Preparing for Growth: Planning and Financing for Capital Expansion

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Mission: Capital Link is a nonprofit organization that
  – assists health centers in planning and obtaining
    financing for building and equipment projects, and
  – assists PCAs and other partners in leveraging capital
    resources for health centers on a statewide, regional
    and/or national basis.

Founded as a joint effort of NACHC, the Community
Health Center Capital Fund (CHCCF) and Primary Care
Associations in MA, IL, NC, and TX.

National Organization with offices in seven states:
  MA, DC, CA, MD, MO, WV, and WA
Capital Link’s Experience

• Over 800 Health Centers, Primary Care Associations and networks
• Technical Assistance throughout the capital project process - for 15 years
• Directly assisted health centers in leveraging $757 million for 186 projects totaling $913 million
Agenda

• The Expansion Challenge

• What Funders and Lenders Want to Know

• Optimizing Your Financing Options

• Capital Campaign Tips

• Roadmap for Getting Started
Recent Successes for Michigan CHCs

- **Capital Development Grants:**
  $16.8 million to 5 health centers for expansion and renovation projects

- **IFI Grants:**
  $3.3 million to 6 health centers for immediate critical capital improvements/ expenditures

...but an estimated $40 million funding gap remains, just for *planned* projects
Health Reform: Investing in Primary Care

- Affordable Care Act includes $11 billion to support health center expansion and growth

- Medicaid enhancements will also increase patients served – not clear which states will opt out of expansion

- 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

- In Michigan, an estimated 430,000 previously uninsured under 133% FPL could be enrolled in Medicaid*

Capital Needs of Health Centers

- Capital Link estimates that health centers will need to invest an additional $13.1 billion* into their facilities and equipment in order to serve 40 million people by 2015 (after recent HRSA investments totaling $3 billion).
  - Health Centers have secured an estimate of $1.9 billion*

  ....a sizable funding gap remains - $11.2 billion

* Capital Plans and Needs of Health Centers: A National Perspective; Capital Link, June 2012
So where will the money come from?
Sample Funding Plan: Then and Now ($3.5 million project budget)

Loan, $1,225,000 35%

HRSA FIP/CD Grant, $2,275,000 65%

...going forward, raising funds and finding financing will be more competitive than ever
Getting your Ducks in a Row: What Lenders and Funders Will Ask

- Does the project make business sense?
  - Clearly defined market, in context of competition?
  - Clear programmatic/operational plan?
  - Will the revenues be there to support expenses?
- Impact of the project?
- Management team’s capital project experience?
- Financial track record?
The Capital Development Process: 
The Importance of Preliminary Planning

Rule of 10’s

- Assessing Organizational Readiness
- Preliminary Planning
- Design & Development
- Construction
- Fundraising & Financing
- Start-up

- Market Assessment
- Program, Operational & Facility Planning
- Financial Feasibility
Three Secrets to Success

- Well Defined Project
- Detailed Business Plan
- Combining the Best Sources of Funds
Defining the Project

- Need
  - Market and operations

- Impact
  - Health, economic

- Capacity/Resources
  - Operational and financial

- Project Budget
Business Plan and Financial Forecast

- Describes the project concept
- Provides evidence of organizational abilities and track record → credibility
- Describes market need for project
- Makes the business case for project – answers the question “Why will this work?”
  - Important for external audiences but also internal audience (feasibility analysis)
Components of a Business Plan

- CHC Description and Background
- Market Analysis and Growth Potential
- Organizational Experience and Structure
- Project Details and Rationale
- Financial History and Projections
Financial Projections

- Historic (three years)
- 5-7 year Forecast
- Project Budget
- Sources and Uses
- Financing Structure
Optimizing Your Financing Options
Financing Components

Fed Grant
Grants/Gifts
NMTC
State Funds
TE Bonds
Foundation
Bank Loan
HRSA LGP
USDA

Structure considerations mean big financial differences!
Conventional Bank Loan – $10 million project

- Loan 80% of project value - $8,000,000
- Interest rate 6.5% with 25 year amortization
- Funding gap: $2,000,000
Conventional Bank Loan

Sources of Funds:

Bank Loan ........ $8,000,000
Other ............... $2,000,000
Total ............... $10,000,000

Annual Debt Service (P&I) ..... $ 655,032
New Markets Tax Credits

- “Investment” that isn’t repaid
- 20% of total project cost
- Finding a Community Development Entity (CDE)
- Application and award cycle
- Scale needed
Bank Loan and NMTC

- NMTC investment approximately 20% of project cost - $2,000,000
- Bank loan for the balance - $8,000,000 interest only for 7 years
- No need for additional financing
Sources of Funds:

- Bank Loan: $8,000,000
- NMTC: $2,000,000
- Total: $10,000,000

Annual Debt Service: $520,000
USDA

- Usable with other options
- Population 20,000 or under
- Loan guarantee 90%
- Direct Loan 4.5% for 40 years
USDA Direct Loan Structure

- Loan will be 80% of project Cost - $8,000,000.
- Roughly 4.5% interest rate with 40 year amortization.
- Where will the remaining $2,000,000 come from?
  - NMTC
USDA Direct Loan

Sources of Funds:

USDA Loan........$ 8,000,000
Other...............$ 2,000,000
Total..................$10,000,000

Annual Debt Service.........$ 434,000
Tax Exempt Bonds

• With other options, including NMTC
• Two options:
  – Private purchase by bank
  – Public offering (scale needed)
• Issued through state: Michigan State Hospital Finance Authority
**Tax Exempt Bonds and NMTC**

- NMTC investment approximately 20% of project cost - $2,000,000
- TE Bonds for the balance - $8,000,000 interest only for 7 years
- Interest rate – 3.9% (fixed 10 years)
- No need for additional financing
Sources of Funds:

TE Bonds ............... $ 8,000,000
NMTC ................. $ 2,000,000
Total .................. $10,000,000

Annual Debt Service ............... $ 312,000
Fundraising Considerations
Fundraising Trends

- Steadily rising competition for the charitable dollar

- Securing major gifts requires a strong relationship between the recipient and the donor

- Think *investment*, not begging or charity
Getting Started

• Focus on mission and vision

• Commit to networking and connecting to potential major donors

• Understand the importance of cultivating the relationships before asking for a pledge or gift
10 Capital Campaign Tips

1. Plan First, Build Later
2. Conduct a Capital Campaign Feasibility Analysis
3. Set a timeline
4. Identify the right leadership
5. Develop a Case Statement
6. Identify prospects and create a gift range chart
7. Approach lead funding prospects
8. Ask for community support
9. Recognize donors
10. Publicize your successes!
If You Are In a Campaign Now

• Accept the fact that the economy is making things challenging now. **Do not expect sweeping improvements in a short period of time.**

• Donors are cautious from two recessions in the last ten years.
The Road Ahead…

- Assess Debt Capacity
- Align Strategic Plan
- Market Assessment
- Facilities Plan
- Financial Forecast
- Economic Impact Analysis
- Business Plan
- Capital Campaign (also Feasibility)
- Financing
Questions?
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