FQHCs as a New Asset Class for CDFIs: What are We Learning?

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Agenda

- The Financing Community Health Centers Capacity Building Initiative
- Brief Overview of CHC Lending
- Technical Assistance
  - The Approach
  - Trends in TA Requested by CDFIs
- CDFIs Pursuing Technical Assistance
  - Virginia Community Capital
  - The Reinvestment Fund
  - Kentucky Highlands Investment Corporation
- Financing CHCs 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

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
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

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)
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

Our Approach to Technical Assistance

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

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
Allison Coleman of Capital Link, TA Provider for

VIRGINIA COMMUNITY CAPITAL

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.
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

- 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

Nancy Wagner-Hislip

THE REINVESTMENT FUND
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

- 7 Deals
- 5 States
- $91M project cost
- $16M TRF debt
- $24M TRF NMTC
**TRF CHC Marketing States**

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

**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

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.
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

Rural Health Clinic & Community Health Center Directory

Statutorily defined. Provides a full overview of all health centers and the most current data on their services, facilities, staff, and other details.

Additional Information:
- A Rural Health Network: Provides a full overview of rural health centers and the most current data on their services, facilities, staff, and other details.
Understand the Market –
UDS Data Center; State level

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<tr>
<th>Health Center</th>
<th>City</th>
<th>State</th>
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<tr>
<td>BC HEALTH CARE, INC.</td>
<td>Paducah</td>
<td>Kentucky</td>
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<tr>
<td>COMMUNITY HEALTH CENTER OF WESTERN KENTUCKY</td>
<td>Glasgow</td>
<td>Kentucky</td>
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<tr>
<td>CAMBRIDGE MEDICAL CENTER</td>
<td>Bardstown</td>
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<tr>
<td>NATUS HEALTH CARE</td>
<td>Paris</td>
<td>Kentucky</td>
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Understand the Market –
UDS Data Center; CHC level

2013 Health Center Profile
GARCEY COMMUNITY HEALTH CENTER, INC. (GRAY, KENTUCKY)
Total Patients Served: 7,862

- Age and Race/Ethnicity
- Patient Characteristics
- Services
- Clinical Data
- Cost Data
- Program Requirements
Understand the Market –
CHC sites, patient origins at
www.UDSmapper.org

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
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

NEW RESEARCH AND RESOURCES AVAILABLE TO SUPPORT CDFI LENDING TO FQHCS
CDFI Fund’s Virtual Resource Bank

- HRSA
  - 2013 UDS information now available

- NACHC
  - Research fact sheets; Sketch of CHCs: Chartbook 2014; great data/information for underwriting
  - Latest on federal legislation affecting health centers

- Geiger Gibson/RCHN Community Health Foundation Research Collaborative
  - [http://www.rchnfoundation.org/?page_id=509](http://www.rchnfoundation.org/?page_id=509)
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

- Commonwealth Fund
  - ACA report cards, surveys, info on enrollment, state policies, etc.

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 6: Identifying the Risks of Health Center Lending (October 2014)

- All available here (infographics & full reports):
  - [http://www.caplink.org/resources/reports](http://www.caplink.org/resources/reports)
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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