maximum advantage



www.nachc.org


Today's Tidbits


 Overview of Capital Planning

 Types of Financing Resources

 Some Financing Examples

 Sharing of Experiences

 Preparing for What Might Be Next

 Q&A/Resources

Capital Link

Launched in 1995, Nonprofit
HRSA National Training & Technical Assistance Partner
Offices in CA, CO, FL, MA, and WV



- Plan for health center sustainability and growth
- Help health centers access capital
- Improve and optimize health center operations and financial management
- Articulate health center value

25+
years
of experience

Worked with
45+
PCAs/HCCNs
and regional
consortia

ASSISTED **2/3^{rds}** OF HEALTH CENTERS NATIONALLY

LEVERAGED **\$1.25 billion**

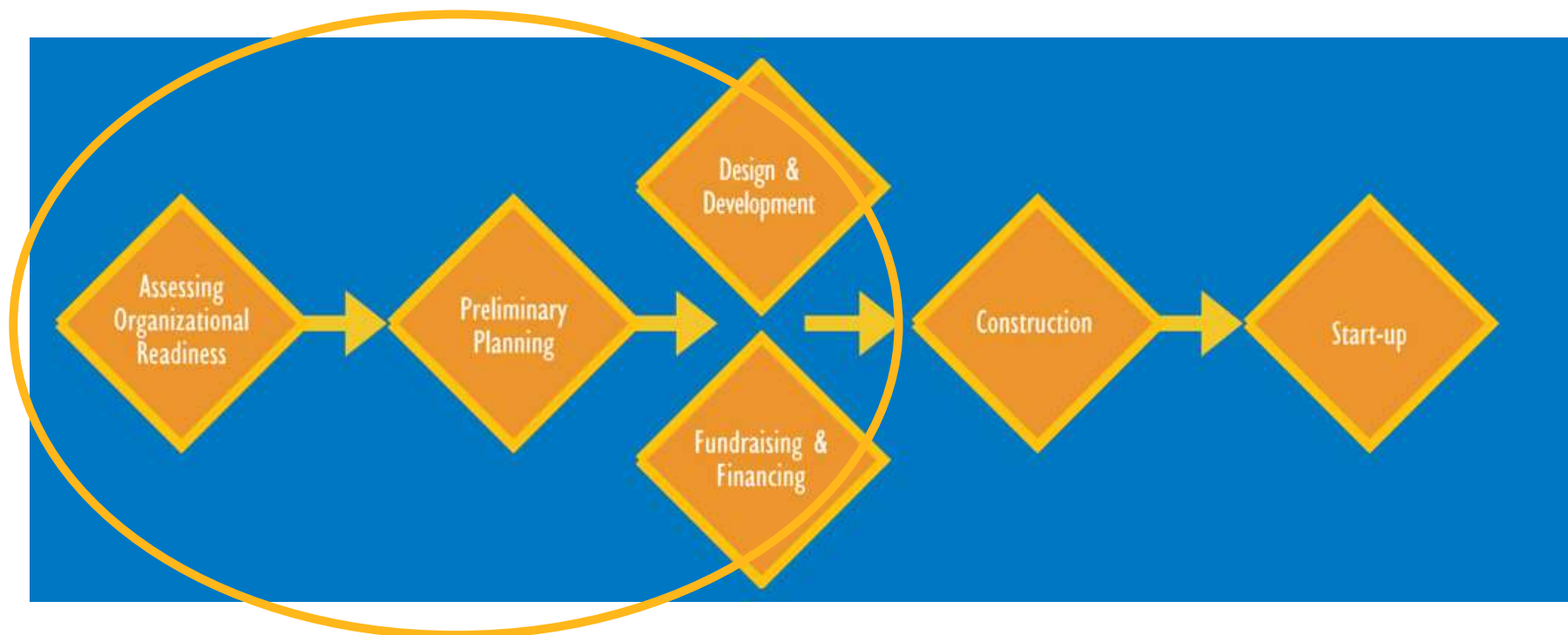
FOR **235+** HEALTH CENTER PROJECTS

TOTALING OVER **\$1.5 billion**

Assessing Risk “at the Edges”



Capital Planning: Method to the Madness...



Steps to a Successful Project

- Strategic Planning
- Financial Strength
- Operational & Clinical Excellence
- Assessing Market Opportunity
- Developing a Business Plan
- Identifying Financing Resources
- Project Planning Expertise

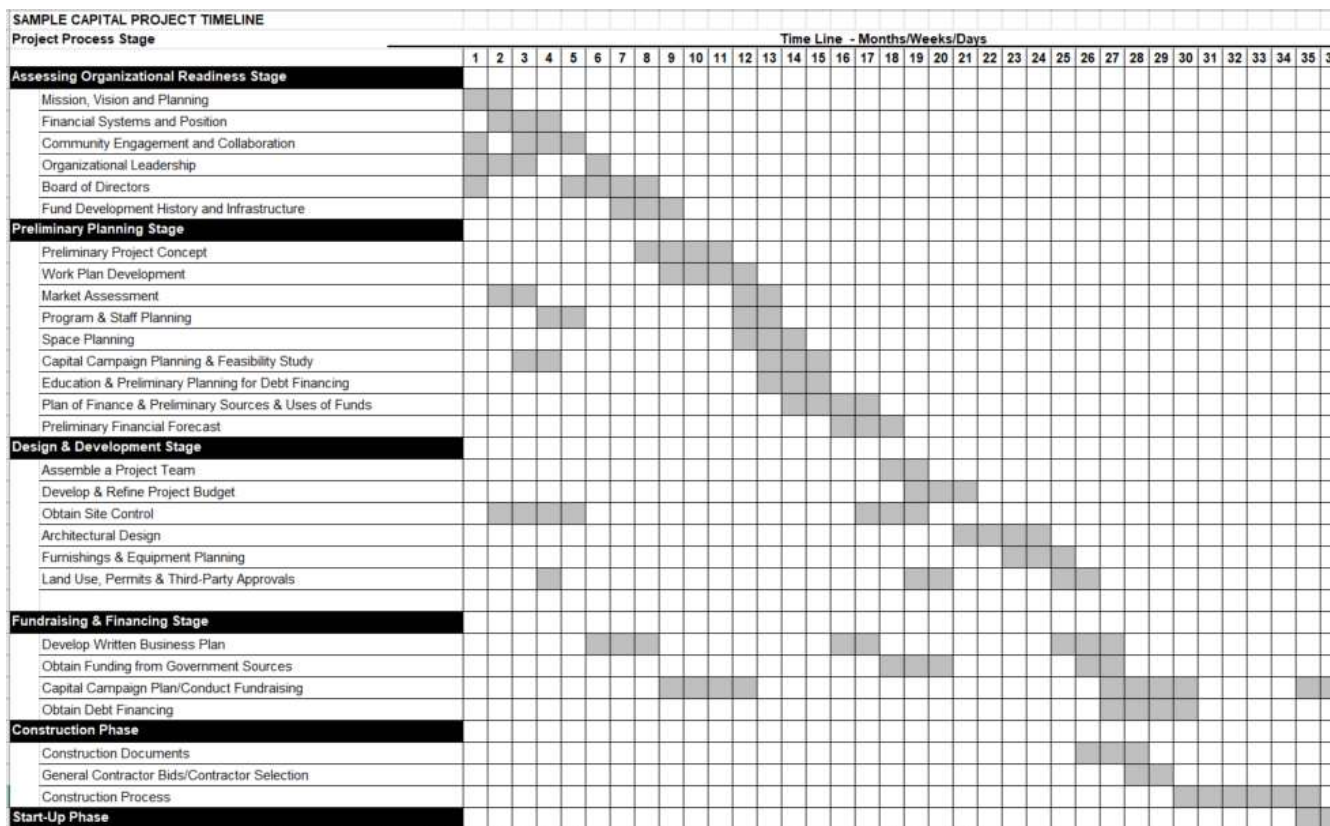


What to Build? How to Build?

- Begin to Define Your Capital Needs and Projects
- Know Your Financial and Operational Health
- Determine Debt Capacity
- Identify Sources and Types of Financing
- Tools and Resources



When to Plan?



Begin to Define Your Project(s)

- Patients
- Populations
- Services
- Geographical Area
- Provider Capacity and Types
- Area(s) of Excellence



Financial and Operational Health

	Metric	Why This Is Important
1	Operating Margin	Measuring stick of your business model; margins typically small but need to be positive
2	Bottom Line Margin	Is performance dependent upon large capital grants and/or other sources of non-operating revenue?
3	Personnel-Related Expense	Consumes 70-75% of budget; key driver of financial performance
4	Days Net Patient A/R	Financial management starts with collecting your money efficiently
5	Days Cash on Hand	Is there enough liquidity to keep operations running smoothly?
6	Physician Productivity (visits)	Productivity is the basis for revenue generation
7	Mid-Level Productivity (visits)	Productivity is the basis for revenue generation
8	Dental Provider Productivity (visits)	Productivity is the basis for revenue generation

Financial and Operational Health

	Metric	Why This Is Important
9	Medical Provider Productivity (patients)	Becomes more important in transition to team-based care
10	Medical Team Productivity	Who are your teams? How do they perform?
11	Cost (Revenue) per Visit	How are your visit costs changing over time?
12	Cost (Revenue) per Patient	With the move to PCMH, how are patient costs changing?
13	Medical Support Staff Ratio	How strategic is the staffing the medical teams?
14	Non-Clinical Staff Ratio	Non-clinical employees are not revenue drivers
15	Visit/Patient Growth Rates	Are visits growing faster than patients? Is demand growing?

Source: Capital Link Performance Benchmarking Toolkit

Debt Capacity Sensitivity Analysis

	A	B	C	D	E
1	Capital Link - Debt Capacity Sensitivity Analysis				
2		FY18			
3	Change in Net Assets	150,000			
4	Add: Depreciation	20,000			
5	Add: Interest Exp.				
6	Funds Available For Debt Service	170,000			
7	Add Rent Rebate/Savings				
8	Total Funds Available for Debt Service	170,000			
9	Debt Service Coverage discount (1.25)	\$ 136,000			
10					
11	Interest Rate	4.0%			
12	Term (years)	20			
13	Debt Capacity	\$ 1,848,284			
14					
15	Interest Rate	5.0%			
16	Term (years)	20			
17	Debt Capacity	\$ 1,694,861			
18					
19	Interest Rate	5.0%			
20	Term (years)	30			
21	Debt Capacity	\$ 2,090,653			
22	www.caplink.org				

<https://www.caplink.org/debt-calculator>

www.nachc.org

Operational and Clinical Assessments

- Operational and clinical assessments are necessary before expanding capacity
- Analyze productivity and patient utilization
- Clarify your operational model
- Evaluate your programs



Physical Space Considerations

- Age and condition of current space?
- Existing space adequate and/or attractive?
- How is space configured? Healthcare, team-based, flexible?
- Does it represent your community?
- Collaboration/funding requirements?



Scenario Planning 101

	Scenario 1
Number of new patients	2,000
<u>Provider FTE productivity/Patients per FTE</u>	<u>500</u>
Additional provider FTE needed	4.0
<u>Support staff per provider FTE</u>	<u>2.3</u>
Total FTE needed	13.2
<u>Estimated square footage per provider FTE</u>	<u>1,100</u>
Total additional square footage needed	4,400
<u>Cost per Square Foot?</u>	<u>\$180</u>
Estimated Construction Cost	\$792,000
Hard Costs (construction, etc)	\$ 792,000
Soft Costs	\$ 170,000
<u>Furniture, Fixtures, & Equipment (FF&E)</u>	<u>\$ 170,000</u>
Total Facility Cost	\$1,132,000

Scenario Planning 201

Scenario 1 Dental/FTE

Number of anticipated patients	1,314
<u>Provider FTE productivity/Patients per FTE</u>	<u>876</u>
Additional provider FTE needed	1.5
<u>Support staff per provider FTE</u>	<u>2.1</u>
Total FTE needed	4.7
Patient Utilization (Visits per Patient)	3.4
Anticipated Visits per Year	4,468
<u>Reimbursement per Visit</u>	<u>\$170</u>
Total Reimbursement	\$759,560
Direct Cost Per Service Visit	\$169
<u>Total Cost</u>	<u>\$755,092</u>
Net Patient Revenue Gain/(Loss)	\$4,468

Financial Feasibility and Sustainability

- Historical Performance (3 years audited)
- 5-8 Year Forecast
- Project Budget
- Sources and Uses
- Financing Structure



Identifying Funding Resources

- New Market Tax Credits (NMTC)
- Tax-Exempt Bonds
- US Department of Agriculture (USDA)
- HRSA Loan Guarantee Program (LGP)
- HRSA Capital Grants
- Covid-19 Relief



Identifying Funding Resources

- Foundations
- Bank Loan
- State/Local Funds
- Cash Reserves
- Lease vs Loan
- Grants/Gifts



HRSA Loan Guarantee Program (LGP)



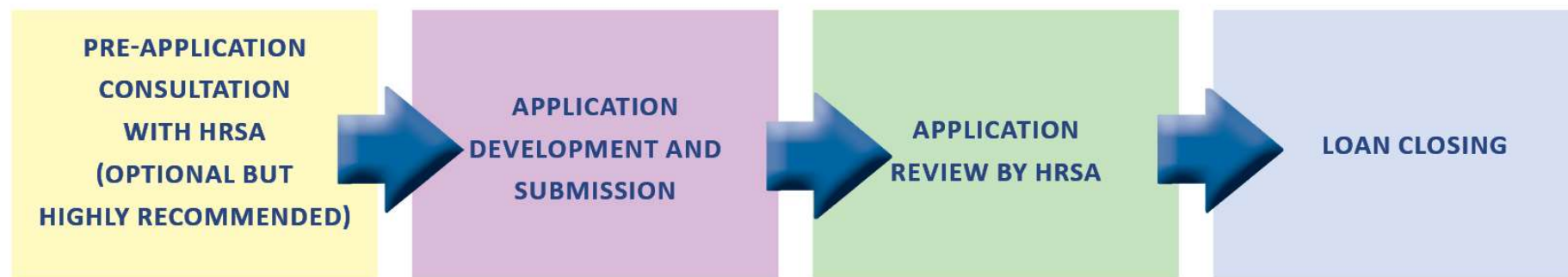
HRSA Loan Guarantee

- Congress 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.
- Program is only available for 330 funded health centers
- 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
- No minimum/maximum project budget – **NO HRSA FEES!**
- HRSA has worked to streamline its administrative and documentation processes and is now accepting applications



<http://www.caplink.org/advisory-services/financing-assistance/hrsa-loan-guarantee-program>

HRSA LGP: Application Process



<https://bphc.hrsa.gov/programopportunities/loan-guarantee-program>

<https://caplink.org/advisory-services/financing-assistance/hrsa-loan-guarantee-program>

New Markets Tax Credits

- Benefit from Private “Investment” that is NOT Repaid
- Provide ~18% of Total Project Cost
- Project Eligibility
- Community Development Entity (CDE)
- Application and Awards
- Timing



NMTC and FQHCs

- As of 2017, health centers have benefitted from \$3.6 billion in NMTC investments
 - Financed over 330 projects serving at least 6.7 million patients annually
- Health center capital projects are a highly desirable asset type for NMTC 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 regulations, e.g. non-qualified businesses or uses
 - Financial Stability: health centers are seen as stable and growing industry that can support long-term debt

NMTC Challenges

- Finding a Community Development Entity (CDE)
 - Aligning your project timing with other funding
- Complex structures
 - Three tiers of financing, with multiple parties
 - No two NMTC deals look exactly alike
 - Takes longer to close than you (or anybody else) think

How Does Your Project Qualify?

- Basic Eligibility
- Severely Distressed (the bar that most projects need to reach)
- Targeted Populations Rule (very difficult to qualify)

Combining the Best Financing Sources

Considerations and Combinations Can Mean
Significant
Financing Cost Differences Over Time



Example: \$10 Million Health Center Project



Example: \$10 Million Health Center Project

- **Conventional Bank Loan Only**
 - Interest rate is 6% with 15 year amortization
 - Annual Debt Service (P&I) **\$810,103**
- **Conventional Bank Loan with NMTC**
 - NMTC “net benefit” approximately 25% of project budget
 - \$2,500,000 subsidization from NMTC’s Program
 - Annual Debt Service **\$791,971** During 1st 7 years; then \$759,471
- **Tax-Exempt Bonds with NMTC**
 - NMTC net benefit approximately 25% of project cost - \$2,500,000
 - Interest rate – 4.0 % (fixed 10 years); 15 YR AMORT
 - Annual Debt Service **\$709,474** During 1st 7 years; then \$665,724
- **Foundation’s PRI with NMTC**
 - 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
 - Annual Debt Service **\$365,936** During 1st 7 years; then \$322,186



“Capital Stack”

- Project 1, Rural

- \$0.4M Land Equity
- \$1.1M Cash/Predevelopment
- \$2.2M NMTC Equity
- \$4.2M Long Term Debt
- \$7.9M Financing

- Project 2, Rural

- \$0.5M Foundation Grant
- \$0.8M In-kind
- \$2.1M USDA Loan
- \$3.4M Financing



- Project 3, Rural

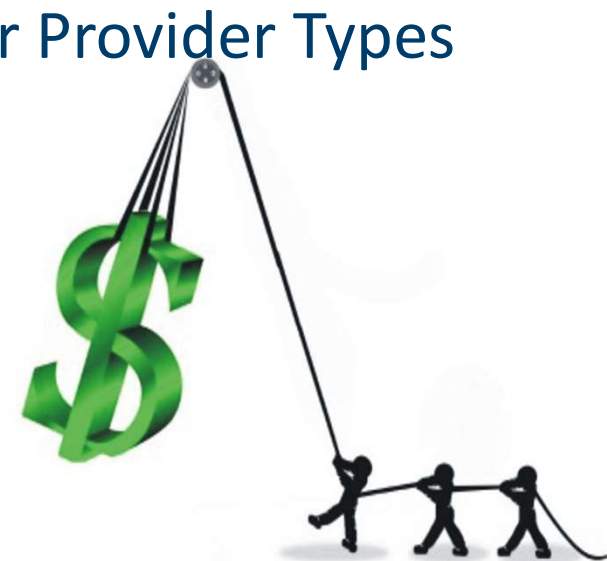
- \$2.0M Loan
- \$13.0M Loan (HRSA Guaranteed)
- \$5.8M NMTC Equity
- \$7.0M Cash/In-kind
- \$27.8M Financing

- Project 4, Urban

- \$0.8M Cash
- \$1.2M Loan (HRSA Guaranteed)
- \$1.0M Loan
- \$1.1M HRSA Grant
- \$4.1M Financing

Unique Considerations

- Rural Health Innovations
- Flexible Service Sites
- Telehealth & Technology
- Collaborations with Support Services & Other Provider Types
- Energy Efficiency
- School-Based Service Sites
- Workforce Recruitment & Retention
- Health Equity



Building Upon What We Know...and are Learning



Capital Link's DIY Resources

- Preparing for a Capital Project: Are You Ready? <http://www.caplink.org/capital-planning-tools>
- Debt Capacity & Revenue Modeling Tools
- Capital Planning & Financing Guides
- Strategic Planning & Benchmarking Toolkits
- Business Plan and Work Plan Manuals
- Cost of Care Trends & Snapshot Reports
- Case Studies and Project Highlights
- Learning Collaboratives



LGP Learning Collaborative



- Designed to assist health centers that anticipate conducting a capital project during the next one to three years and are considering the benefits of the [Health Resources and Services Administration \(HRSA\) Health Center Facility Loan Guarantee Program \(LGP\)](#).
- Series of interactive learning sessions conducted between **October and December 2021**
- **The deadline to apply is Thursday, October 21.**
- https://www.caplink.org/images/stories/Services/Capital_Link_HRSA_LGP_Learning_Collaborative_Fall_2021_-_Application_-_Fillable.pdf

<https://www.caplink.org/trainings-and-programs/learning-collaboratives/lgp-lc>

Celebrating the Effort





Questions?

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