

Community Investments Vol 16, Issue 1 Strengthening the Health Care Safety Net through Financing and Technical Assistance

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Introduction

Nonprofit community health centers meet the primary care needs of many of the nation's Medicaid recipients and uninsured in areas traditionally underserved by physicians, regardless of the patients' ability to pay. These organizations act as the nation's health care safety net, offering a full spectrum of care that is sensitive to each community's unique needs from over 3,500 delivery sites in underserved urban and rural areas nationwide. Community health centers rely on a combination of federal and state grants, Medicaid and Medicare reimbursement, patient fees, private insurance payments, and donations to provide care, underscoring the need for cost-effective delivery.



In this time of economic uncertainty, community health centers face many challenges in providing high-quality primary care to low-income patients.

Uninsured populations increase with growth in unemployment, placing pressure on providers and facilities. State budget deficits force reductions in entitlement programs. Organizations find it difficult to recruit and retain staff willing to work for lower wages in older facilities. In addition to rising costs, shifting reimbursement streams, and the strain of a constantly growing demand for their services, health centers have traditionally encountered difficulty in obtaining appropriately structured financing for working capital, building projects and equipment needs. This is often due to a perception that their clientele, their funding and their location make them a higher-than-average risk.

Financial Strength

Fortunately, experience has shown that community health centers and other community-based health care providers are remarkably resilient and resourceful. A recent survey of health centers in California administered by Capital Link, a nonprofit technical assistance provider to community health centers nationwide working in conjunction with the Tides Foundation and the California Primary Care Association, has found that community health centers in California have been and are increasingly becoming more financially stable.¹ The survey, conducted with information collected from health centers throughout California for fiscal years 1999-2002, uses several financial measures to determine an organization’s financial condition, including liquidity, debt capacity and profitability (see box 1).

Box 1

Measure	1999	2002	Percent Change
Number of respondents	47	79	68%
Days cash on hand (median)	33	66	100%
Days in Receivables (median)	60	55	(8%)
Operating margin	1.85%	4.42%	139%
Debt service coverage	2.43:1	2.78:1	14%

Although this survey covers a subset of community health centers in California, it is not inconsistent with results seen in other states. The survey results overall demonstrate a group of organizations that are in line with traditional financial benchmarks and substantiate that many health centers nationwide present an acceptable credit risk.

Lending to Health Centers

by Scott Spote

One national lender agrees that community health centers are a good credit risk and has made them the core of their lending activity. For nearly 20 years, NCB Development Corporation (NCBDC) has worked with community-based health care providers to fill the gap of financial knowledge and need, provide assistance and offer a variety of appropriately structured loan products to finance working capital needs, facility acquisition, expansion and renovation, and new equipment. NCBDC's mission is to deliver innovative financial and development services that improve the lives of low-income individuals, families, and communities.

Health centers suffer from the perception that they are a health care provider of last resort, with outdated facilities to match. But with financing from NCBDC, health centers in many parts of the country have been able to improve their facilities' efficiency and capacity while maintaining a high quality of care for their patients. Using their own balance sheet, and working together with their affiliate, the National Cooperative Bank, and other investors, NCBDC has committed more than \$200 million in financing to health care providers in underserved communities nationwide, with losses totaling less than 0.1%.

One recent example of project commonly financed by NCBDC is a community health center that desired to construct a new facility and move from

cramped rented space. This health center's board and management wanted to construct a building that would be a focal point for their community but wouldn't, in their own words, "look like a clinic for poor people." Business planning assistance from Capital Link helped management develop a set of growth projections and evaluate different financing options. For this project, a \$4 million construction and permanent loan from NCBDC complemented the clinic's \$500,000 capital campaign to make the new building a reality. Payments were structured to anticipate improved cash flow after an initial ramp-up period, and NCBDC worked closely with management to structure payments that matched expectations.

Developing Innovative Financing Pools

For many years NCBDC's own balance sheet was adequate to provide the bulk of their financing. And although they were able to provide loans under terms not generally available to most health centers, their capital could only take them so far and would only allow them to work with a comparatively small number of health centers. Their desire to increase access to capital for health centers necessitated a focus on developing new products and services, which led to the creation of the HealthCAP loan program, a public-private partnership that leverages their limited resources.

HealthCAP is a \$14 million loan pool developed in partnership with the California Health Facilities Financing Authority and the Metropolitan Life Insurance Company. Through the program, NCBDC makes loans to health facilities, selling a portion of each loan to Metropolitan Life. NCBDC retains a small percentage of each loan as subordinate debt, strengthening the investor's senior participation and, through a reduction in exposure and leverage, helping the investor to reduce return requirements. At the same time, NCBDC's participation allows them to remain connected to each transaction while freeing their balance sheet to make additional loans. Credit enhancement from the state's financing authority provides added security.

The HealthCAP program has proven to be quite popular, and NCBDC believes that this is just the beginning.

NCBDC is eager to build on their successes in the health care market, and are working to expand HealthCAP in California and develop new programs in low-income communities all over the country. They are continually seeking partnerships with interested investors and lenders. Through an innovative structure designed to minimize their risk, the financing pools NCBDC has created help to meet the unique financing needs of health centers and other community-based organizations while at the same time allowing NCBDC to leverage their balance sheet and offer a greater number of loans under favorable terms. The investors and lender partners who join in the capital pools gain an introduction to community health center financing. The health centers benefit from modern facilities, and underserved communities benefit from improved access to health care.

Technical Assistance and Consulting Services

by Mark Lurtz

Capital Link is a national nonprofit consulting organization that works with health centers to prepare preliminary project feasibility analyses, business plans and financial forecasting, space plan analyses, request for proposals, and other planning assistance designed specifically for community health center capital projects.

Capital Link contracts with the Bureau of Primary Health Care, a department of the federal Health Resources and Services Administration under the auspices of the Department of Health and Human Services, to provide these services nationally. In addition to its contract with the Bureau of Primary Health Care, Capital Link has agreements with the Tides Foundation in California to provide services to health centers in California. As a result of these grants and contracts, Capital Link provides many of its services

without charge to community health centers, making capital projects even more affordable to centers seeking to expand their capacity.

Since 1995, Capital Link has assisted 73 health centers throughout the country in securing over \$160 million in debt financing and grant funding for projects totaling more than \$212 million. As health centers expand, so does the need for financing options. Fortunately, with organizations like NCB Development Corporation as a model, the job of educating lenders about community health centers and the unique financial opportunities and challenges they face has become less difficult.

Lenders, government agencies, economic development resources and foundations are finding community health centers are more than health care providers, they are economic engines. Capital Link works with community health centers to quantify the impact that they have on the local community with an economic modeling tool that uses multipliers to show the direct and indirect effect of an organization providing jobs and income to employees and other businesses, which then ripples through the local economy. In some places, a community health clinic can serve as the catalyst for revitalization.

So important is the need for community health clinics, that President Bush increased federal operating support to enable community health centers to double their capacity by opening 1,200 new or expanded service sites between 2002 and 2006. In a recent speech,² President George W. Bush addressed this need and reaffirmed his continuing support of the growth and expansion of community health centers with additional congressional dollars. And while this federal expansion initiative, entitled the Health Center Growth Initiative,³ provides increased operating support, the challenge remains to identify financing for community health center capital projects, including greater lender support.

Although community health centers face many concerns in providing care to low-income individuals, the challenge of facilities development is not insurmountable. Community health centers are essential community resources with a real necessity for capital expansion financing dollars to meet a growing health care need.

It is essential that lenders view community health centers as vital resources and seriously consider them as viable borrowers. As outlined by Scott Sporte of NCB Development Corporation in this article, there are ways to minimize a lender's risk including pooling of resources.

The results of participating in Community Health Center capital projects include lenders having an opportunity to supply viable businesses with much needed capital, health centers benefiting from modern facilities and underserved communities receiving improved access to health care.

¹Survey information was provided by Capital Link from its report entitled, California Health Centers and Clinics Financial Trends FY1999 – FY 2002, January 14, 2004. This report was prepared with support from the Community Clinics Initiative, a joint program of Tides and the California Endowment.

²<http://www.georgewbush.com/HealthCare/Read.aspx?ID=2331> (Beginning with Paragraph 20)

³<http://www.ncsl.org/programs/health/hrsa/slides1/sld001.htm>

Scott Sporte is director of business development in NCB Development Corporation's Oakland, California, office. NCBDC is a national nonprofit organization that acts as a catalyst seeking to change the systems for delivering affordable housing and essential community services to the nation's underserved communities. The organization's primary focus is on the things that matter most to people living in low-income communities: housing, health care, education, worker ownership and economic and

community development. NCBDC has consistently offered the financial services and technical assistance needed to improve health care quality in underserved communities, working with providers of a variety of health care and mental health services covering a full spectrum from prenatal care to services for the aging. In addition to their work with community health centers, NCBDC has worked with substance abuse rehabilitation agencies, job training and support organizations for people with physical disabilities, PACE providers and adult day health organizations, and community hospitals that provide a majority of their care to low-income populations. For more information, visit www.ncbdc.org.

Mark Lurtz is marketing manager for Capital Link's eight offices located in Boston, MA; Bethesda, MD; Atlanta, GA; Austin, TX; Cary, NC; Jacksonville, IL; Sacramento, CA and Seattle, WA. Capital Link is a national nonprofit consulting organization that provides high-quality, affordable, innovative advisory services related to planning and financing capital projects for nonprofit community health centers to support and expand community-based health care. For more information, visit Capital Link's website at www.caplink.org.