

Financing Community Health Centers



Leveraging HRSA Capital Grants through a NMTC Structure

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The CDFI Fund is an equal opportunity provider.

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Overview

- Federally Qualified Health Centers
- National Capital Needs Assessment – 2013
- Health Infrastructure Improvement Program
- HRSA Requirements
- Overview of Proposed Structure
- What HRSA Needs
- HRSA Lease Requirements



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Federally Qualified Health Centers

- Provide comprehensive primary health care, dental, and mental health services to low-income, underserved populations.
- 1,300 health centers operate more than 9,000 service delivery sites. Most are located in NMTC eligible census tracts
- 22 million patients served in 2014
- Financial support from the Health Services Resources Administration (HRSA)



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Capital Link

- Established through the community health center movement and supported in part by a HRSA Cooperative Agreement, Capital Link helps health centers grow by providing direct assistance, and metrics and analytical services.
- Capital Link assisted more than 105 health centers and 21 PCAs in 2014 with services related to planning and financing facilities as well as analysis to help improve performance.
- In its 16+ year history, Capital Link has provided technical assistance to more than 2/3rds of health centers nationally and has assisted more than 200 health centers with **capital projects totaling over \$1.128 billion.**
- Assisted 22 CHSs with projects combining HRSA capital grants and NMTC investment since 2010.

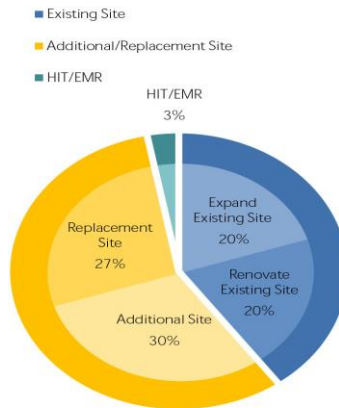


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National Capital Needs Assessment - 2013

Type of Capital Project Planned



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National Capital Needs Assessment - 2013

Components of Planned Capital Projects

Project Component	Respondent Capital Plans by Component	Percent of Total Cost	Extrapolated All CHC Capital Plans 2013-2018
Construction/Hard Costs	\$688 Million	80%	\$4.1 Billion
Equipment Purchase	\$91 Million	11%	\$541 Million
Refinance Existing Facilities	\$41 Million	5%	\$246 Million
Leasehold Improvements	\$29 Million	3%	\$172 Million
HIT or EMR Purchase	\$14 Million	2%	\$82 Million
Purchase Land/Building	\$1 Million	0%	\$6 Million
Total Project Size	\$863 Million	100%	\$5.1 Billion



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Health Infrastructure Improvement Program

- HRSA Capital Grant Program 2015
- Fourth Capital Grant opportunity since 2009
- \$150 million available funding
- \$1 million maximum award (smaller this time)
- **With careful structuring, grants can leverage additional NMTC equity**



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HRSA Requirements

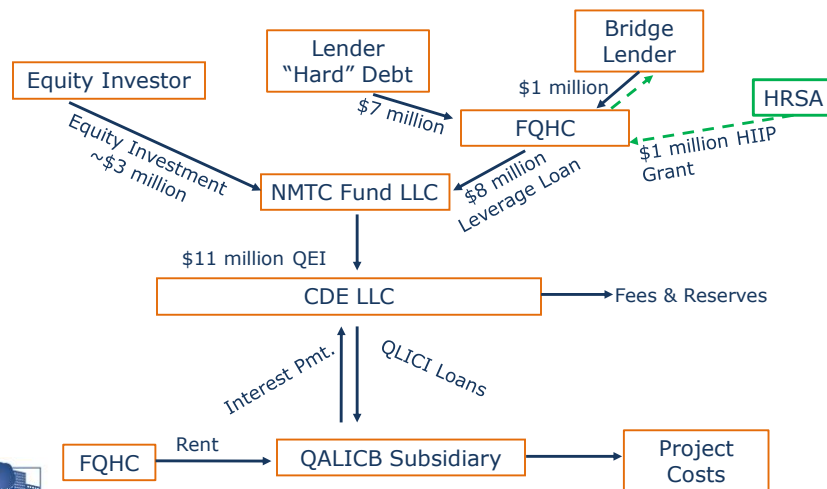
- HRSA Grant Funds may not be directly invested in NMTC Investment Fund
- Grantees may use separate, short term, bridge financing to fund the NMTC Investment Fund
- Grantees may then draw down grant funds (pari passu) as allowable project costs are incurred to repay the bridge financing



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Overview of Proposed Structure



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HRSA Consent and Subordination

- HRSA requires health centers to obtain its consent for the use of New Market Tax Credit investment for any project that includes HRSA capital grant funds

...AND

- Approval of the **subordination** of the Notice of Federal Interest to the security interest of the Community Development Entity lender



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HRSA Request

- Use of Bridge Financing in conjunction with the NTMC financing arrangement, consistent with the HRSA guidance date January 20, 2011;
- The leasing of the Project Property by the Grantee from the QALICB subsidiary;
- The subordination of the Federal Interest to the QLICI Mortgage and Community Health Center Lease.



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What HRSA Needs

- Detailed description of the financing structure
- Description of the benefits to the health center of the NMTC investment
- Description of the financial risks to the health center associated with the NMTC financing
- Assurance that the project approved for grant funding will be completed as proposed within the approved timeline



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Quantifying the Benefits

- As part of the request for Consent and Subordination, the health centers must provide HRSA with the financial benefits that the health center will derive from the New Markets Tax Credit Investment
- Benefits include:
 - Reducing the level of “hard debt” in the project sources of funding
 - Lower interest payments & enhanced cash flow
 - Improved Loan to Value ration



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Additional Risk

- **NO ADDITIONAL RISK** – There is no more risk associated with the New Market Credit investment than with a conventionally financed project. In both cases, the Notice of Federal Interest is typically subordinated to the lenders' security interest. The risk of default on the part of the grantee is actually less since the overall level of debt service is lower in a New Markets Tax Credit financing than it would be with conventional financing as outlined above.



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Project Timeline

- **NO ADVERSE IMPLICATIONS FOR THE TIMELINE** – The financial is expected to close by September 2013. CHC expects to complete the Project and occupy the new space at least one year ahead of the grant deadline of April 2015



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HRSA Lease Requirements

- A) The tenant will agree not to sublease, assign, or otherwise transfer any portion of the leased property (the "Project Property"), or use the Project Property for a non-grant-related purpose(s) without a written approval from HRSA (at any time during the term of the lease, whether or not grant support has ended);
- B) The lessor will inform HRSA of any default by the tenant under the lease;



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HRSA Lease Requirements

- C) HRSA shall have 60 days from the date of receipt of the lessor's notice of default in which to attempt to eliminate the default, and that the lessor will delay exercising remedies until the end of the 60-day period;
- D) HRSA may intervene to ensure that the default is eliminated by the tenant or another recipient named by HRSA;



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HRSA Lease Requirements

- E) The lessor shall accept payment of money or performance of any other obligation by the HRSA's designee, for the recipient, as if such payment of money or performance had been made by the recipient;
- F) In the event that the recipient defaults, the grant is terminated, or the recipient vacates the leasehold before the end of the lease term, HRSA shall have the right to designate a replacement for the recipient for the balance of the lease term, subject to approval by the lessor and the Sub-CDE, which will not be withheld except for good reason



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HRSA Lease Requirements

- G) The lessor must acknowledge the construction work and must acknowledge that there is a Federal Interest in the Project Property



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Capital Link's SGRA Program

The **Strategic Growth Readiness Assessment** provides an analysis of a center's readiness, capability, and capacity for growth including planning for facilities expansion. Sponsored by HRSA through a cooperative agreement with Capital Link, this service is now available to health centers **AT NO CHARGE** and provides a detailed analysis of:

- Historical financial and operational performance
- Potential debt service capability
- Suggested self-evaluation of staffing structure and leadership
- Potential Capital Project Sources and Uses
- Tangible suggested "next steps" for success in project plans



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Questions?



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Financing Community Health Centers Webinar Series

Upcoming topics include:

- **Navigating Online CHC Data Resources for Market Needs Assessment**
 - *Thursday, June 18, 2015 at 2pm ET*
- **Changing Revenue Landscapes for CHCs**
 - *Tuesday, June 23, 2015 at 2pm ET*
- **Updated Financial and Operating Metrics and Trends**
 - *Tuesday, July 7, 2015 at 2pm ET*

Upcoming webinar registration and webinar recordings can be found at:
The CDFI Fund's Virtual Resource Bank.



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CDFI Fund's Virtual Resource Bank

www.cdfifund.gov/what_we_do/Financing_Community_Health_Centers_Resource_Bank.asp

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Financing Community Health Centers

The resources for this topic can be found below. To view all of our available Resource Banks, click [here](#).

I. Training Curriculum

- Trends in Health Care and the Role of CHCs in Low-Income Communities
- Defining the CHC Landscape
- Primary Credit Needs of CHCs and Sources of Credit
- CHC Financial and Operational Metrics and Trends
- Underwriting CHCs
- Development Services and Partnerships

II. Training Webinars (Coming Soon)

III. Additional Resources

- Overview of CHCs
- Economic Development Benefits of CHCs
- Regional and State-Based Resources for CHCs

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