Disclaimers

• This outline is intended to generate thought and is for general educational purposes only. Before adopting any ideas discussed in this outline or by my remarks, you should consult with your own advisor, as each situation is unique. There are risks involved in all planning strategies, and the details of each transaction bear on such risks.

• To comply with U.S. Treasury Department regulations, we also inform you that any U.S. federal tax information contained in this outline or in my comments is not legal advice, but merely general education, and is not intended to be used, and cannot be used, by any person for the purposes of (1) avoiding penalties that may be imposed by the Internal Revenue Service or (2) promoting, marketing, or recommending to another party any transaction or matter addressed herein.
Goals Today

- Identify potential financing methods available to hospitals to fund capital projects.
- Summarize the requirements for qualification and any requirements of continued qualification.
- Discuss the benefits and drawbacks to each form of financing.
Healthcare Industry

- The healthcare industry is one of the most complicated industries given the ever changing level of government regulation, the speed of technological innovation impacting services, the nature of services and the duty to provide services to patients who are unable to pay, and the limited control a hospital has over its key assets, the doctors.¹

- Few lenders have the competency and specialization to remain current on this ever changing industry, and many lenders can overreact when there is variability in the hospital’s operating performance or when business is less then expected, which can oftentimes lead to increased demands from the lender for additional collateral and/or increased rates, usually at inopportune times for the hospital.¹

- The hospital is the driver in determining the financing option(s) that are most appropriate given its current operations and overall business and should consider all of its options when embarking on a substantial capital project.

¹ See Navigating Current Private Debt Financing Options for Hospital Providers, Claudia Gourdon, Hospital Solutions White Paper Series, July 2013.
Preliminary Considerations

- What time restrictions exist with regard to commencing the capital project?
- What are the projected costs of the project?
- How much of the project will be internally financed with hospital funds and how much will be financed by debt?
Primary Financing Options

- Loan Financing;
- Municipal Bond;
- Federal Housing Administration (FHA) Mortgage Insurance Program under Section 242;
- USDA Rural Development Community Facilities Program;
- New Markets Tax Credit.
Loan Financing
Loan Financing

• Form of financing you are likely most familiar with, where bank loans funds directly to hospital to finance the capital project.

• Direct Loan:
  – Generally is asset based financing whereby the hospital grants lender security interests in specific assets of the hospital;
  – A cash flow loan is a loan not secured by specific assets, but is instead secured by the cash flow from operations of the hospital;
  – Insurance payments and government payments are typically viewed by lenders as sound collateral, but do have special requirements.

• Generally:
  – Line of Credit is another means of effectuating such a loan and is typically available for all needs of the hospital (capital or operating costs).
  – Recourse v. Non-Recourse Debt –Recourse debt permits the lender to go after the hospital and all of its assets to satisfy the debt. Non-Recourse debt limits the lender to collect only against the collateral given as security.
Loan Financing - Structure

• Loan can be structured as agreed between the hospital and the lender, and those are typically the only parties involved in the financing.
• Terms of the loan depend on a number of factors including: the creditworthiness of the hospital, collateral offered to secure the loan, current and projected operations of the hospital, amount sought for the loan, and the relationship between lender and hospital.
Advantages/Disadvantages – Loan Financing

• Advantages:
  – Available to all hospitals;
  – Flexibility in structuring the loan and the use of the loan proceeds;
  – No ongoing requirements to oversee the use of the loan proceeds and/or use of the capital assets funded with such loan proceeds (unless specifically required in the terms of the loan);
  – Loan can be completed faster than many of the other options;
  – Lower issuance cost.

• Disadvantages:
  – Generally higher interest rate and debt service over the term of the loan then other financing options (if such options are available) and generally increased overall cost for the project financed.
  – May result in more stringent terms then a fixed-rate municipal bond (for example, higher ratios).
Municipal Bond Financing
Municipal Bond Financing for Hospitals

- Type of municipal bond available depends on the ownership of the hospital:
  - General Municipal Bond – available if the hospital is owned by a governmental entity (i.e. a city or county hospital).
  - Qualified Hospital Bond – a private activity bond whereby a governmental entity issues the bond and loans the proceeds to the hospital. Available only to hospitals owned by a 501(c)(3) non-profit organization.
  - Revenue Bond – Where the revenue of the hospital is pledged as collateral.
  - If the hospital is not owned by a governmental entity or a 501(c)(3) entity, then municipal bond financing is likely not available (unless there exists temporary legislation extending municipal bond financing to the hospital, for example the Midwest Disaster Zone Bond).
Private v. Public Issuances

• Municipal bonds when issued are either privately placed or sold in a public issuance.

• Private placement is where the bond, or series of bonds, is issued and sold to one buyer or a relatively small number of select financial institution buyers.
  – Many times involving one bank buying the bond issuance.

• Public issuance is where a series of bonds are issued and sold publicly in the open market to numerous buyers.
  – Public issuance is more complicated than a private placement, involves more parties to the issuance of the bond and implicate numerous security laws.
Municipal Bonds Overview

• Local or state government entities have the authority to issue bonds to finance certain projects and transactions.
  – The interest payments received by a bond holder of a qualified municipal bond is exempt from federal income tax.
  – Generally, the bond must be for the benefit of the governmental entity issuing it, in order for the bond to receive preferential tax-exempt status.
  – The tax-exempt nature of the bond’s interest typically results in lower interest rates and overall financing costs than otherwise would be charged for standard loan financing.

• Generally, a municipal bond issued to benefit a private (non-governmental) entity, does not receive preferential tax-exempt status. Such bonds are referred to as private activity bonds.
Qualified Private Activity Bonds

- Qualified private activity bonds are the exception.
- The Internal Revenue Code grants tax-exempt status to certain limited private activities that qualify (referred to as “qualified private activities”) and bonds issued for such qualified private activities receive tax-exempt status.
- One such qualified private activity is a bond issued to finance a facility owned and utilized by a not-for-profit 501(c)(3) organization.
- The legislature has periodically expanded or created new private activity bonds that may be issued on behalf of private entities (typically for a limited time and with its own restrictions on qualification, for example the Midwest Disaster Area Bonds).
Qualified Hospital Bond

- Is a type of 501(c)(3) private activity bond issued to an operating entity as a 501(c)(3) organization.
- The debt service of such bonds is solely the responsibility of the hospital and is secured only by the hospital’s assets and pledges.
- These bonds are typically a limited obligation for the issuer (i.e. the governmental entity issuing the bonds on behalf of the hospital) and there is no risk to the credit or revenues of the issuer in the event of default.
- There are numerous restrictions imposed on qualified private activity bonds by federal and state regulations.
Issuer is the Municipality that issues the bond and loans the proceeds to the borrower.

Conduit Borrower is the hospital to which the Issuer loans the proceeds of the Bond and will own/use the facilities being built with bond proceeds.

Bank is the entity that purchases the bonds from the Issuer.
Legal Counsel Involved

• In a conduit borrowing situation, there are four roles that counsel have:
  1. Bond Counsel – the attorney that prepares the legal opinion concerning the municipal bond issuance opining that the bonds have been validly issued and tax-exempt.
  2. Issuer Counsel – the attorney that represents the issuer in the transaction.
  3. Borrower Counsel – the attorney that represents the borrower in the transaction.
  4. Bank Counsel – the attorney that represents the bank in the transaction.
• Underwriter Counsel – If an underwriter is involved in the issuance of the bond, then the underwriter may have its own counsel.

• In certain situations, Bond Counsel can be the same attorney as Issuer or Borrower’s Counsel.
Parties Involved – Private Placement

Issuer

Issuer Counsel

Conduit Borrower

Borrower Counsel

Bank

Bank Counsel

Bond Counsel
Bank Qualified Bonds –
Tax Reform Act of 1986

• The Tax Reform Act of 1986 limited the deduction of the carrying cost (interest expense incurred to purchase or hold securities) of tax-exempt municipal bonds.
• The impact on Banks was to eliminate the tax-exempt benefit of investing in such bonds.
• There are exceptions to this general rule.
Bank Qualified Bonds

• Banks may deduct 80% of the carrying cost of a “qualified tax-exempt obligation” for certain bonds, otherwise referred to as bank qualified bonds.

• For a bond to be a “bank qualified bond” it must:
  1. Not be a private activity bond (other than qualified 501(c)(3) bonds);
  2. Be issued by a “qualified small issuer” for a public purpose;
     • A qualified small issuer is an issuer that issues no more than $10 million of tax-exempt bonds during any given calendar year.
  3. Designated as qualified tax exempt obligations.

• A non-bank qualified bond is a bond not meeting these requirements.

• In essence, all private activity bonds are non-bank qualified bonds except for qualified 501(c)(3) bonds (which encompasses qualified hospital bonds) which may or may not be bank qualified.

• Typically, if the bond is “bank qualified” the hospital will receive a more favorable interest rate (and lower overall debt service cost over the term of the bond).
Tax-Exempt Status

- In order for the interest payments to remain tax-exempt to the holder, the bond proceeds must be used as permitted under the Internal Revenue Code.

- Additionally, if the bond proceeds are used to acquire/build a specific asset then the use of that asset must continue to comply with the permitted use through the life of the bond.
  - Ex: a 501(c)(3) hospital uses qualified private activity bond with a 20 year term to build a new hospital to carry-out its exempt purpose. In year 5, the hospital sells the facility to a private for-profit hospital. The change in ownership would likely end the bond’s tax-exempt status.

- Depending on the type of qualified private activity bond, the restrictions are different.
Restrictions Imposed

- **Qualified Use**: Each qualified private activity bond has a specific activity for which the bond proceeds may be used and remain tax-free.
  - A hospital constructed with a qualified 501(c)(3) bond must be owned by a 501(c)(3) organization and be used to carry out its exempt purpose.

- **Maturity of Bond**: Maturity of bond must not be greater than 120% of the economic life of the asset(s) purchased/constructed.
  - May result in limiting the amount of equipment and fixtures to be financed as it will reduce the maximum term of the bond.

- **Land Purchase**: For most bonds, no more than 25% of the proceeds may be used to purchase real estate.

- **Reimbursement of Expenditures**: If it is intended for bond proceeds to reimburse the borrower for project costs expended prior to issuance, other than certain preliminary expenditures, then a reimbursement resolution must be executed within 60 days of the expense being paid and meet the minimum standards imposed under the IRC.
Restrictions Imposed

- **Yield Restrictions**: Bond proceeds cannot be invested in an investment with a higher yield than the bond issue, except in a few exceptions. If bond proceeds are invested in higher yields not meeting an exception, then rebate payments are owed to the IRS.

- **Private business use test**: Restricts the ability of private businesses to use or benefit from property acquired/constructed with bond proceeds. Test applied is typically private business use must be below 10 percent of the proceeds of the issue (i.e. property used by the private business did not account for 10% or more of the bond proceeds to acquire/construct). This drops to 5 percent for certain unrelated and disproportionate use of bond proceeds (which applies is determined on a case by case basis).
Restrictions Imposed

- **Qualified Hospital Bond Use Restriction**: At least 95% of the proceeds of the qualified hospital bond are used with respect to a “hospital” (includes a facility that primarily provides to inpatient’s diagnostic and therapeutic services or treatments by or under the care of physicians).
  - Facility must be accredited by the Joint Commission on Accreditation of Healthcare Organizations, the American Osteopathic Association, or a governmental program recognized by the Secretary of Health and Human Services.
  - Facility must require that every patient be under the care and supervision of a physician, and must provide 24-hour nursing services.
  - The term “hospital” does not include nursing homes, day care centers, medical school facilities, research laboratories, or most free-standing ambulatory care centers (unless totally integrated with and assist the in-patient hospital).
Appeal of Tax-Exempt Bonds

• A simple example to illustrate:
  – A hospital wishes to finance a $10M project that could qualify to use a qualified hospital bond to finance. Financing the project under a conventional loan would result in an interest rate of 6%. The bank financing the project has a taxable rate of 33%.

• Assuming all things are equal, the interest rate on a tax-exempt bond would be 4.00% (6% * (1-0.33)).¹

¹ Note, in real life there will likely be additional factors at play that may impact the actual interest rate offered, but for illustrative purposes we are assuming no other factors are at play.
Appeal of Tax-Exempt Bonds

Year 1 Interest:

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<th>Formula</th>
<th>Calculation</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable</td>
<td>$10,000,000 x 6.00%</td>
<td>$600,000</td>
<td></td>
</tr>
<tr>
<td>Tax-Exempt</td>
<td>$10,000,000 x 4.00%</td>
<td>$400,000</td>
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</table>

<table>
<thead>
<tr>
<th>Type</th>
<th>Income</th>
<th>Less Tax</th>
<th>After Tax Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable Bond</td>
<td>$600,000</td>
<td>($200,000)</td>
<td>$400,000</td>
</tr>
<tr>
<td>Tax-Exempt</td>
<td>$400,000</td>
<td>N/A</td>
<td>$400,000</td>
</tr>
</tbody>
</table>

- Hospital in year one would save around $200,000 in its first year and the lender would net the same amount of cash as it would under a conventional loan.
When it Makes Sense to Consider Municipal Bonds

• If there are savings to the hospital after accounting for the increased issuance costs associated with issuing the bonds when compared to the costs of financing through a traditional loan (and no other option is available that would result in greater savings).

• Hospital, with the assistance of the lender, should analyze the debt service cost savings to determine if the savings justify the increased issuance costs.
  – Important to note, a maximum amount of 2% of the bond proceeds may be used to pay all or a portion of the issuance costs.

• It is likely worthwhile performing this analysis for any financing of debt amounting to $500,000 or more that can meet the requirements of a qualified hospital bond.
Advantages/Disadvantages – Municipal Bonds

• Advantages:
  – Tax-exempt interest to the holder of the bond results in a lower interest rate than loan financing;
  – Typically results in lower debt service over the term of the bond than otherwise would be paid in a loan financing;
  – Fosters government support and community interest given the involvement of the governmental body in the issuance of the bonds.

• Disadvantages:
  – Increased complexity to issue the debt, given the increased regulations to be complied with and number of parties involved;
  – Not available to all hospitals (i.e. for-profit hospitals are excluded);
  – Increased issuance costs;
  – Limits imposed on use of bond proceeds and ongoing oversight is required to ensure the bond remains tax-exempt;
  – Deductibility of carrying costs for lender are effected (to a greater or lesser extent depending on whether the bond is bank qualified or non-bank qualified).
Section 242 FHA Mortgage Insurance Program
Section 242 Mortgage Insurance

• Section 242 of the National Housing Act authorizes the Secretary of Housing and Urban Development (HUD) to grant mortgage insurance to finance the construction, rehabilitation, replacement, and equipping of hospital facilities for qualifying hospitals.

• The mortgage insurance acts as credit enhancement for the hospital granting the hospital access to more capital markets at more preferable interest rates.
Qualifying Hospitals

• Qualifying Hospitals:
  – Hospital must be an acute care hospital (no more than 50% of patient days attributable to the following services: chronic convalescence and rest, drug and alcoholic, epileptic, nervous and mental, mental deficiency, and tuberculosis) or critical access hospital.
  – Available to both for-profit hospitals and publicly owned or non-profit hospitals.

• FHA mortgage insurance cannot insure a construction project that is already underway (i.e. most obtain the mortgage insurance prior to commencing the project).

• There are numerous other restrictions and requirements in order to qualify.
Eligibility Requirements

• Below is a brief summary of some of the major restrictions:
  
  – **Minimum Financials**: 90% loan-to-value (i.e. hospital may borrow 90% of the estimated replacement cost of the project, and may include the book value of its existing plant, property, and equipment to calculate its 10% equity requirement).
  
  – **Loan**: FHA loan is non-recourse debt and has a fixed interest rate.
  
  – **Maximum Term**: 25 years following construction.
  
  – **Minimum Financial Requirements**: Past three years of hospital’s operation, its aggregate debt service coverage ratio must be greater than 1.25 and its aggregate operating margin must be greater than 0.
  
  – **Collateral**: Hospital must be able to provide a first lien on the entire hospital, including all property financed (some exceptions for public hospitals statutorily prohibited from mortgaging property).
  
  – **Not in Violation**: Hospital cannot be under an active investigation by a state or federal agency for statutory or regulatory violations.
  
  – **CON Certification**: Certificate of Need (CON) certification is required, if the hospital operates in a state with a CON program.
  
  – **Limits**: Maximum 80% of the loan can be for refinancing and design build projects are not allowed to be over $60 million dollars.
Refinancing Under Section 223(f)

• Historically, Section 242 mortgage insurance was unavailable for a pure refinancing.
• In 2013, the 223(f) refinancing option for hospitals was enacted by modification of FHA 242 regulations and the provisions of FHA 242 apply unless specifically modified by FHA 223(f).
• Purpose of change was to permit qualifying hospitals to obtain FHA mortgage insurance for a refinancing of a non-FHA insured debt.
• In a refinancing, the loan amount may not exceed the lesser of:
  1. The total of the amount required to pay off existing capital debt, plus additional hard costs (ex., new construction costs for new project outside of the refinance), if any, not exceeding 20% of the loan amount, plus permitted soft costs typically permitted in Section 242 loan (ex., swap termination fees may be eligible); or
  2. 90% of HUD’s estimate of the replacement cost of the hospital and its equipment
Refinancing Under Section 223(f)

- Additional or Modified requirements for a hospital to effectuate a Section 223(f) refinance:
  - Hospital must have a minimum 3-year historical average debt service coverage ratio of 1.4;
  - Hospital must demonstrate the following:
    - Hospital's financial health depends on refinancing the hospital's existing debt;
    - Hospital provides essential services to the community in which it operates;
    - There are few affordable financing vehicles available to the hospital; and
    - The hospital meets three of the following seven criteria:
      1. Refinancing will reduce operating expenses by at least .25%;
      2. The interest rate will be reduced at least .5%;
      3. The rate on existing debt has increased at least 1% since January 2008 or will likely increase by 1% within one year of refinancing application;
      4. The hospital's total debt serve > 3.4% of operating revenues;
      5. The existing credit enhancement vehicle has been cancelled or downgraded or such is imminent;
      6. The existing debt has overly restrictive or onerous covenants;
      7. Other circumstances that show a refinancing is essential to viability of the hospital.
Advantages/Disadvantages – Section 242 Mortgage Insurance

• Advantages:
  – Enhances the creditworthiness of the hospital seeking financing which results in better credit terms and lower interest rates for the hospital.
  – Typically results in lower debt service over the term of the debt then otherwise would be paid in a loan financing.

• Disadvantages:
  – Requires involvement of HUD and the approval process can be cumbersome;
  – Less flexibility in the terms of the debt (for example, fixed interest rate is required and the term of the loan is limited);
  – There are fees and expenses related to obtaining the FHA mortgage insurance;
  – Increased complexity to issue the debt, given the increased regulations to be complied with and number of parties involved;
  – Not available to all hospitals (must be an acute care or critical access hospital).
USDA Rural Development
Community Facilities Direct
Loan and Grant Program
Overview

• Program makes and guarantees loans to purchase, construct, and/or improve essential community facilities in rural areas with populations of no more than 20,000 residents.

• An “essential community facility” is defined as a facility that provides an essential service to the local community for the orderly development of the community in a primarily rural area, and does not involve private, commercial or business undertakings. It includes ambulatory care centers, hospitals, rehabilitation centers, and nursing homes.

• Funding is provided through a competitive process. Priority is given to small communities with populations of 5,500 residents or less and low-income communities having a median household income below 80% of the state nonmetropolitan median household income.
Types of Assistance Available

1. Low interest direct loans.
2. Grants.
3. Loan guarantee.
4. A combination of programs.
   - May be used to finance a single project if all eligibility and feasibility requirements are met.
General Requirements to Qualify

- Hospital must be publicly owned or be a non-profit corporation.
- Hospital must be unable to finance the project from their own resources and/or through commercial credit at reasonable rates and terms.
- Hospital must serve the rural area where it is/will be located.
- Project must demonstrate substantial community support.
- Environmental review must be completed and accepted.
Direct Loans

- **Term**: Loan term may not exceed the useful life of the facility, state statutes, the hospital’s authority, or a maximum of 40 years, whichever is less.
- **Interest Rate**: Interest rates are set by Rural Development and is determined based on the median household income of the residents in the area the hospital services.
- Once loan is approved, interest rate is fixed for the term of the loan.
- No prepayment penalties.
Hospital must be eligible for grant assistance which is provided on a graduated scale based on the size of the community and the median household income of the community.

Grant assistance is limited to the following percentages of eligible project costs:

- Maximum of 75% when the proposed project is:
  - Located in a rural community having a population of 5,000 or fewer; and
  - Median household income of the service area is below the higher of the poverty line or 60% of the state nonmetropolitan median household income.

- Maximum of 55% when the proposed project is:
  - Located in a rural community having a population of 12,000 or fewer; and
  - Median household income of the service area is below the higher of the poverty line or 70% of the state nonmetropolitan median household income.
Grants

• Grant assistance is limited to the following percentages of eligible project costs:
  – Maximum of 35% when the proposed project is:
    • Located in a rural community having a population of 20,000 or fewer; and
    • Median household income of the service area is below the higher of the poverty line or 80% of the state nonmetropolitan median household income.
  – Maximum of 15% when the proposed project is:
    • Located in a rural community having a population of 20,000 or fewer; and
    • Median household income of the service area is below the higher of the poverty line or 90% of the state nonmetropolitan median household income.
    • Grant funds must be available.
Loan Guarantee Program

• Provides loan guarantees to eligible lenders to help build essential community facilities.
• The USDA loan guarantee program is similar to the FHA Section 242 mortgage insurance, in that it enhances the credit worthiness of the hospital.
• Loan note guarantee is issued upon project completion and when all conditions are met.
• Cannot guarantee tax-exempt financing.
Loan Guarantee Program Terms

- **Maximum Guarantee**: USDA can guarantee up to 90% of any eligible loss;
- **Repayment Term**: Useful life of the facility, state statute, or 40 years, whichever is less and is negotiated between the lender and borrower, subject to USDA approval.
- **Interest Rate**: Fixed or variable as negotiated between the lender and borrower, subject to USDA approval.
- Loan may not contain balloon payments or renewable notes.
Advantages/Disadvantages – USDA Program

• Advantages:
  – Grants are available;
  – Direct loans are at preferable fixed interest rates;
  – Loan guarantee program enhances the creditworthiness of the hospital seeking financing which results in better credit terms and lower interest rates for the hospital;
  – All programs offered by USDA typically results in lower debt service over the term of the debt then otherwise would be paid in a loan financing.

• Disadvantages:
  – Limited to public or non-profit hospitals located and servicing a rural community (20,000 or less residents);
  – Loan is subject to USDA approval and thus requires involvement of USDA and the approval process can be cumbersome;
  – Less flexibility in the terms of the debt;
  – Typically, higher issuance costs given the steps required to qualify.
New Market Tax Credit Program
Overview

• Initially signed into law in 2000 and most recently the Protecting Americans from Tax Hikes Act of 2015 authorized a five-year extension of the New Markets Tax Credit (NMTC) at an allocation of $3.5 billion.

• Purpose is to attract private capital into low-income U.S. communities that have historically had limited access to capital markets.

• Program grants an investor who makes an equity investment in specialized financial intermediaries called Community Development Entities (CDEs) a tax credit of 39% of the investor’s original investment against federal income taxes and the credit is claimed over a period of seven years.

• A CDE is a domestic corporation or partnership that is an intermediary vehicle for the provision of loans in low-income communities.
Qualification

• To qualify to obtain a NMTC loan, Hospital must serve a low-income community (population census tract with either a poverty rate of at least 20% or a median family income not exceeding 80% of either the statewide or metropolitan area median family income).

• Hospital may be either a for-profit or non-profit organization.

• Hospital must be active in a low-income community, meaning 1) 50% or more of gross income of the hospital is derived from a low-income community; and 2) 40% or more of the services performed by the hospital’s employees and 40% or more of the tangible property of the hospital is used and operated within a low-income community.

• Hospital works directly with a CDE to apply for funding. The CDE typically makes NMTC loans which are at below-market interest rates and lower overall costs.
Advantages/Disadvantages – NMTC Program

• **Advantages:**
  – Lower interest rates on the loans received;
  – More flexible loan terms.

• **Disadvantages:**
  – Limited to financing hospitals located and servicing low-income communities;
  – Obtaining such financing can be more time intensive;
  – NMTC was extended for five years in 2015, and will expire, unless Congress acts, at the end of 2019.
  – More professional fees and costs.
Example NMTC Structure

Assumptions
1. ~$21,200,000 Total Project Costs (see next slide)
2. $20 Million NMTC Allocation
3. $0.82/ credit for NMTCs

Notes
1. Leverage Loan is typically interest-only for 7 years and secured by pledge of interest in Sub-CDE
2. QLICI Loan A must be interest-only for 7 years; secured by mortgage
3. QLICI Loan B must be interest-only for 7 years and often has long maturity and low interest rate; secured by mortgage
4. CDE will receive annual fee.
5. NMTC Investor typically has a put right after 7 years to collapse the structure. (Sponsor typically has call right.)
6. Guaranty may be required.
Example Sources & Uses/Net Benefit Analysis

**Sources:**
- QLICI Loan A $13,604,000
- QLICI Loan B $5,796,000
- Developer Equity/Other Direct Sources $1,806,000

**Uses:**
- Total Development Costs (per Budget) $20,000,000
- Transaction Costs (Tax Credit specific) $350,000
- NMTC Reserves
  - CDE Asset Management Fee (50 bps of QEI/yr for 7 yrs) $700,000
  - Investment Fund Asset Management Fee ($7,500/yr for 8 yrs) $60,000
  - Audit & Tax (12,000/yr for 8 yrs) $96,000
- Total NMTC Reserves $856,000

**Total Adjusted Uses** $21,206,000

**Borrower Net Benefits Analysis:**
- Total New Markets Tax Credit Equity $6,396,000
- Less: CDE Fees withheld at closing ($600,000)
- Net Tax Credit Equity $5,796,000
- Less: Transaction Costs ($350,000)
- Less: Fee Reserves – annual/ongoing ($856,000)
- Less: Exit Fee Reserves ($1,000)
- **Total Estimated Net Benefit** $4,589,000

**Total Estimated Benefit as a % of NMTC Allocation** 22.95%
Overall Takeaways

- A hospital should ensure it is advised to all of its options in financing a new capital project before it commits to a financing plan.
- The financing options available will depend on numerous factors including the hospital seeking financing, the amount required to be financed, the capital project sought to be financed and what parties will benefit and use the property funded, how quickly the financing must be available, and the community the hospital (and the project being funded) will serve.
Questions?

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