

Executive Resources, LLC *(“EXEC”)*

“The Stimulus

Package” Impact on FQHCs

On March 2, 2009, President Barack Obama announced the release of \$155 million in The American Recovery and Reinvestment Act (“the stimulus package”) grant funds to support 126 Community Health Centers (CHC) across the country. It is estimated that these grants alone will help provide health services to 750,000 Americans and create 5,500 jobs. The grants will provide essential comprehensive preventive and primary care services at CHCs that are the lifeline for the underinsured and uninsured.

EXEC was successful on 4 for 4 applications that we prepared and submitted on behalf of our clients that were part of the stimulus package awardees based on a high score. Over the course of the last 6 years, EXEC has been successful on 59% of all category Community Health Center applications submitted to the Health Resources and Services Administration (HRSA). It makes sound business sense to use our firm to help your organization garner federal designations and federal dollars.

Health Care Issues

Special Edition Spring 2009

“The Stimulus Package” Impact on FQHCs

The Stimulus Package as it Relates to FQHCs

The American Recovery and Reinvestment Act (“the stimulus package” – “ARRA”) contains \$1.5 billion in funding for community health center infrastructure needs. The legislation indicates this funding can be used for construction, renovation, equipment, and acquisition of Health Information Technology (HIT) systems, but details on the size and types of projects that will be eligible for funding will be up to HRSA to determine. Money will be distributed by HRSA directly to health centers. The process through which the funds will be distributed has not yet been determined by HRSA. There is not a specific deadline for the spending of the infrastructure funds, and NACHC is examining the legislation to determine if overall deadlines for stimulus payments will apply to these funds.

The bill requires HRSA to prepare a plan for spending the funds within 90 days (mid-May 2009) and to report its progress back to Congress every six months thereafter. PCAs are not eligible entities. The law states that “health centers receiving operating grants under section 330 of the Public Health Service Act” are eligible. Report language further clarifies that “health center controlled networks” receiving 330 funds are also eligible. FQHC Look-Alikes are not eligible, since the payments for infrastructure flow through HRSA. However, FQHC Look-Alikes should be eligible for HIT adoption payment incentives through Medicaid. At the current time, the recommended approach is to collect information about the project considered (cost, design, financing, projected impact) and to share that information with the HRSA project officer, PCA, Capital Link (www.caplinc.org) and other local officials.

Some of the \$1.5 billion in infrastructure funding outlined above may be used for “acquisition of HIT systems.” Health centers

and health center controlled networks will be eligible. However, health centers should note the inclusion of new Medicaid payments for the costs of acquiring, implementing, maintaining, and using HIT/EHR systems. Further, there will be grant funds available through DHHS’ Office of the National Coordinator for HIT (ONCHIT). Health centers are specifically eligible for this funding, which includes system adoption as well as training for personnel on new technology. PCAs may also be eligible for certain funding in this area. FQHC providers are specifically listed as eligible to receive Medicaid payments for the adoption and use of certified Electronic Health Records (EHR). In order to qualify for these payments, the law states that FQHC providers must be serving at least 30% patients defined as “needy individuals.” “Needy individuals” are defined as: patients covered by Medicaid (including Medicaid Managed Care plans) or SCHIP; patients receiving charity care; and individuals paying for their care on a sliding-fee scale basis. The law states that eligible providers include Physicians, Physician Assistants, Nurse Midwives, Nurse Practitioners and Dentists.

FQHCs would be paid up to 85 percent of “allowable costs” (as determined by DHHS) for the acquisition, implementation (including training), upgrade, maintenance, and use of a “certified EHR” system (certified by DHHS/ONCHIT). These allowable costs may not exceed \$25,000 per eligible professional in the first year that an FQHC requests the payment, and \$10,000 per professional for each of the next 5 years; thus the maximum allowable 6-year costs per eligible professional will be \$75,000 (\$25,000 plus 5 times \$10,000), and the maximum federal payment will be \$63,750 per eligible professional (85% of \$75,000) over a period of six years.

The Stimulus Package—FQHCs: Service Expansion

In order to be eligible for these payments, the FQHC will have to show “meaningful use” of the EHR system (meaning that they are “engaged in efforts to adopt such a system” in their first year, and that they can show they are using it through use of certain billing and reporting methods in years 2-6).

The law takes effect immediately, but it is likely that the CMS and state Medicaid agencies will take some time to establish protocols for distribution of these payments. Among the first actions CMS will need to take is to decide what constitutes “allowable costs” for this initiative. HHS/ONCHIT will also need to identify which HIT/EHR systems are “certified” for purposes of payment claims. Health centers will be allowed to begin the HIT payment system up to 2014 and still be eligible for full payment; however, they will not qualify for these incentive payments if they adopt an EHR system in 2015 or later. After the first year, health centers with existing EHRs will be able to access the Medicaid payments for maintenance and “meaningful use” of their existing EHR system.

It is not clear from HRSA how or whether the infrastructure funds for HIT systems can or will be applied to those centers with existing EHRs. Relative to health centers that current are in negotiations to purchase an EHR system and are waiting for this money to become available, each case should be evaluated individually on its own merits, in consultation with the vendor and HRSA project officer. Specific to health center providers and their eligibility for HIT payment incentives through Medicare, FQHCs that are paid according to the FQHC rates are not eligible for the Medicare incentives in the legislation. The law indicates that Medicare providers that are paid on the Medicare Physician Fee Schedule are eligible for the incentives under the Medicare program. Additionally, the law does not allow for providers to receive incentives from both the Medicare and Medicaid programs, so as the majority of FQHCs are eligible for the Medicaid incentives, they would not be eligible for the Medicare incentives.

The Stimulus Package – FQHCs: Service Expansion

The stimulus package includes an additional \$500 million for “services provided by community health centers” or in essence, grant funds for assisting with, or expanding, the ongoing operations of my health center during

the recession. The bill directs HRSA that these funds are to be used “to support new sites and service areas, to increase services at existing sites, and to provide supplemental payments for spikes in uninsured populations,” stating that “grants for new sites and service areas are to be two years in length as startup is phased in.” The bill also encourages HRSA to “consider supporting currently unfunded but approved community health center applications.” Relative to a health center having a high-scoring application for a New Access Point (NAP) or Expanded Medical Capacity (EMC) grant from the last round and whether or not it will get funded with these stimulus dollars, on March 2, 2009 President Obama announced the release of \$155 million authorized by the ARRA (elsewhere in this newsletter).

As far as annual (regular) appropriations go, the federal government was still operating under a “continuing resolution” (CR) until March 6, 2009. As such, the March 2, 2009 announcement made public annual health center program funding for this year. HRSA had been committed to using new expansion funds (those not used for base grant adjustments) to fund high-scoring applications from the last round of the December 2007 submission date. If a health center was to receive ARRA receive operational funds, they are currently construed as temporary, for the next two fiscal years, and will not be part of ongoing health center program funding. A new health center receiving health center program funding for the first time as a New Access Point is considered a section 330 grantee and receives as Notification of Grant Award (NGA).

On March 2, 2009, President Obama announced the release of \$155 million authorized by the ARRA that will support 126 new health centers. These health centers will help people in need – many with no health insurance – obtain access to comprehensive primary and preventive health care services. “We have acted quickly to put Recovery Act dollars to good use in communities across America,” said President Obama. “The construction and expansion of health centers will create thousands of new jobs, help provide health care to an estimated 750,000 Americans across the country who wouldn’t have access to care without these centers, and take another step toward an affordable, accessible health care system.” The grants, which are administered by the Health Resources and Services Administration (HRSA), are expected to create 5,500 jobs at the new health centers.

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Capital Financing—FQHCs: New Markets Tax Credits

During the week of March 9, 2009, the Senate voted 62-35 to move forward in passing the Omnibus spending package for fiscal year 2009. This Omnibus bill, which the President signed late last week, contains \$2.19 billion for the health centers program, a \$125 million increase in funding. In addition, \$56 million of this increase will go toward base grant adjustments - the largest designation to base grant adjustments ever. The House Appropriations Committee will begin hearing testimony the week of March 23rd on the FY2010 Appropriations bills. For 2010, the request will be for \$2.602 billion for the health centers program, the amount the Congress unanimously authorized in reauthorization law last fall, the Health Care Safety Net Act of 2008.

Capital Financing – FQHCs: New Markets Tax Credits

Capital financing has generally posed a problem for community health centers (CHCs)/FQHCs/FQHC Look-Alikes due to their payor mix and resultant poor revenue streams caused by limited reimbursement. As such, lending institutions in many instances historically did not approve capital-related loans to FQHCs due to poor financial statements (P&L and B/S). HRSA does not provide the best support either relative to grant dollars. Most grant dollars are for operations, not capital. Even with 5-year cycles of the “New Access Point” Section 330 grant, only in Year 1, capital expenditures are allowed (\$150K of \$650K).

However, the National Association of Community Health Centers (NACHC - trade association for FQHCs that maintains a close relationship with HRSA) looks favorably upon tax credits as a creative way to do capital financing. Capital Link/NACHC’s 2008 report entitled “Access Capital” talks a lot about FQHCs using tax credits and in conjunction with the HRSA loan guarantee program. Some relative comments are in order as follow:

“Only recently have health centers found new and creative ways to use the HRSA loan guarantee, specifically utilizing it in conjunction with New Market Tax Credits (NMTC). NMTC offers tax credits to investors who choose to invest capital in distressed areas, including those communities served by health centers. This effective program has enabled health centers to borrow at very low cost, while also providing a means to fill the equity gap that health centers often struggle to fill. The NMTC program has its drawbacks, among them a limited supply of tax credits and a cumbersome process riddled with strict eligibility requirements and multi-

ple tax credit suppliers. Yet NMTCs have increased the use of the HRSA loan guarantee program, using up a significant amount of the \$160 million allocated for loan guarantees.”

“Tax credits, such as those available through NMTCs, can serve as equity or “near equity” for eligible projects, effectively filling the gap between the costs of a project and the amount of debt that a borrower can support. “If widely available to health centers, this mix of financing vehicles would serve as the building blocks for the new paradigm of financing that health centers need.” To prove that FQHCs use tax credits “To date (report writing), at least 15 health centers nationally have utilized the NMTC program (and in some cases the Historic Tax Credit Program as well), generating significant “near equity” resources and low cost loans for projects totaling approximately \$160 million. Though each transaction was structured in a unique manner to meet the needs of the individual health center, for the most part they included a loan component with nominal interest-only payments for seven years. This loan component, equal to approximately 25% of the project costs, functions as “near equity” in the transaction. This “near equity” component essentially bridges the gap between the amount of conventional debt the health center can afford and the project’s cost, thereby eliminating much of the need for fundraising and allowing projects to proceed that would not otherwise have been financially feasible.”

The NMTC Program established by Congress in December 2000 permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities. The credit provided to the investor totals 39 percent of the cost of the equity investment and is claimed over a seven-year credit allowance period. In each of the first three years, the investor receives a credit equal to five percent of the total amount paid for the stock or capital interest at the time of purchase. For the final four years, the value of the credit is six percent annually. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period.

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1955 State Highway 34, Suite 3-B
Wall, New Jersey, 07719
Other Regional Offices: Chester, NJ;
New Orleans, LA; Ponte Vedra, FL

Phone: 800-925-1919
Fax: 732-974-7299
Email: execresources@msn.com

**Call Bill Cusick, Larry Sargent or
Harry Wright for more information.**

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WWW.EXECRESOURCES.NET

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Throughout the life of the NMTC Program, the Fund is authorized to allocate to CDEs the authority to issue to their investors up to the aggregate amount of \$23 billion in equity as to which NMTCs can be claimed, including \$1 billion of special allocation authority to be used for the recovery and redevelopment of the Gulf Opportunity Zone (GO Zone) so that the CDEs can use it to provide investments in low-income communities such as LA, MS, AL, and TX.

Many health centers have comprehensive primary care programs where their space configuration is less than desirable. If the health center is going to grow and expand, it probably needs to relocate. Further, sometimes the particular occupancy arrangement accelerates the case for moving. The NMTC Program may be a viable alternative for capital financing.

If your organization is considering FQHC or FQHC Look-Alike development, the following will assist you on choosing the right consulting firm:

- **EXEC was successful on 4 for 4 applications that we prepared and submitted on behalf of our clients that were part of the stimulus package awardees based on a high score.**
- **Over the course of the last 6 years, EXEC has been successful on 59% of all category Community Health Center applications submitted to the Health Resources and Services Administration (HRSA).**
- **It makes sound business sense to use our firm to help your organization garner federal designations and federal dollars.**

Contact us at 800-925-1919 for further information.