

Underwriting Community Facilities

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Low Income Investment Fund

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Agenda

- Introduction
 - Charter Schools – Susan Harper, LIIF
 - Childcare Facilities – Noni Ramos, LIIF
 - Health Care Clinics – Scott Sporte, NCBDC
- Key Underwriting Areas
- Case Studies

Charter Schools

What Is a Charter School?

- Is a public school
 - No tuition
 - Open to all
 - First-come, first-served or lottery for admittance
- Receives funding on a per student basis
- Receives time-based contract from authorizers (“charter”)
 - Flexibility in exchange for accountability

Charter Schools

National Stats

- 1st law passed in Minnesota in 1991
 - California in 1992
- Legislation in 39 states, plus DC and Puerto Rico
 - Few states have laws but no schools
- More than 2,700 schools in operation, serving 700,000 students

Charter Schools

California Stats

- 470 schools, approximately 170,000 students
- School districts as authorizers
- Term of five years
- 70% are start-up schools
- 65% are site-based

Charter Schools

California Stats, Cont'd

- Revocation for:
 - “Material violations” of charter
 - Failure to meet or pursue pupil outcomes identified in charter
 - Gross fiscal mismanagement
 - Failure to meet GAAP
 - Violations of any provision of law
- Only 20 schools have had charter revoked; 30 closed for other reasons

Charter Schools

California Funding

Operations

- Based on average daily attendance (ADA)
- Same amounts statewide, vary by age
- Monthly payments, various formulas
- For '03/04, range of \$4,700 - \$5,600
- Local property tax share contribution varies, state make up difference

Charter Schools

Facilities Need

- Insufficient public funding for facilities
- Limited ability to locate in school district facilities
- As a result, charter schools typically:
 - Start in small spaces
 - Move often
 - Endure instability that can impact programs

Charter Schools

LIIF's Involvement

- Poverty alleviation strategy
- Community development tool
 - Stabilization of communities & job creation
 - Revitalization of real estate
- Response to our customers
- Need for LIIF's financing expertise
 - Thin cash flow and unconventional revenue
 - Facilities need
 - 1st time borrowers

Charter Schools

LIIF Activity

Loans for charter school facilities

- Largest loan \$2.1million, but deal sizes are increasing
 - Often participate with other lenders
 - Leasehold improvements
- No write-offs or losses
- Primarily expanding schools
- All in or serving low-income populations

Charter Schools

LIIF's Loan Fund(s)

- Currently raising \$51 million in new capital for charter school facilities, plus \$750 thousand for predevelopment loans
- Three loan funds
 - One NMTC fund in Los Angeles
 - Two statewide
 - Serving 19 schools
- Role as originator, underwriter and servicer

Charter Schools

LIIF's Recent Projects

- \$100,000 loan for tenant improvements on temporary space
- \$400,000 loan for site development work on leased land
- \$1.5 million loan to assist with purchase and renovation of former office building
- Currently analyzing \$5 million loan for purchase & renovation of former hospital

Charter Schools

Resources

- Center for Education Reform
 - www.edreform.com
- U.S. Department of Education
 - www.uscharterschools.org
- Charter Schools Development Center – CA
 - www.cacharterschools.org
- California Charter School Association
 - www.charterassociation.org

Child Care

Industry Organization

- Child care providers are primarily private operations providing a service, usually on very local level
- Federal to local government and agencies are involved in the financing, administering, regulating, subsidizing and planning of child care
- Providers receive support from a range of entities

Child Care

The Need for Child Care

- 46% of all U.S workers are parents of children under 18
 - 20% of these are single parents
- 3 out of 4 married employees have partners who are also employed
 - 75% of these work full time
- Greater demand than ever
 - 1 space for every 5 needed
 - 1 in 10 eligible children receives subsidies

Child Care

Types of Care

- Informal or License Exempt
 - Relatives, guardians
 - Some religious & recreational programs
- Family Child Care Homes
 - Small: up to 8 children
 - Large: up to 14 children
- Child Care Centers
 - Nonprofit or for profit
 - Single or multiple site
- Head Start
 - National, comprehensive program

Child Care

Operational Funding

- Parent Fees/Tuition
- Direct Contracts (Center Based Subsidies)
 - Headstart – Federal
 - California Department of Education – State
- Vouchers (Parent Based Subsidies)

Child Care

Operational Funding, cont'd

- Child Care and Adult Food Program
- Various Other Public Funding
- Vouchers (Parent Based Subsidies)
- Fundraising

Child Care

LIIF's Involvement

- Quality childcare lays a foundation for school and future life success
 - \$1 invested in quality childcare for low income families saves \$7 in future public costs (special education, social services, incarceration, lost taxes)
- Fuels the economic engine
 - Businesses have consistent workers
 - Parents earn income

Child Care

LIIF's Involvement, cont'd

- Levels the playing field
- Promotes school readiness
- Creates jobs
- Develops community & service links

Child Care

LIIF's ABCD Fund

- Purpose
 - Assist in creating a financing system for child care center facilities by providing capital for the acquisition, construction, expansion, rehabilitation, refinancing of new or existing child care center facilities
- Criteria
 - Center-based child care providers – both nonprofit and for profit – serving at least 20% low-income children
- \$25 million Fund

Child Care

LIIF's Recent Projects

- \$85,000 to assist in construction of modular facility
- \$216,000 to acquire and renovate private home for Early Head Start care
- \$433,000 for gut rehab of 85 year-old child care facility to increase enrollment by 40
- \$677,000 to expand existing facility to add 100 slots

Child Care

Resources

- National Association for Education of Young Children (local, state chapters) www.naeyc.org
- National Association of Child Care Resource and Referral Agencies www.naccrra.org
- National Children's Facilities Network
www.ncfn.org
- Building Child Care
www.buildingchildcare.org

Health Care

The Health Care Safety Net

- Hospital emergency rooms
- County-operated clinics
- **Community Health Centers (CHC)**

History of CHCs

- Roots in economic development and community empowerment - War on Poverty (O.E.O.)
- Provide access to health care for underserved and uninsured people
- The first federally-funded health centers opened in 1965

Community Health Centers

- Provide comprehensive primary and preventive health care services
- Community-based
- Accessible to everyone, regardless of financial barriers, linguistic barriers, cultural barriers, geographical barriers and age
- Sliding-fee scale
- Non-profit 501(c)(3) organizations
- Governed by community boards

Health Care

Community Health Centers

Major categories

- Federally Qualified Health Center
 (“FQHC”, “330 grantee”, “Look-alike”)
- Rural health centers
- Free clinics

Health Centers Currently...

Nationally

- 1000+ CHCs
- 3,200 delivery sites in urban and rural underserved communities in all 50 states, the District of Columbia, Puerto Rico, Guam and the U.S. Virgin Islands.
- 13 million people served (4.4 million of whom are uninsured)

California

- 192 clinic corporations managing 500 sites serving 2.5 million people per year
- Average budget:\$9.6MM (\$6.2MM nationally)
- Average center:
 - Serves 14,000 per year
 - 44,000 patient visits
 - 90 FTE staff

Health Care

“Typical” Health Centers

Health Centers range in size from < \$1 million to > \$40 million in revenues

- Average health center generated ~ \$6.2 million in Revenues in 2002
- Net Patient Service Revenue generally accounts for 2/3 of all Revenue; Grants & Contracts 1/3
- Most health centers spend between 70-75% of their revenues on Salaries & Related Expenses
- Bottom line margins 1-5%

Major Sources of Revenue: Medicaid

- State program with federal match
- Health centers reimbursed on Prospective Payment System (PPS)
- Not widely accepted by private physicians
- Generally single largest source of revenue (40-80% of annual encounters)
- Fee-for-service or managed care

Major Sources of Revenue:

Section 330 Grant

- Federal grant paid annually; 3-5 year cycles
- Granted to approximately 40-50% of centers
- Offsets cost of care to the uninsured
- Can represent 30% or more of annual revenues
- Consistent revenue source

Major Sources of Revenue: Other Federal

- Medicare
 - Federal program; covers all senior citizens
 - Widely accepted by private physicians
 - Standard reimbursement
 - Limited health center use (5-10% annual encounters)
- 340 B
 - Pharmaceuticals at fed. wholesale

Major Sources of Revenue: Other State

- CHIP
- State program with federal match
 - Coverage for children up to age 19 with family income up to 150% of Federal Poverty Level
- Other state programs
 - Family Planning
 - Expanded access

Major Sources of Revenue: Other Support

- Private insurance (usually 5-10% of encounters)
- Private philanthropy (5%)
 - United Way
 - Foundations
- Contracts (5-10%)
 - Mental health services
 - County or local contracts

Health Care

Health Centers' Capital Needs

- Health centers have significant capital needs:
 - renovations to or expansion of existing facilities
 - new site development
 - equipment modernization (MIS, EMR)
- These projects allow health centers to:
 - Serve more people
 - Expand the array of medical and social services available to underserved communities
 - Contribute to community revitalization
- Estimated CHC capital need nationwide: \$1.2 billion

National Cooperative Bank

- Chartered by Act of Congress, 1978
- Offices in DC, New York, Oakland
- Borrowers to be:
 - Consumer cooperatives
 - “Cooperative-like” nonprofit organizations
- 35% of loans to benefit low-income populations

NCB Development Corporation

Mission:

To provide solutions, based on cooperative principles, that empower under-served communities to address the problems that poverty creates in America.

NCB Development Corporation

- Affordable Housing
- Assisted Living & Housing with Services
- Education / Charter Schools
- Community Development Corporations
- Worker Owned Businesses
- Health Care

Community Health Care

Borrowing organizations provide prenatal through senior care to a predominantly low-income population

- Community health centers
- Substance abuse rehab & behavioral health
- Adult day health centers & PACE
- Affordable assisted living

Health Care Lending

- Over \$200 million to community-based health care providers since 1985
- Current portfolio \$60 million in 13 states
- Historic losses <0.1%
- Average health care delinquency 0.57% at year end

Health Care Lending

- Direct loans for facilities construction, expansion and renovation; equipment and working capital
- Loans sized \$100,000 - \$5,000,000 +
- Fixed or floating rates priced at or below market rates
- Transactions on and off balance sheet

NCBDC's Recent Projects

- \$8.2 million construction/permanent financing, WV health center
- \$1.1 million interim financing, HI health center
- \$5.0 million working capital line of credit, CA behavioral health provider
- \$500,000 acquisition financing, CA community health center

Underwriting Community Facilities

- Common Underwriting Issues
 - Revenue and Cash Flow
 - Management
 - Quality/Program
 - Real Estate/Collateral

Revenue and Cash Flow

- **What to Evaluate**
 - Public and private sources
 - Stability, frequency, eligibility, timing
 - Fundraising track record, pipeline, funding conditions
 - Trends and growth patterns
 - Per student, child, or patient encounter
 - Changes in payer

Revenue and Cash Flow

- **What to Evaluate, cont'd:**
 - Age and type of population served
 - e.g., additional subsidies for low-income
 - Demand in community
 - Retention/turnover
 - Timing of ramp-up
 - In some cases, location
 - Labor and facility costs

Revenue and Cash Flow

- **What to Look Out for:**
 - Ramp-up: enrollment or attendance often not discounted in projections
 - Waiting lists may not match open spaces
 - Restrictions on funding sources
 - Eligibility, disbursement conditions, track record, future risks, contingency plans
 - Seasonality

Revenue and Cash Flow

- **Summary: Publicly Funded, Under funded and Thin Margins**
 - Primarily funded by public sector
 - Annual or short-term contracts
 - Inherent instability, especially in tough economic times
 - Delays in receiving funds
 - Funding for operations often doesn't include funding for capital
 - High cost areas impacted by statewide funding policies
 - Dependent on fundraising

Management

- **What to Evaluate:**
 - Track record
 - Breath and depth of capacity
 - Stability
 - Board experience

Management

- **What to Look Out for:**
 - Often 1st time borrowers
 - Lack of facility development expertise
 - Key person/founder risk
 - Tension between board & management
 - Insufficient resources to handle growth

Management

- **Summary: Along with cash flow, management analysis is a critical underwriting area for community facility loans**
 - Important factor in borrower's ability to maintain and increase cash flow (primary source of repayment)

Quality/Program

- **What to Evaluate:**
 - Competitive advantage
 - Response to community needs
 - Measures of quality and accountability
 - Achievement data (schools)
 - Accreditation (child care)
 - Certification/licensing (health care)
 - Funder requirements

Quality/Program

- **What to Look Out for:**
 - Difficulty of measuring quality
 - Difficulty of retaining quality staff
 - Program experience/knowledge may be centralized

Quality/Program

- **Summary: Often hard to quantify, quality of program will drive cash flow and be influenced by management**

Collateral/Real Estate

- **What to Evaluate:**

- Zoning, permitting, and licensing requirements
- Prior use and condition
- Age, size of facility, and degree of renovations required
- Accessibility, transportation availability, and proximity to targeted population

Collateral/Real Estate

- **What to Look Out for:**
 - Lack of facility development expertise is real
 - Special purpose/single use facilities limits re-sale value and restricts flexibility
 - Development timelines are often under estimated
 - Project costs are often under budgeted

Collateral/Real Estate

- **Summary: Valuation complicated**
 - Limited market of true comparables
 - Location in undervalued low-income communities
 - High costs in urban areas
 - Use of temporary or leased facilities often only option for many providers

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