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2013 OPPORTUNITY FINANCE NETWORK
ANNUAL CONFERENCE
PHILADELPHIA, PA • OCT. 15-18, 2013

Capacity Building: Community Health Center Lending

Opportunity Finance Network and Partners
October 17, 2013



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Agenda

- ★ Welcome and Introductions
- ★ Overview of Community Health Centers (CHCs)
- ★ Overview of *Financing Community Health Centers* Initiative
- ★ Examples of CHC Projects
- ★ Q&A



Welcome and Introductions

- ★ Allison Coleman, Capital Link
- ★ Kim Dempsey, NCB Capital Impact
- ★ Tom Manning, Primary Care Development Corp
- ★ Pam Porter, Opportunity Finance Network
- ★ Tabitha Atkins, Opportunity Finance Network
- ★ Anne Misak, Opportunity Finance Network



OVERVIEW OF COMMUNITY HEALTH CENTERS

CHC Operating Environment



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The Health Care Delivery Spectrum

Patient Flow

- ★ Federally Qualified Health Centers (FQHCs) provide primary care, plus some specialties, in underserved communities.
- ★ Primary care is, by far, the least expensive mode of health care.

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Who Else, In Addition to FQHCs, Provides Primary Care in Low-Income Communities?

- ★ Hospital out-patient departments (OPDs) & satellites
- ★ Hospital emergency rooms
- ★ Private doctors
- ★ Freestanding clinics
- ★ Free clinics
- ★ Rural health centers
- ★ In-store clinics
- ★ Special needs providers:
 - Developmentally disabled
 - Frail elderly (Program of All-inclusive Care for the Elderly, or PACE)
 - Substance abuse / HIV+ / homeless

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What is Driving Healthcare Reform?

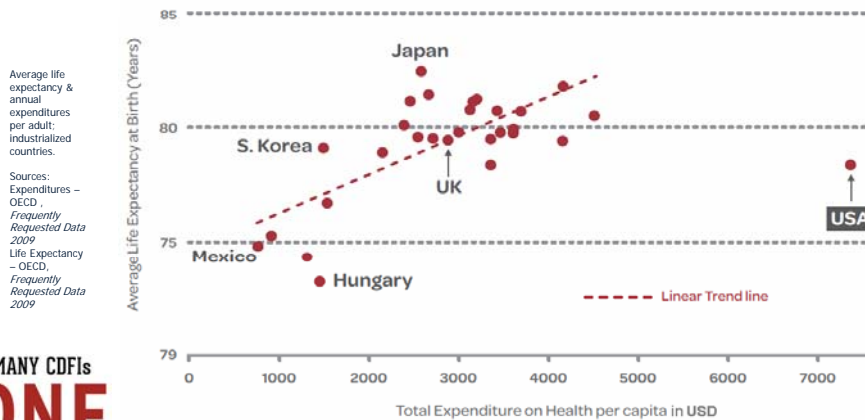
- ★ More conditions can be treated in FQHCs and other primary care settings, yet the US healthcare system is oriented towards specialty care and institutional interventions.
- ★ This contributes to more healthcare spending, with poor results in the US relative to other industrialized countries.
- ★ Reform efforts, aimed at quality improvement and cost containment, are pushing more services into primary care.
- ★ Reform efforts are system-wide and driven by private market forces as well as federal legislation.

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In a Global Economy, the US is an Extreme Outlier on Healthcare Spending, Without the Quality to Show for its Expenditures

Healthcare Spending per capita vs. Average Life Expectancy Among OECD Countries



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An Effective Health Care Sector is Centered on Primary Care & Prevention to Produce:

- ★ Better health
- ★ Lower costs
- ★ Reduced health disparities between socio-economic groups – akin to environmental justice

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The ACA Accelerates Reform, Promotes Primary Care, indirectly...

- ★ Expands coverage
 - Medicaid Expansion
 - “Exchanges” – Expanded Markets for Private Insurance

Impact: Newly-insured patients seek personal/family doctors
- ★ Drives Health System Change via Payment Reform
 - “Global Payments” via ACOs; non-payment for re-admissions; & other

Impacts: Creates very strong incentives for prevention & well-care;
Drives more services to lowest-cost delivery settings
Puts extreme financial pressure on weaker hospitals

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... and Directly

- ★ ACA Expands, supports primary care through:
 - Expansion of FQHCs -- \$11B Trust Fund
 - Temporary Medicaid and Medicare physician rate increases
 - Training, recruitment, staff retention supports
 - National Health Service Corps
 - Scholarships, loans, repayment programs
 - Support for growth of family practice programs
 - Center for Medicaid & Medicare Innovation Programs

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FQHCs are a Critical Component of any Strategy to Improve Results, Lower Costs


Comparison of Average Cost of Care:
Preventable (Ambulatory Care Sensitive) Conditions

Community Health Center Visit	ER Visit Non-emergent	Hospital Admission Non-acute
\$140	\$600-1600	\$9,000

- ★ Studies show FQHC patients experience 11-33% fewer hospital admissions for ACS conditions

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The Health Care Paradigm is Changing:

FQHCs are interwoven into a broad set of community resources and services

Healthy Communities
Prevention, nutrition, physical fitness, housing, jobs, education
(Social Determinants)

Integrated Delivery Systems
Specialists, ER, inpatient, long term care, behavioral health, social services
(Health Homes, ACOs)

Patient-Centered Medical Home
(FQHCs & other Primary Care)

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OVERVIEW OF COMMUNITY HEALTH CENTERS

Role of Federally Qualified Health Centers (FQHCs)

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What is Federally Qualified Health Center (FQHC)?

- ★ Technically, term used by CMS (Centers for Medicare and Medicaid Services) to indicate that an organization is approved to be reimbursed under Medicare and Medicaid using specific methodologies (laid out in the statute) for FQHCs.
- ★ **Three types:**
 - “Section 330s” (of the Public Health Service Act)
 - “Look-alikes”
 - Tribal or Urban Indian Health Organizations

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FQHCs: Five Basic Characteristics

- ★ Location in **high-need areas**
- ★ **Comprehensive** health and related services
- ★ Open to all residents, **regardless of ability to pay**, with charges prospectively set based on income
- ★ Governed by **community boards**, to assure responsiveness to local needs
- ★ Held to strict **performance/accountability standards** for administrative, clinical, and financial operations

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Who are their patients?

- ★ In 2011, Community Health Centers served...
 - 1 in 7 **Medicaid beneficiaries**
 - 1 in 7 **uninsured persons**, including
 - 1 in 5 low income uninsured
 - 1 in 3 individuals living in poverty
 - 1 in 4 minority individuals living in poverty
 - 1 in 7 rural Americans

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FQHC Health Centers Today *

- ★ 1,291+ health center Section 330 Grantees and Look-alikes; 9,170 sites
 - ~48% rural / ~52% urban
- ★ In 2012, provided care to **22 million patients** through 87.2 million visits
 - ~72% of patients are below poverty
 - ~93% are low income (below 200% of FPL)
- ★ Employ 153,700 FTEs
- ★ Funded through HRSA/BPHC (Section 330s)
- ★ Create multiple positive economic and social benefits for their communities

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* Source: 2012 UDS National Roll-up Data

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Accomplishments of Health Centers

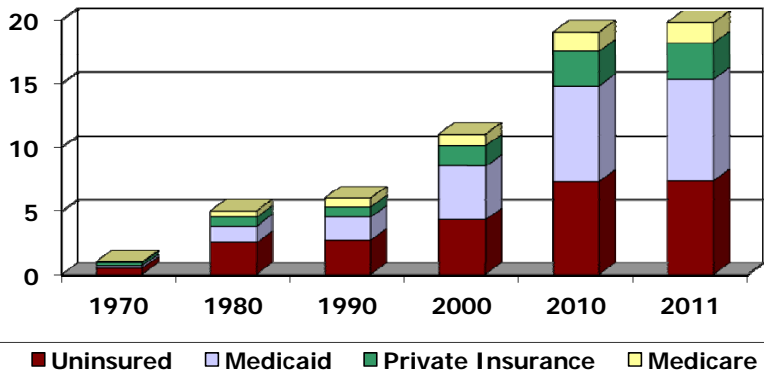
- ★ **Excellent Quality of Care:** More effective care, better use of preventive care, fewer infant deaths
- ★ **Major Impact on Minority Health:** Significant reductions in disparities for health outcomes, receipt of preventive and condition-related care
- ★ **Cost-Effectiveness:** 24% lower overall costs, lower specialty referrals and hospital admissions, \$24B in annual health system savings
- ★ **Significant Community Impact:** Employment and economic effects, contribution to community well-being, development of community leaders

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Health Center Growth: 1970 - 2011

Number of Persons Served by Coverage Source



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The "Typical" Health Center

- ★ In 2011, the median health center had: *
 - \$10.2 million in annual revenues
 - \$11.4 million in total assets
 - \$327,000 in long-term debt (\$3.9 million average)
 - 19% had no long-term debt
 - \$4.1 million in net assets

- ★ In 2011, the average health center: **
 - Saw ~18,000 patients annually through 71,000 visits
 - Had 24 Provider FTEs and 123 Total FTEs

* Data from Capital Link's audited financial database
 ** Data from HRSA's Uniform Data System (UDS)

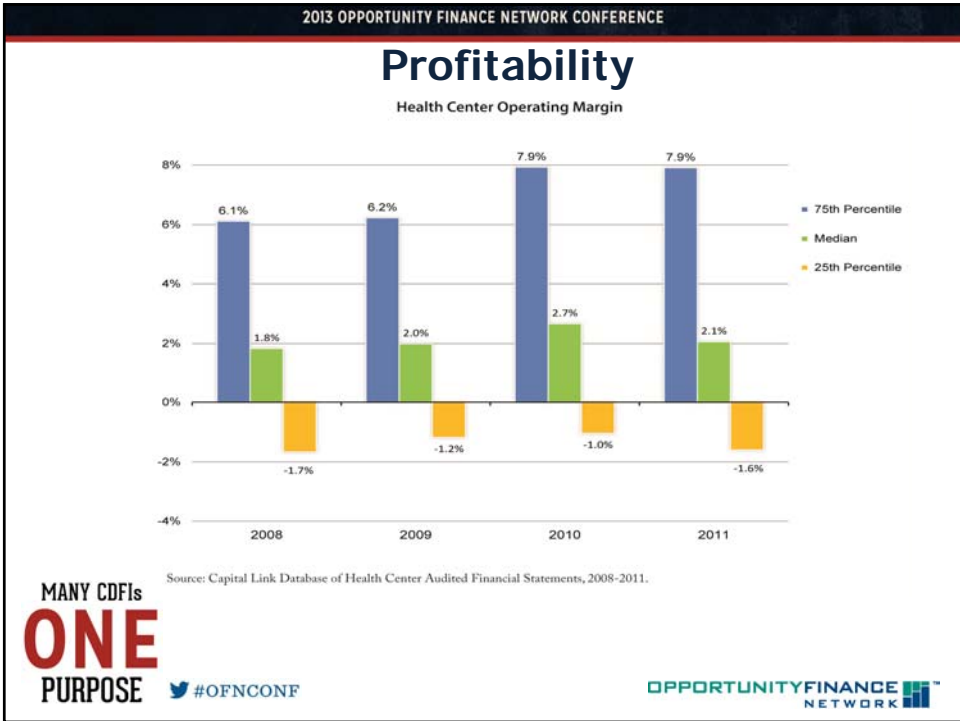
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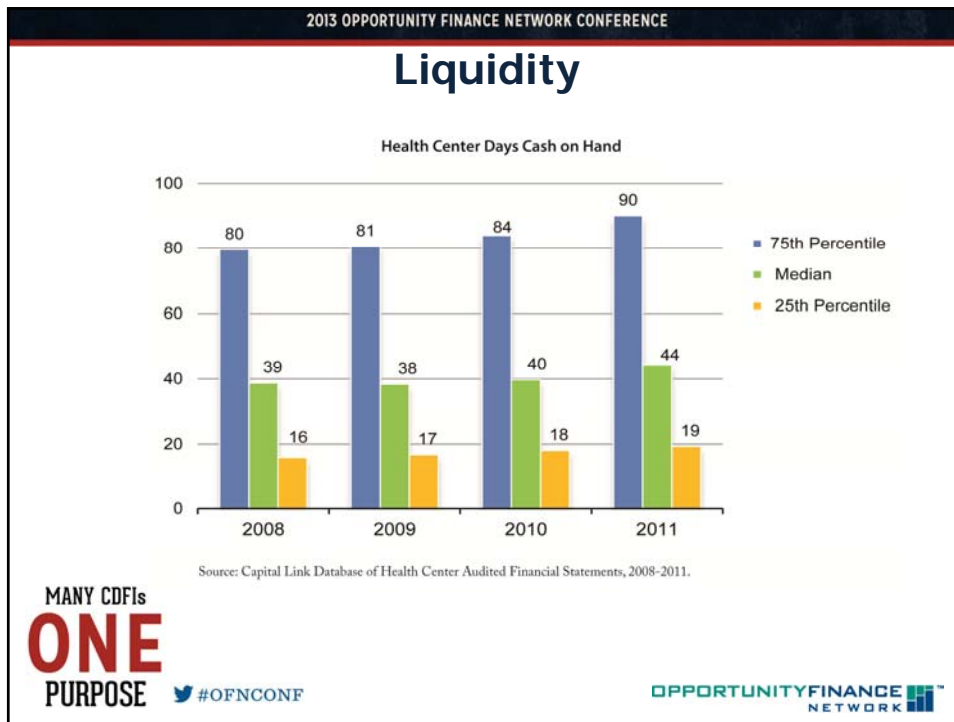
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Capital Needs of Health Centers

- ★ Capital Link estimates that health centers will need to invest **\$13 billion** into their facilities and equipment in order to serve 40 million people.
 - \$3.8 billion needed for currently planned projects totaling \$5.7 billion
 - Additional projects totaling **\$7.4 billion** will be needed to meet the 40 million patient goal.



CDFIs can play an important role in helping health centers raise the capital they need to grow!

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OVERVIEW OF COMMUNITY HEALTH CENTERS

CHC Underwriting Considerations



Financing Needs of CHCs

- ★ Equipment
- ★ Working capital (emergency and ongoing)
- ★ Acquisition
- ★ Construction
- ★ Permanent
- ★ Renovations and/or tenant improvements
- ★ Modular acquisition/installation



Underwriting Challenges for CHCs

- ★ CHCs **primary challenges** include, but aren't limited to:
 - Relying on public funding (Medicaid, Medicare, grant funding) that are subject to cuts and deferrals
 - Operating with slim operating margins and have to constantly control their costs
 - Relying on significant annual fundraising to support operations
 - Lack of succession planning
 - Being debt averse and cost sensitive
 - Community boards can require extra education on lending process

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CHC Underwriting Considerations

- ★ Encounters growth
- ★ Payer mix
- ★ Financial statements – liquidity and leverage
- ★ Debt capacity and cash flow analysis
- ★ Collateral
- ★ Management
- ★ Competition
- ★ Social impact

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CDFI FUND'S CAPACITY BUILDING SERIES

Financing Community Health Centers



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Financing Community Health Centers Initiative

The *Financing Community Health Centers* series will provide training and technical assistance to build the capacity of CDFIs financing community health centers (CHCs) in underserved communities.



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Components of Financing CHCs Initiative

Technical Assistance Webinars

800+ Estimated Participants

One-to-One TA

40 CDFIs

Affinity Groups

35 CDFIs

Foundations in Financing CHC Workshops

75 CDFIs with a desire to build their capacity to launch or expand CHC lending portfolio


Advanced CHC Financing Forum

At least 14 CDFIs with track record of CHC lending and/or capacity to grow sector

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Timeline of Activities


The following chart highlights the expected delivery of services for the components of the *Financing CHC* Initiative over the next 18 months.

Components of the <i>Initiative</i>		Q2'13	Q4'13	Q1'14	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15
Advanced CHC Financing Forum	6 Quarterly Calls 2 In-Person Gatherings								
Foundations in Financing CHC Training	6 2-Day Workshops								
Technical Assistance	One-to-One TA Affinity Groups Webinars								

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Financing CHCs Training Partners

OFN has assembled a team of experts who are some of the most experienced and innovative practitioners in the CHC financing field. These CDFIs collectively have financed over \$1 billion in affordable capital to CHCs across the country.



CAPITAL LINK



ncb
capital impact



PRIMARY CARE
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EXAMPLES OF CHC PROJECTS

Capital Link

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Spectrum Health Services Philadelphia, PA

- ★ 34,570 SF new site
 - Replace and expand existing site
 - 34 exam rooms (up from 13)
 - 8 dental operatories (0 at current site)
 - SHS currently serves 11,000 patients through 30,000 visits
 - 60 FTEs currently



- ★ By 2018:
 - 28,000 patients; 93,500 visits
 - 133 FTEs

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SHS Financing

- ★ \$14 million NMTC transaction
- ★ 2 CDEs
- ★ \$10.3 million in leverage debt provided by
 - Brownfields grant
 - State Redevelopment Grant
 - HUD 108 loan
 - Loans from 5 CDFIs
 - Health center equity
- ★ \$3.6 million in net NMTC equity

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SHS Challenges

- ★ 10 year development cycle!!
 - Site challenges
 - Death of the Executive Director
 - Difficult fundraising environment – need for equity
 - Coordinating multiple public and private funding commitments
 - Locating sufficient NMTC allocations – required 2 CDEs
 - Timing of funding availability – needed for bridge loans for grants
 - Loan-to-Value
 - A complex financing with a 245-item closing checklist!

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Katy Trail Community Health Warsaw, MO

- ★ 23,300 SF facility / 6.8 acres housing:
 - Expanded space for KT's primary medical and dental services
 - Warsaw Regional Senior Center
 - Pathways behavioral health services
 - Shared space for all 3 organizations
 - Parking for 200 cars
 - Outdoor community gardens
 - Hiking trails linked to community walking trails



- ★ Projected Outcomes:
 - Patients – doubled to 22,000; visits increase by 53% to 57,500 by 2016
 - Integrated and comprehensive programs/services for multi-generational families from a single, accessible location

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Katy Trail Financing

- ★ \$7.24 million NMTC transaction
- ★ \$5.16 million in leverage debt provided by
 - Bridge loans from 2 CDFIs for HRSA capital grant
 - Bank loan
 - Health center equity (including contributions from two other non-profit partners)
- ★ \$2.08 million in net NMTC equity

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Katy Trail Challenges

- ★ Coordinating 3 nonprofit entities toward a common purpose – creation of Harbor Village partnership
- ★ Educating a local lender to participate in an NMTC transaction
- ★ Starting construction before all the financing was in place
- ★ HRSA approvals

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EXAMPLES OF CHC PROJECTS

NCB Capital Impact



El Sol Science and Arts Academy Santa Ana, CA

- ★ El Sol school – opened 2001
- ★ FQHC operated on campus by Share Our Selves (founded 1970; clinic started 2010)
- ★ Purchase additional healthcare equipment, primarily dental chairs to reach 763 more patients annually
- ★ TCE provided 61%, or \$116,500 in financing



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St. John's Well Child and Family Center Los Angeles, CA

- ★ FQHC started in 1964
- ★ This phase of Frayser Clinic development also funded by HRSA
- ★ TCE provided 58.8%, or \$2,028,500



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Kedren Community Health Center Los Angeles, CA

- ★ Founded 1965
- ★ Purchase a modular building to house a new pediatric clinic that will provide outpatient mental & primary care
- ★ Implement electronic health records (EHR)
- ★ TCE provided 83%, or \$1,500,000



Kedren's pediatric inpatient reception desk during the holidays

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Clinica Sierra Vista (CSV) Fresno, CA

- ★ FQHC started in 1971
- ★ Construction of two new buildings and a parking structure to replace existing Elm Street Clinic
- ★ TCE provided 100%, or \$2,000,000



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TCE/Capital Impact Loans

CHC Borrowers	Total Loan Amounts	TCE Participation	Interest Rate
El Sol	\$191,350	61%	3.67%
St. John's	\$3,450,000	59%	3.94%
Kedren	\$1,800,000	83%	3.08%
CSV	\$2,000,000	100%	2.50%
TOTAL	\$7,441,350	76%	3.34%

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Total Social Impact

CHC Borrowers	New sq. footage	New patients	% Medicaid	% Uninsured	# Jobs Created
El Sol	NA	763	7%	93%	1
St. John's	45,537	14,310	34%	43%	69
Kedren	3,840	2,500	79%	21%	20
CSV	10,500	3,236	75%	11%	15
TOTAL	59,877	20,809			105

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Location of CHC Projects



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EXAMPLES OF CHC PROJECTS

Primary Care Development Corporation



Family Health Center of Harlem



- ★ Created in response to hospital closing
- ★ Provides medical, dental, mental health care to 30,000 patients
- ★ Includes medical & dental residencies, training new doctors for LICs
- ★ Services & residencies linked to local schools, housing & social service agencies
- ★ 205 FTEs
- ★ Re-use of vacant building

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Family Health Center of Harlem - Summary of Financing Sources:

- ★ \$30MM NMTC Structure
 - NMTCs from PCDC and CHHS (Community Health & Hospitality)
- ★ Debt leveraged:
 - Bridge loans to \$15MM NY State grant
 - Bridge loans to \$4MM NY City grant
 - \$2.1MM of 7-year “hard debt” from PCDC & TD Bank
- ★ \$8.7MM in NMTC equity from TD Bank
- ★ NMTC “Greater Economic Distress” eligibility:
 - Poverty rate: 30.4%
 - Income: 40.3% of area median
 - Unemployment rate: 15.1%

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Family Health Center of Harlem - Challenges

- ★ FQHC (Institute for Family Health), on very short notice, stepped in to take over primary care services of closing hospital
- ★ Hired, re-trained existing union work force
- ★ 37,000 SF project – 20-month deadline to plan, design, finance, build, move & open
- ★ 1st NMTC project to leverage NYS Health Dept. grant – extensive education process

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Addabbo Family Health Center



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- ★ 22,000 SF new main site, relocating FQHC from 50-year old former public health station in Queens, NY
- ★ Moved from lonely prairie of emptied urban renewal site back into community
- ★ Services closely linked to nearby public housing
- ★ Success of project has helped Addabbo build from 1 site to 5; 12,000 patients to 50,000; poor finances to strong.

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Addabbo Family Health Center - Summary of Financing Sources:

- ★ \$11.1MM Permanent Financing:
 - \$3.9MM 15-year permanent loan from PCDC
 - \$500,000 grant from PCDC, via NYS partnership
 - \$6.7MM in grants from 12 additional sources, including
 - NY City
 - NY State
 - HHS
 - Housing Authority (HOPE VI)
 - 3 Foundations
- ★ PCDC also provided:
 - \$1.4MM Pre-development loan
 - \$3.6MM subordinated construction loan

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Addabbo Family Health Center - Challenges

- ★ 10-year development cycle
 - Included organizational turnaround (1-day cash! Now at 56 days), along with project planning
 - Client had limited project development experience
 - Long delays associated with gaining site control
 - Delays from coordinating with educational use also planned for site, which ultimately fell away
 - Project required assembling & then coordinating diverse federal, state, local & private funding sources
- ★ Challenges offset by excellent development team

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Q&A

Suggested Topics Initiative Should Cover

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