

LEARN	JOIN	LEAD
	2014 OFN CONFERENCE OCTOBER 14–17, 2014 • THE SHERATON DOWNTOWN DENVER, COLORADO	
<h2>FQHCs as a New Asset Class for CDFIs: What are We Learning?</h2>		
<p>Allison Coleman, Capital Link Tom Manning, Harbor Road Nancy Wagner-Hislip, The Reinvestment Fund Alexandra Jaskula, OFN</p>		
		

2014 OPPORTUNITY FINANCE NETWORK CONFERENCE	
<h2>Agenda</h2>	
<ul style="list-style-type: none">▪ The <i>Financing Community Health Centers</i> Capacity Building Initiative▪ Brief Overview of CHC Lending▪ Technical Assistance<ul style="list-style-type: none">▪ The Approach▪ Trends in TA Requested by CDFIs▪ CDFIs Pursuing Technical Assistance<ul style="list-style-type: none">▪ Virginia Community Capital▪ The Reinvestment Fund▪ Kentucky Highlands Investment Corporation▪ <i>Financing CHCs</i> Research and Resources Available▪ Collective Strategies to Build the CHC Lending Sector	
	

CDFI Fund's Capacity Building Initiative: Financing Community Health Centers

- **Goal:** Build the capacity of CDFIs to successfully finance and provide services to community health centers in underserved communities.
- **Focus:** Health care sector trends, underwriting, program designs for lending to CHCs, and other relevant subjects.



Financing CHCs Partners

- 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.



Components of *Financing CHCs* Initiative

Virtual Resource Bank

Technical Assistance Webinars

One-to-One TA

Affinity Groups

Foundations in Financing CHC Workshops

Advanced CHC Financing Forum

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Who Attended the Workshops

- 125 Participants from 53 CDFIs
- Characteristics of CDFI Participants
 - Have an existing CHC program and wants to train new or existing staff
 - Have done some CHC lending through community facilities and/or real estate activities

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FQHCs – An Overview

Community-based; Patient-directed

- Features of Federally Qualified Health Centers:
 - **Located in or serve high need areas** – federally-designated Medically Underserved Area or Population
 - Provide **comprehensive primary health care** services, **with enabling services** to overcome barriers to access
 - **Provide services to all**, regardless of ability to pay
 - **Governed by a Community Board** representative of the area, a majority of whom are patients at the center
 - **Meet performance and accountability standards** – clinical, financial and administrative
 - In return, all receive **cost-based reimbursement** from Medicaid and now Medicare; most receive **operating grants** to compensate for care to uninsured

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FQHCs – An Overview

- **A Substantial Sector:**
 - 1,202 “Grantees,” 100 “look-Alikes”, with ~9,000 sites
 - 22.7 million patients in 2013, in all 50 states
 - 162,000 FTE employees
- **Serving 1 in 3 Americans in poverty:**
 - 73% of patients <100% FPL; 93% <200% FPL
 - ~35% uninsured
- **Growing Steadily:**
 - 2010 – 1,124 grantees; 19.5 million patients
 - 2000 – 730 grantees; 9.6 million patients
 - Goal: 35 million patients by 2020
- **With Right Financial Profile for CDFIs:**
 - Median FQHC has ~\$10 million in revenues; with ~2% margin (per Capital Link figures)

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FQHCs – An Overview

Central to Healthy Community Strategies

- **FQHCs are major employers in low-income communities:**
 - Offer stable jobs at all skill and educational levels, with career ladders
 - Improve real property
 - Create economic multipliers
- **FQHCs' primary care & enabling services:**
 - Produce better health at lower costs
 - Align with efforts to address social determinants
 - Reduce personal bankruptcies
 - Enable healthy kids to stay in school and healthy adults to stay on the job

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Our Approach to Technical Assistance

- Refine pressing needs
- Systematic approach to scope TA
- Goal: Identify highest and best use of TA hours

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Trends in Technical Assistance

- CHC lending is an extension of what CDFIs are already doing – adapting existing loan program
- CDFIs and CHCs often share same target population and similar mission of creating access yet unaware of each other
 - TA: Who is in our market and how to reach them?
- Interest in learning to use data available – extensive benchmark data

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Popular TA Topics

- Shadow underwriting
- Analysis of CHC landscape and assessment of capital needs in target market
- Outreach strategies to PCAs and other partners
- Marketing and outreach to CHCs
- Financial analysis of CHCs

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Allison Coleman of Capital Link, TA Provider for

VIRGINIA COMMUNITY CAPITAL

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Virginia Community Capital

- Founded in 2006 with a \$15MM capital infusion from the Commonwealth of Virginia
- Initially a microlender
- Today VCC provides financing for real estate, small businesses, and traditional banking services.

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VCC Health Center Lending

- VCC provided financing to three CHCs for capital expansion projects (2 NMTC; 1 conventional).
- As part of its real estate lending arm, it would like to expand its suite of products to offer CHCs conventional financing for working capital lines of credit and refinancing existing debt.



VCC TA Goals

Overarching Goal: Improve lending staff's understanding of CHCs' financial and operational performance

- Review current CHC loans against industry metrics and trends
 - Identify any red flags from the three closed CHC deals
 - Incorporate benchmarking data into health center underwriting criteria
- Review underwriting memos to identify how to incorporate key considerations into future underwriting processes
- Receive assistance in navigating HRSA federal interest subordination process



VCC TA Activities

- Capital Link Financial and Operational Trends Analyses of three existing health center loans

Page	Revenue and Expense Composition	Target	FY 13	Three Year Average	National FY13 Median
3	Operating Margin	> 2.2%	3.2%	-0.3%	1.0%
4	Bottom Line Margin	> 3%	2.0%	20.5%	3.3%
5	Employment Related as Percentage of Operating Revenue	< 70-75%	67.8%	68.8%	73.1%
13	Operating Revenue Growth Rate		-2.2%	11.8%	5.3%
14	NPSA Growth Rate		3.9%	10.4%	6.3%
15	GCR Growth Rate		2.7%	-5.5%	1.3%
16	Operating Expense Growth Rate		-0.8%	4.7%	5.8%
17	Revenue Mix Percentage-NPSA		65.4%	64.4%	57.8%
18	Revenue Mix Percentage-GCR		32.5%	34.4%	30.9%

Page	Liquidity	Target	FY 13	Three Year Average	National FY13 Median
6	Days Cash on Hand	> 30-45 Days	82 Days	118 Days	48 Days
7	Current Ratio	> 1.25	2.3	3.8	2.8
8	Days Net Patient Reimbursables	< 80-75 Days	19 Days	23 Days	44 Days
9	Days in AR Receivables	< 60-75 Days	44 Days	58 Days	44 Days
10	Days in Accounts Payable	< 60 Days	31 Days	49 Days	33 Days
24	Working Capital Growth Rate		41.2%	4.8%	6.7%

Page	HQMA Required Measures	Target	FY 13	Three Year Average	National FY13 Median
20	Change in Net Assets as a Percentage of Expense		2.0%	19.8%	3.3%
21	Working Capital to Monthly Expense Ratio		2.5	2.4	2.0
25	Lower Ratio: Public to Equity Ratio		1.3	1.4	1.1



VCC TA Activities

- Capital Link reviewed and commented on underwriting memos
 - Recommendations:
 - Highlight aspects of FQHCs that are unique
 - Additional attention to state health policy issues
 - Expand analysis of CHC's financial projections from typical 1 year to 3-5 years
 - Consider sensitivity analyses in some cases
 - Use comparative benchmarks to assess relative risk
- Provided advice regarding obtaining HRSA sign-off for subordination of a federal interest



VCC “Ah Ha” Moments

- **UDS Reports** – A rich source of data/information; asked for it previously, but didn’t really know how to use it.
- Availability of **Benchmark Data** from HRSA and Capital Link
 - “RMA-like” data, specialized to this industry
- Need for **Financial Projections**
 - Real estate vs. business loans

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Nancy Wagner-Hislip

THE REINVESTMENT FUND

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TRF & CHC Lending

- TRF invests in underserved communities, addressing the social determinants of health
- ACA to double the demand for primary care, but grants insufficient to expand capacity
- TRF's Health Lending
 - 2011 – Assessed “financeable demand” among FQHCs with LIIF
 - 2012 – Launched \$25M demonstration with LIIF
 - 2014 – Expanded lending collaboration, added PCDC
 - \$130M over 3 years



TRF CHC Lending To Date

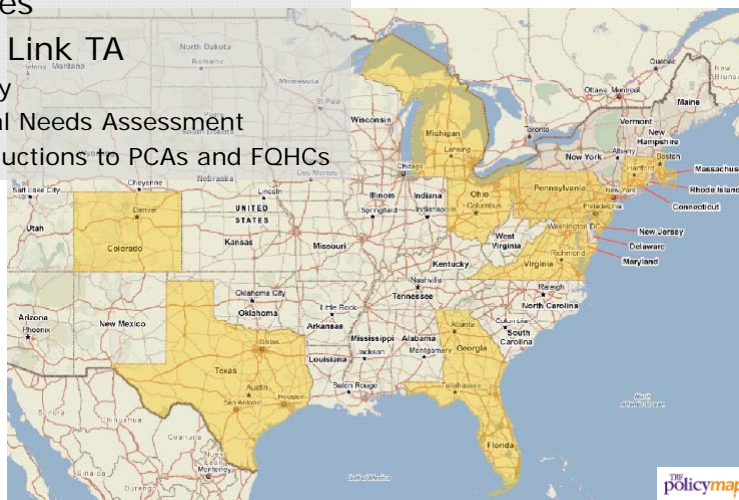


- TRF-Led
- TRF Participation



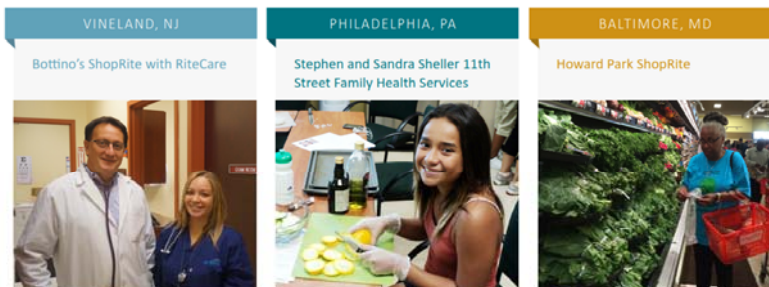
TRF CHC Marketing States

- 12 states
- Capital Link TA
 - Survey
 - Capital Needs Assessment
 - Introductions to PCAs and FOHCs



Healthy Food & Health Care

- Make connections between two sectors and TRF business lines
- Improve health outcomes with focus on nutrition



Tom Manning, TA Provider for

KENTUCKY HIGHLANDS INVESTMENT CORPORATION

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Kentucky Highlands Investment Corporation

- KHIC was created in 1968 to address poverty in Southeast Kentucky by promoting job creation and economic development.
- Per KHIC, health care is the only growing industry in its service area.
- But, with a series of hospitals in the region, several are in serious financial trouble.
- KHIC is primarily a small business lender, has made 3 loans to CHCs and wants to do more.

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KHIC – Goals of TA

- Enable KHIC to expand its CHC lending by:
 - Exploring the CHC market in KHIC service area in the context of regional trends in health care
 - Strengthening KHIC’s ability to underwrite CHC loans

- Specific tasks include:
 - Reviewing sources of CHC market information to learn local landscape;
 - Reviewing underwriting material for KHIC’s existing CHC loans



Understand the Market – Statewide info at NACHC site

The screenshot shows the NACHC website interface. On the left is a navigation menu with categories like 'Research & Data', 'Conferences', and 'Publications & Resources'. Below the menu is a sidebar with social media icons and two email subscription boxes. The main content area on the right contains several informational sections: 'State Fact Sheets', 'NEW Primary Care Shortage Maps', 'NEW Insurance Expansion State Maps', and 'State Maps'. At the bottom right of the main content area is a map of the United States with states color-coded. The Opportunity Finance Network logo is visible in the bottom right corner of the slide.



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Understand the Market – UDS Data Center; State level

bphc.hrsa.gov/uds/datacenter.aspx?q=d&year=2013&state=KY#glist

State Program Grantee Data		
Kentucky Program Grantee State Data		
Health Center	City	State
BIG SANDY HEALTH CARE, INC.	Prestonsburg	Kentucky
COMMUNITY HEALTH CENTERS OF WESTERN KENTUCKY	Greenville	Kentucky
CUMBERLAND FAMILY MEDICAL CENTER	Burkesville	Kentucky
EASTERN KENTUCKY UNIVERSITY	Richmond	Kentucky
FAIRVIEW COMMUNITY HEALTH CENTER	Bowling Green	Kentucky
FAMILY HEALTH CENTER, INC.	Louisville	Kentucky
GRACE COMMUNITY HEALTH CENTER, INC.	Gray	Kentucky
HEALTH HELP, INC.	McKee	Kentucky
HEALTHPOINT FAMILY CARE	Newport	Kentucky
JUNIPER HEALTH, INC.	Beattyville	Kentucky
KENTUCKY MOUNTAIN HEALTH ALLIANCE, INC.	Hazard	Kentucky
KENTUCKY RIVER FOOTHILLS DEVELOPMENT COUNCIL, INC.	rocmmond	Kentucky
LEWIS COUNTY PRIMARY CARE CENTER	Vanceburg	Kentucky
LEXINGTON-FAYETTE COUNTY HEALTH DEPARTMENT	Lexington	Kentucky
MOUNTAIN COMPREHENSIVE CARE CENTER, INC.	PRESTONSBURG	Kentucky
MOUNTAIN COMPREHENSIVE HEALTH CORP.	Whitesburg	Kentucky
PARK DUVALLE COMMUNITY HEALTH CENTER, INC.	Louisville	Kentucky
REGIONAL HEALTH CARE AFFILIATES, INC.	Providence	Kentucky
STERLING HEALTH SOLUTIONS, INC.	Mount Sterling	Kentucky
TRIAD HEALTH SYSTEMS, INC.	Warsaw	Kentucky
UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION	Lexington	Kentucky



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Understand the Market – UDS Data Center; CHC level

bphc.hrsa.gov/uds/datacenter.aspx?q=d&bid=04E00055&state=KY&year=2013

BPHC Home > Health Center Data > Program Grantee Profiles

Share | Facebook | Twitter | LinkedIn | Export to Excel

2013 Health Center Profile

GRACE COMMUNITY HEALTH CENTER, INC., GRAY, KENTUCKY Download

Total Patients Served: 7,852

[Find a Health Center](#)
[View all Kentucky Program Grantees](#)
[View National and State Program Grantee Data](#)

[Click to enlarge](#)

- Age and Race/Ethnicity
- Patient Characteristics
- Services
- Clinical Data
- Cost Data
- Program Requirements

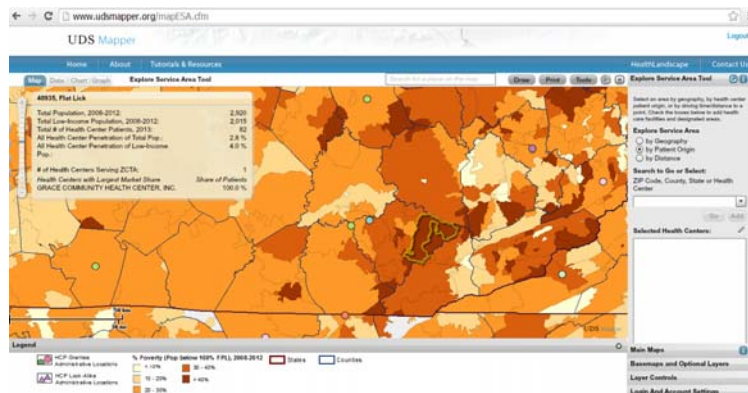
View By:

- National Data
 - Program Grantees
 - Look-Alikes
- State Data
 - Program Grantees
- Health Center Profiles
 - Program Grantees
 - Look-Alikes
 - Reports and Technical Assistance
- Access Data Tools
 - Data Warehouse
 - Data Snapshot
 - Data Comparisons
- View also:
 - Special Populations



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Understand the Market – CHC sites, patient origins at www.UDSmapper.org



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What Have We Learned?

- 8 CHCs operate in KHIC service area; 5 more than they knew of
- KHIC has underwritten its CHC loans as small businesses:
 - a good place to start, but
 - doesn't enable an analysis and understanding of the health care business
 - Needs an overlay looking at payer mix; reimbursement rates; provider productivity and other factors

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Next Steps with KHIC

- A review of CHC underwriting fundamentals
- Continued review of market, including
 - The status of area hospitals and how that may affect CHCs, positively or not
 - CHC 990s, through Guidestar.org, to make initial financial assessments of CHCs
- Meanwhile, KHIC has
 - Introduced itself to the Kentucky PCA, and is
 - Preparing to meet all its potential new CHC clients

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NEW RESEARCH AND RESOURCES AVAILABLE TO SUPPORT CDFI LENDING TO FQHCS

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CDFI Fund's Virtual Resource Bank



www.cdfifund.gov/what_we_do/Financing_Community_Health_Centers_Resource_Bank.asp

- WHO WE ARE
- WHAT WE DO
- IMPACT WE MAKE
- NEWS & EVENTS
- HOW TO APPLY

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

UNITED STATES DEPARTMENT OF THE TREASURY

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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Research and Industry Information

- HRSA
 - 2013 UDS information now available
 - <http://bphc.hrsa.gov/healthcenterdatastatistics/nationaldata/index.html>
- NACHC
 - Research fact sheets; Sketch of CHCs: Chartbook 2014; great data/information for underwriting
 - <http://nachc.com/state-healthcare-data-list.cfm>
 - Latest on federal legislation affecting health centers
 - <http://blogs.nachc.com/washington/>
- Geiger Gibson/RCHN Community Health Foundation Research Collaborative
 - http://www.rchnfoundation.org/?page_id=509

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Research and Industry Information

- Kaiser Family Foundation
 - National and state level data, information, analysis on health policy
 - Community Health Centers: A 2012 Profile and Spotlight on Implications of State Medicaid Expansion Decisions
 - <http://kff.org/medicaid/issue-brief/community-health-centers-a-2012-profile-and-spotlight-on-implications-of-state-medicaid-expansion-decisions/>
- Commonwealth Fund
 - ACA report cards, surveys, info on enrollment, state policies, etc.
 - <http://www.commonwealthfund.org/>

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Community Health Center Financial Perspectives Series

- Supported by Citi Foundation, this series has been developed by Capital Link specifically to assist lenders in understanding FQHCs
 - Issue 2: Financial and Operational Ratios and Trends of Community Health Centers, 2008 – 2011 (July 2013)
 - Issue 4: Impact of Capital Projects on Health Centers: Growth, Financial Trends, and Operational Transformation (January 2014)
 - Issue 6: Identifying the Risks of Health Center Lending (October 2014)
- All available here (infographics & full reports):
 - <http://www.caplink.org/resources/reports>

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Collective Strategies to Build the CHC Lending Sector

- Affinity Groups (Possible topics)
 - Understanding and Using Health Center Data
 - Underwriting CHC Loans
 - CHC Loan Product Development
 - Building Referral Networks
 - NMTC Financing Needs
 - Transitioning from Affordable Housing to CHC Lending
 - Loan Participation for New or Expanding CHC Lenders



Collective Strategies to Build the CHC Lending Sector

- Webinars
 - 4 delivered and recorded
 - *Trends in Health Care*
 - *Defining the CHC Landscape*
 - *Primary Credit Needs of CHCs and Sources of Credit*
 - *CHC Financial and Operational Metrics and Trends*
 - 6 upcoming webinars
 - October 22nd at 2pm ET: *Underwriting CHCs*
 - 5 additional topics into 2015
- Virtual Resource Bank



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