# FROM THE GROUND UP:

## Statewide Capital Development Initiatives

CAPITAL LINK
Connecting Health Centers to Capital Resources

NATIONAL ASSOCIATION OF
Community Health Centers

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# From the Ground Up:
## Statewide Capital Development Initiatives

Today, more than 60 million Americans do not have access to primary and preventive care services—they are "medically disenfranchised."[1] Health centers are committed to addressing this tragedy, and have embraced a challenging goal of serving 30 million patients by 2015 as part of the Access for All America plan. Given that many health centers already operate at or beyond capacity, they will need to expand their facilities to accommodate increased patient demand. A 2008 study by the National Association of Community Health Centers (NACHC), Capital Link and Community Health Ventures estimated more than $10.5 billion will be needed to finance this expansion.[2] This year, the American Recovery and Reinvestment Act (ARRA) directed more than $1.5 billion toward meeting this goal.[3]

This unprecedented federal investment in health centers has provided a critical down payment toward meeting substantial health center capital needs. Equally important, ARRA funding has stimulated capital planning and development across the United States. ARRA-funded Capital Improvement Program grants (CIP) totaling $851.5 million were awarded to more than 1,100 health centers in June 2009; these projects are currently underway—expanding health center capacity and jobs in local communities. The competition for the second round of grant funding, known as the Facility Investment Program (FIP) has also begun. Given that the Health Resources and Services Administration (HRSA) received more than 600 applications with requests totaling $3.2 billion —and only expects to award approximately 100 grants totaling $515 million—many health centers will be disappointed. However, in an effort to receive coveted FIP grants, health centers have moved ahead aggressively with their capital plans. Those that receive funding will be required to finish their projects by October, 2011. Many of those who do not receive funding will still seek to continue their growth efforts by identifying other resources to complete their projects.

Despite continued success in meeting patient needs, many health centers encounter difficulty in accessing adequate financing for building projects, facility renovation and equipment. As demand for health center services continues to grow, these financing challenges are placing enormous, unsustainable pressure on health centers to do more with less. Historically, health centers have been forced to finance expansion on their own by cobbling together funding from a myriad of government programs, traditional financing methods and philanthropic activities. Although these efforts have yielded some

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[1] Primary Care Access: An Essential Building Block of Health Care Reform. *NACHC*. March 2009. Available at: http://www.nachc.com/access-reports.cfm.

[2] Access Capital: New Opportunities for Meeting America's Primary Care Infrastructure Needs. *Capital Link, NACHC, Community Health Ventures*. March 2008. Available at: http://www.nachc.com/access-reports.cfm.

[3] Public Law 111-5

success, a number of state Primary Care Associations (PCAs) have found that collectively addressing capital needs can streamline the capital development process for their members and, most importantly, attract additional funding sources.

Although each state's approach is unique, most include the following key elements:

- **Strategic Plan:** In 2007, PCAs began a multi-year, continuing effort to identify areas of unmet primary care needs in their states. This process, known as State ACCESS Planning has provided the backdrop and context for health center efforts to reach Access for All America growth goals.[4] Prior to State ACCESS planning, PCAs participated in the Statewide Strategic Planning (SSP) process, still used by many today.

- **Needs Assessment:** Successful capital development programs have relied on a complete statewide Capital Needs Survey and Financial Trends Analysis. This process allows states to fully understand their capital construction and renovation needs and learn how much debt health centers can responsibly assume to meet their needs.

- **Economic Impact Analysis:** Health centers contribute more than $12.6 billion in economic benefits nationwide.[5] Demonstrating the extraordinary economic impact of health centers on a state level is a vital tool in the effort to garner support and funding for capital development activities.

- **Capital Development Planning:** Based on the results of a comprehensive needs assessment, each state can work to develop a unique, multi-pronged financing strategy to develop a variety of funding sources and provide maximum leverage of health centers' existing resources. Strategies typically include a combination of federal and state grants, foundation support, tax credits, and low-interest financing.

## Funding Components

Health centers have historically relied on a variety of funding sources to finance their projects, including the following:

[4] For information on NACHC's Access for All America plan visit http://www.nachc.com/access-for-america.cfm

[5] Access granted: The Primary Care Payoff. *NACHC, the Robert Graham Center, and Capital Link*. August 2007. Available at: http://www.nachc.com/access-reports.cfm.

## Grant/Equity Funding Sources

**Federal Government**
In addition to the CIP and FIP grants via ARRA, a variety of additional sources of funding may be available to fund pools of capital on a statewide basis or to help fund individual health center projects. They include:

**Appropriations**
Congress annually sets aside several hundred million dollars in health facilities earmarks each year as part of the appropriations process. Although hospitals and major universities generally consume the majority of these awards, health centers and PCAs have also received considerable awards for facilities, equipment, and health information technology projects.

**Economic Development Administration**
Grants are available for health center capital projects via the Commerce Department's Economic Development Administration. Grants are based on the ability to demonstrate long-term job creation as well as strong community support. *http://www.eda.gov/*

**Community Development Block Grants (CDBG)**
CDBG grants are jointly administered by HUD and local communities. Funding is available for health center projects, but centers must demonstrate to local CDBG officials that the project will have adequate community benefit. *http://www.hud.gov/offices/cpd/communitydevelopment/programs/*

**United States Department of Agriculture Community Facilities Grant Program**
Rural health centers are eligible for capital grants through USDA. These funds are highly competitive, and are typically only available for a small portion of project costs for the neediest borrowers that also receive direct loan funding of USDA guarantees. USDA prefers to steer most projects toward its direct loan and loan guarantee programs (see below). *http://www.rurdev.usda.gov*

**State Government**

**Bonding Authority**
Several PCAs have had success convincing their state governments to issue bonds in order to fund grants for Community Health Center capital projects. Traditionally, states pay for a wide variety of capital investments (i.e. roads, bridges, buildings) using bonds to raise immediate capital, which can be manageably financed over a much longer time period. To make it happen, PCAs have had to present a comprehensive capital improvement plan and, in some cases, push for legislative change to allow state bonds to be used for nonprofit organizations such as health centers.

**Grants from Operating Budget**
In some cases, states have made capital grant funding available to their health centers directly through the state operating budgets. However, with pressure on virtually every state budget, this method may be challenging in the near term.

## Non-Governmental Sources of Grant Funding

Many health centers have also taken advantage of a variety of non-federal options to raise equity including:

- Private/Family Foundations, Corporate Foundations, Conversion Foundations
- Hospital Partners
- Capital Campaigns
- Cash Reserves
- In-Kind Gifts, e.g. Donated Land/Equipment, $1.00/Year Lease for 99 years, etc.

## Financing Options

Often, even health centers that do an excellent job fundraising still require some level of financing to make their project a reality. In addition to helping fully finance a project, low interest, long-term debt can help health centers complete their facility quickly and spread the costs over many years. Health centers have access to a wide variety of financing options, but each has benefits and drawbacks to be considered.

**Conventional Financing**
Conventional financing is typically available through a local or national commercial bank. Although this source may not result in a low interest rate, securing traditional financing may be quicker and have less upfront costs. Centers may also be able to negotiate flexible payment terms.

**New Markets Tax Credits**
The New Markets Tax Credit (NMTC) program offers tax credits for investors who invest in low-income communities. In turn, these funds are often combined with other forms of capital and used to make loans to eligible entities. Because most health centers are located in eligible areas, it has become a valuable source of capital for health center projects. NMTC financing is generally structured as low interest-rate debt for seven years. In many cases, at the end of the seven-year tax credit compliance period, a portion of the debt is essentially forgiven, providing a component of true equity to the health center. *http://www.cdfifund.gov*.

**Tax-Exempt Bonds**
Tax-Exempt Bonds often offer the lowest interest rate option for health centers. However, 19 states do not have an issuer available for health centers. Additionally, bond financing often takes time to arrange, many require credit enhancement and comes with higher up-front costs than other forms of financing. Although NACHC has been working legislatively to develop a national issuer for health centers, PCAs located in states

without one may want to consider advocating for the creation of a statewide health facilities issuer or for the expansion of an existing issuer's eligibility so that they can work with health centers.

**Community Development Financial Institutions (CDFIs)**
Health centers have also had success working with CDFIs, specialized lenders that work in market niches that have not been adequately served by traditional financial institutions. CDFIs can often work closely with centers to arrange creative financing. Although they can improve access and flexibility, they do not necessarily offer lower interest rates than traditional options.

**Other Financing Alternatives**

- State/County loan programs
- Hospital financing
- Local partner financing (ex. healthcare district)

**Debt Options: Consider the Tradeoffs**

| Financing Source | Complexity | 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 | ? | ? |

## Credit Enhancement

Credit Enhancement can improve a health center's ability to obtain a loan, lower the interest rate and/or otherwise improve the loan terms. Health centers currently have access to a variety of enhancement programs including:

- Health Resources and Services Administration/Bureau of Primary Health Care Loan Guarantee Program (for Section 330s only)
- USDA Community Facilities Guarantee Program (for rural health centers only)
- Letter-of-credit from a bank or bond insurance (for tax-exempt bonds)
- Hospitals or other partners
- Other special guarantee programs

## Primary Care Association Efforts to Leverage Capital for Their Members

PCAs have a unique opportunity to improve upon what an individual health center can accomplish by itself in the capital arena: by making the case for investments in the capital projects of its members, the PCA can draw greater attention to their health centers' needs and galvanize interest and action from a variety of funding sources.

Here are just a few examples of successful PCA approaches to capital development:

### Multiple Strategies Make for a Winning Campaign in California

**Key Outcomes:** A successful strategic campaign that, since 2000, has:

- Garnered $52.3 million in capital grant funding from the state legislature.
- Established a loan fund to provide equipment and cash flow loans to clinics.
- Influenced the establishment of the California Endowment's Community Clinics Initiative operated by the Tides Foundation from 2002 – 2007. This program provided $69 million in grant funding for clinic facility and IT needs and funded a range of technical assistance provided by Capital Link and others.
- Influenced the establishment of the Community Clinic Grant Program funded by the WellPoint/Anthem merger in 2005. Through this program, $40.1 million in grant funding was provided to clinics to allow them to purchase new equipment, expand and/or refurbish existing facilities and generate new construction.

**How they did it:**
In the late 1990s, the California Primary Care Association (CPCA) embarked upon an ambitious and strategic campaign to help foundations and other funders understand the importance of health centers and clinics to the health care system, and to articulate how others could support the health centers' and clinics' mission. CPCA organized a "blue ribbon panel" of key stakeholders in the health care safety net, which included representatives from HMOs, public health officials, physicians, health center managers, foundation staff, and others. CPCA hosted a two-day, facilitated meeting and asked the panel to answer one question: "If the clinics are to thrive and prosper into the next century, what are the priority initiatives that foundations, government agencies, and other funders can support to help health centers and clinics move in that direction?" The panel members decided that the priority was helping health centers and clinics secure financing for capital projects necessary to expand access to services for the poor and underinsured.

The panel's findings were described and detailed in a document the CPCA titled, *Blueprint for Action*. Armed with the *Blueprint* and the endorsement of CPCA's Board and the highly-regarded panel members who created it, CPCA embarked upon a strategic campaign aimed at government agencies, elected officials, California's many foundations, and others that could help increase access to capital financing for health centers and clinics.

In 2007, CPCA updated its *Blueprint for Action* and continues to use this tool to pursue capital funding as well as for other initiatives important to health center growth.

***For more information:*** *See CPCA's website www.cpca.org and their Blueprint Update http://www.cpca.org/about/documents/blueprint.pdf.*

## Connecticut Health Centers Work Together to Secure Bond Authority

**Key Outcome:** $25.8 million for health center capital projects

**How they did it:**
In 2006, several of the health centers seeking bond authority for capital projects had been meeting individually with the co-chairs of the bonding committee of the Connecticut General Assembly. The Community Health Center Association of Connecticut (CHCACT) persuaded its board that it would be easier to achieve success if all the requests were organized into one single package.

The State of Connecticut passes a Bond Act every year, but in order for bond funds to be released the Bond Commission must authorize the bonds. In Connecticut, the Governor controls the Bond Commission's agenda. Governor M. Jodi Rell, who had always been a supporter of health centers, was, at the same time, working on a plan to expand access to health care in the state—what would later become the Charter Oak plan. After meeting with the Governor to discuss the need for health center expansion in the state and providing extensive data, she agreed and prioritized the FQHC bonding package for approval.

The Bond Commission authorized $25.8 million that would benefit each and every health center (including look-alikes) in Connecticut. Each of the 13 centers received bonding that ranged from a minimum of $1 million to a high of $6.5 million. Most have now completed construction and renovation of their facilities with those funds and they are well on their way to the goal of serving 85,000 new patients across the state.

***For more information:*** *Contact Evelyn Barnum, CEO, CHCACT, 860-667-7820, ebarnum@chcact.org*

## Medical Homes: Key to Capital in DC

**Key Outcomes:** Through the leadership of the District of Columbia Primary Care Association (DCPCA), Medical Homes DC received a three-year Healthy Communities Access Program grant from HRSA and the mayor and the DC Council committed $50 million in capital funding. Medical Homes DC also received a $500,000 federal earmark in FY06. Since 2005, numerous awards have been granted by DCPCA to fund the planning, design and development, and/or construction of 15 projects to improve access to primary care services throughout DC.

**How they did it:**
The Medical Homes Program aims to address the overall primary care needs of the District of Columbia. Based on extensive strategic planning, the Program aims to invest $145 million in DC primary care over 10 years, with funding targeted toward the renovation of existing buildings, expansion of capacity, and quality improvements. To achieve this ambitious goal, the DCPCA identified funding sources from Federal and local government programs, private grants, and private loans. Furthermore, DCPCA held public meetings to build the partnerships and political support necessary to facilitate their efforts within the District.

DCPCA highlights the need to provide adequate technical assistance to individual health centers to accompany major capital investments so that they may maximize both leverage and quality. DCPCA also emphasizes the importance of strategic planning in the acquisition of new real estate. By using goals set out by the strategic plan, DCPCA is able to identify funding priorities, grant amounts, and project plans so as to capitalize on new and affordable real estate as soon as it becomes available.

***For more information:*** *http://dcpca.org/index.php/Programs-and-Accomplishments-8-2007.html*

## Persistence Pays Off in Indiana

**Key Outcome:** In 2007, the state awarded $30 million to be used over two years for capital development.

**How they did it:**
In 2006, the Indiana Primary Health Care Association (IPHCA) decided to pursue capital funds in addition to their annual operating funds. The Governor had requested straight line funding for health centers at $15 million per year. Using the information gained from a Capital Needs Survey, Financial Trends Analysis, and Statewide Economic Impact Analysis, it was estimated that $12-17 million in projects would be ready to go in the next biennium. IPHCA met with the Chairman of the Indiana House Ways and Means Committee to discuss this information.

When the budget proposal was released, it included $30 million per year for health centers with up to $15 million per year to be used for capital. IPHCA activated their members. Despite this effort, the Senate subsequently cut the proposal back to $15 million per year. IPHCA again activated their members and their legislative champion stood firm insisting on full funding for the program. IPHCA members traveled to the Statehouse the final week of session and the effort was successful.

***For more information**: Contact Kelly Kaufman, Policy Analyst, IPHCA, 317-630-0845, kkaufman@indianapca.org*

## Illinois Health Centers—The Right Stimulus at The Right Time

**Key Outcome:** State provided $50 million for construction and renovation of health centers.

**How they did it:**
The state passed a $31 billion statewide capital bill to address much needed state infrastructure projects and help stimulate the economy. This bill included $50 million for the construction and renovation of health centers throughout the state. Building on an existing grant program that provides operating funds for health center expansion projects, the new appropriation establishes a competitive grant program to provide health centers with capital funds necessary for construction, renovation and equipment purchases at new and existing health center sites.

After a failed attempt in 2007, in 2009, with a new Governor, legislators galvanized a renewed sense of support for a statewide capital bill, in part to counter the effects of the economic recession. The State of Illinois does not treat capital funds like the regular operating budget, but rather as more of a loan that can be paid over many years, which made the Illinois Primary Health Care Association (IPHCA)'s request for $50 million reasonable, especially since the entire package was $31 billion.

The IPHCA argued that a new capital program would allow health centers to construct, renovate and purchase equipment and would allow them to leverage additional funds from foundations, private institutions and the community. They also made the case that investing in health centers would not only expand the number of sites and services available to underserved communities, it would also provide both temporary construction and long-term employment opportunities to communities in most need of them.

Ultimately, there was unanimous support for the statewide capital bill as legislators and the Governor headed into the election cycle. Health center capital funds are expected to be spent over three years. Grants will be awarded through a competitive process, the rules for which are currently under development.

***For more information:*** *Contact Jill Hayden, Director of State Government Affairs, IPHCA, 217-541-7327, jhayden@iphca.org or visit the Illinois PCA website: http://www.iphca.org/AccessIllinois/tabid/569/Default.aspx*

## Leveraging State Funds with New Markets Tax Credits in Louisiana

**Key Outcomes:** The State awarded $41.5 million in grant funding to health centers via the Louisiana Primary Care Association (LPCA). The State included legislative language designed to encourage health centers to leverage state funds via NMTC.

**How they did it:**
In the aftermath of Hurricane Katrina, Louisiana began examining ways to restructure its health care system. Expanded access to primary care has been a key element of this effort. The Statewide Strategic Plan was the guiding document to determine the capital needs of the health centers. LPCA worked closely with centers to develop projections around capital needs, workforce development, operating dollars, economic impact, and new users served. The LPCA increased efforts using Voter Voice and engaged health center board members and staff in regional meetings. White papers were developed and distributed and economic analysis was provided for each state legislator's district.

Through connections with the national health center industry, LPCA was aware of efforts in several states to utilize New Markets Tax Credits to reduce the amount and cost of borrowed funds required to create new health clinics. LPCA worked with Capital Link to devise a proposal to use New Market Tax Credits (NMTC) to leverage the state funds in a way that would appeal to state Legislators. LPCA leadership felt strongly that Legislators would be more receptive to the proposal if health centers shared some responsibility for the costs of each project. The health centers agreed to obtain 59% of the funding for each project to match the state's 41% investment—by obtaining other grants or from NMTC, USDA or other financing.

In the end, the state gave LPCA $41.5 million to support health center capital projects from the state general fund. The purpose of the funds is to expand 59 additional sites and services (oral, mental, pharmacy and other ancillary services) statewide and to fund 11 Electronic Medical Record initiatives. The anticipated number of new users served through these initiatives totals over 186,000. In addition, the linkage of PCA efforts with Capital Link's $15 million NMTC GO Zone Program, affords Louisiana health centers access to additional low-cost capital resources.

***For more information****: Contact Rhonda Litt, Executive Director, LPCA, 225-927-7662, Rhonda@lpca.net*

## A Multi-faceted Approach in Massachusetts

**Key Outcomes:**

- Established a Tax-Exempt Bond Program, Revolving Loan Fund, Grant Program and Technical Assistance Program in Massachusetts that has leveraged more than $143 million in capital for Massachusetts' health centers; virtually all of Massachusetts' 52 health centers have benefited from these programs.
- Established a national technical assistance resource to help health centers plan and obtaining financing for their capital needs.
- Developed the first "economic engine" analysis in 1996 to document the economic impact of health centers as service providers, employers and purchasers of goods and services. The method has been effectively used since then at the local, state and national level, and also enhanced to specifically capture the economic impact of health center facility development projects.

**How they did it:**

In the early 1990s, the Massachusetts League of Community Health Centers (MLCHC) and Neighborhood Health Plan spearheaded the effort to assist Massachusetts health centers with gaining access to capital for the facility and equipment needs. Their efforts resulted in the garnering of more than $13.7 million in credit guarantees from a number of hospitals and insurers, which enabled the establishment of a tax-exempt bond program for Massachusetts centers. They were also instrumental in establishing the Community Health Center Capital Fund to provide direct planning and financing assistance to health centers in Massachusetts. With the participation of NACHC and several other PCAs, this effort spawned the establishment of Capital Link, which provides capital planning assistance and loans to health centers on a national basis.

***For more information:*** *Contact Allison Coleman, Chief Executive Officer, Capital Link, 617-422-0350, acoleman@caplink.org*

## Mississippi Health Centers Secure Federal Financing

**Key Outcomes:** The Mississippi Primary Health Care Association (MPHCA) received federal support of $138,000 in Fiscal Year (FY) 04, $705,000 in FY05, $3,000,000 in FY06, $379,000 in FY08, and $235,000 in FY09 to support capital development and finance capital grants for their members.

**How they did it:**

A key element in the MPHCA's advancements of capital projects has been its relationship with Mississippi's delegation of Senators and Representatives in Washington D.C. Several years ago, the MPHCA began scheduling visits on Capitol Hill to discuss congressional priorities and needs, as well as to inform elected officials about the work health centers were doing to serve the vulnerable and uninsured populations of Mississippi. The state delegation has proven to be very supportive of health centers, acknowledging their role as vital safety net providers. This approach has helped the

MPHCA to secure funding for various capital needs including; facility equipment, health information technology, and telemedicine efforts.

***For more information:*** *Contact Robert M. Pugh, Executive Director, MPHCA, 601-981-1817, rmpugh@mphca.com*

The National Association of Community Health Centers (NACHC) represents the nation's health safety net: over 1,100 Community Health Centers, serving over 16 million people at 6,000 sites located throughout all 50 states and U.S. territories. Community Health Centers provide health care to low-income and medically underserved Americans, and they never turn anyone away – regardless of insurance status or ability to pay. They are local, non-profit, community-owned and federally funded.

NACHC is the leading source for information, data, research and advocacy on key issues affecting Community Health Centers. NACHC provides education, training, technical assistance and leadership development to promote excellence and cost-effectiveness in health delivery practice and community board governance. In addition, it builds partnerships that stimulate public and private-sector investment in quality health care services.

For more information on NACHC and Community Health Centers, please visit www.nachc.com.

Capital Link is dedicated to assisting health centers in accessing capital for building and equipment projects and to providing extensive technical assistance to health centers throughout the capital development process. Capital Link also provides targeted loans to assist health centers in leveraging other sources of capital.

To date Capital Link has assisted individual health centers in obtaining $423 million in grants and loans for 164 capital projects totaling more than $560 million. Working in partnership with NACHC and Primary Care Associations across the country, Capital Link has also been instrumental in leveraging more than $1.8 billion in capital grants and loan funds to benefit health centers.

Capital Link was founded through the joint efforts of the Community Health Center Capital Fund, Massachusetts League of Community Health Centers, National Association of Community Health Centers and Primary Care Associations in Illinois, North Carolina and Texas.

For more information on Capital Link, please visit www.caplink.org.

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