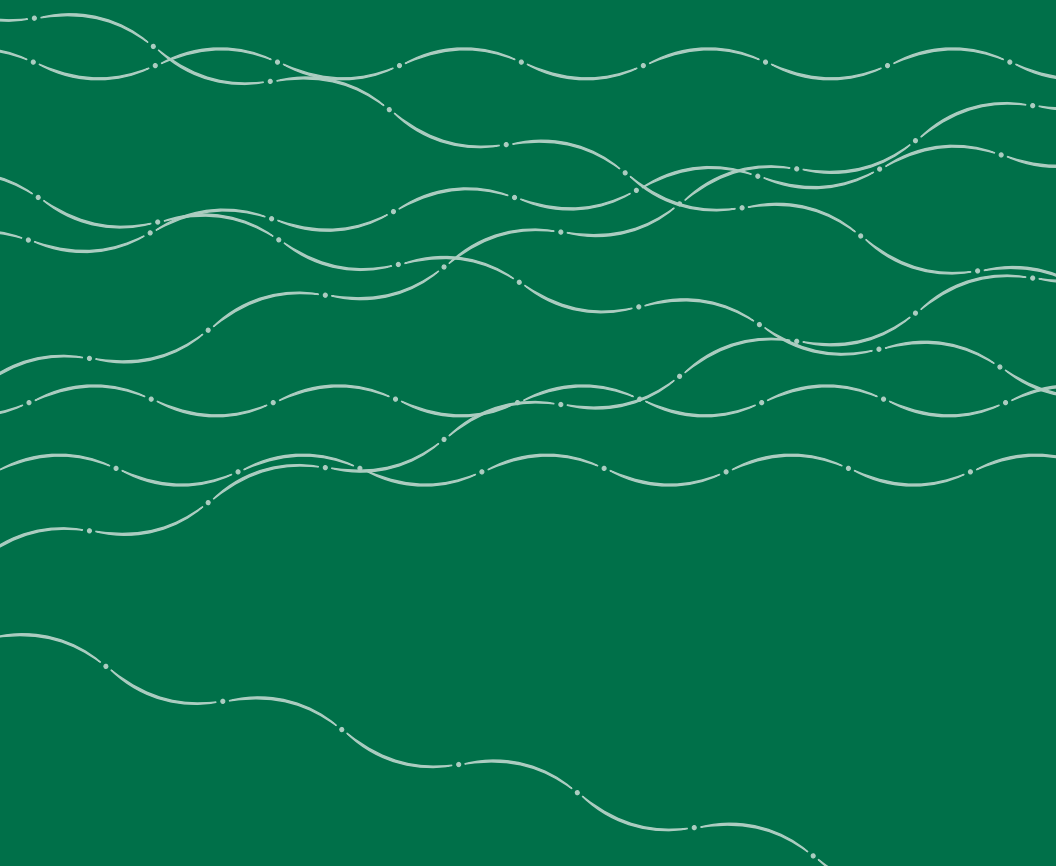




**NONPROFITS
ASSISTANCE FUND**

Helping Nonprofits Thrive

**PATIENT CAPITAL:
Minnesota Primary Care Loan Fund**
10-Year Report



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MINNESOTA PRIMARY CARE LOAN FUND

Nonprofits Assistance Fund's Minnesota Primary Care Loan Fund (MPC) has been an effective tool for leveraging funds from The Robert Wood Johnson Foundation (RWJ) with local lending institutions and technical expertise to strengthen the health care safety net in Minnesota. Initially a new and innovative approach to funding clinics in underserved rural and inner city communities, the Program Related Investment (PRI) funds are now an established and valuable lending tool to meet the short-term cash flow, long-term working capital and the facility/ equipment needs of community health centers. The following describes the MPC history, evolution, experience and lessons learned during the past 10 years.

HISTORY AND BACKGROUND

In the early 1990s, the RWJ Foundation funded initiatives in 10 states to increase the number of primary care providers in medically underserved rural areas and inner cities. The Foundation's "Practice Sights Primary Care Development Strategies" were five year programs designed to support state efforts to recruit and retain practitioners through an array of mechanisms, such as loan repayment programs, expanding the scope of practice for mid-level practitioners, and providing technical and financial assistance to community health centers.

In Minnesota, the newly established state Office of Rural Health and Primary Care (ORHPC) was designated the lead agency to use the RWJ Foundation's funds to work with communities, policy makers, educators, consumers and practitioners to improve the state's data and needs assessment capacity. The office, with its partner agencies:

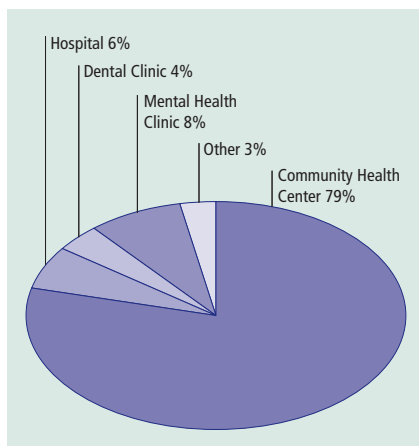
- Developed a recruitment and retention manual for communities
- Created an up-to-date database to match health personnel with job opportunities
- Provided technical assistance on recruitment, retention, strategic planning and practice/financial management to new, state-funded community health centers

In 1995, the RWJ Foundation offered these 10 states the opportunity to apply for funding to develop loan funds to "enhance the vitality of primary health care practice." These PRI funds were a new vehicle for the Foundation to support rural and underserved urban primary care clinics

that commercial banks considered too risky or lacking in credit worthiness. The funds were envisioned as a method of providing loans to:

- Bridge gaps in financing a project as it moved from one stage to another
- Support activities that would produce future income, i.e. – medical student loans or patient care revenue
- Finance building construction and renovations

Minnesota was one of four Practice Sights states that applied for, and ultimately received, a 10 year, 3 percent interest loan of \$1 million from the Foundation in 1997. The ORHPC collaborated with the Minnesota Nonprofits Assistance Fund, at the time a program of The Minneapolis Foundation, to design and market the MPC to interested clinics, cooperatives and community health networks throughout the state. This partnership was built on the strengths of the ORHPC and the Minnesota Nonprofits Assistance Fund and their blended technical assistance and expertise in the nonprofit healthcare and finance sectors. The Minneapolis Foundation agreed to receive and manage the PRI on behalf of the state, ensuring that local foundations or banks matched the RWJ Foundation loan on a 5-to-1 basis, as well as providing loan underwriting, servicing and financial technical assistance.



In late 1998, the loan funds of The Minneapolis Foundation were spun off into a supporting organization structured as an independent nonprofit organization, Nonprofits Assistance Fund (NAF). The ORHPC and the loan fund administrators formalized a partnership agreement that clarified roles for marketing, identifying viable loan prospects, providing various types of technical assistance, and loan fund servicing and credit oversight. The loan funds had an existing loan advisory committee in place for their other lending programs. The advisory committee was expanded to include a representative from the ORHPC.

In the 10 years from April 1997 and March 2007, MPC made 30 loans to 14 agencies. The MPC advanced loans totaling \$3,442,000 using the PRI capital from the RWJ Foundation. These loans have been matched by \$11,808,000 from local banks, local foundations and public agencies for a total project financing of \$15,250,000.

The financed projects have been concentrated primarily in community health centers including Federally Qualified Health Centers (FQHC) with a variety of other types of borrowers. All of the agencies receiving financing serve low-income rural or urban communities with significant challenges to health care access and payments.

The types of financing provided also varied in response to the needs of clinics, hospitals and other providers. One of the unique features of the MPC loan fund has been the availability of flexible working capital in addition to equipment and facility financing.

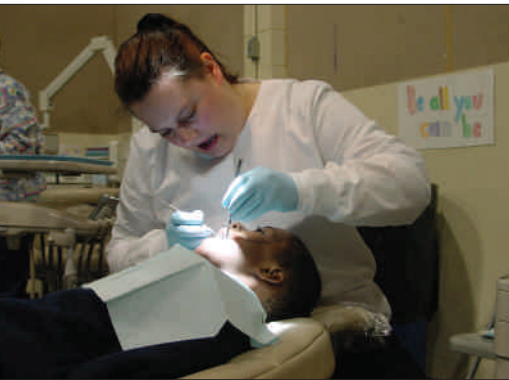
Agency	Type of loan(s)
Apple Tree Dental	Working capital, cash flow
Cedar-Riverside People's Center Center for Cross Cultural Health	Working capital, cash flow, building renovation Bridge loan
ELEAH Medical Center	Working capital
Face to Face Health Center	Working capital
Indian Health Board	Cash flow
Johnson Memorial Health Services	Equipment financing
Open Cities Health Center	Working capital, building renovation
North End Health Center	Cash flow
St. Paul Family Medical Center	Startup financing
Southside Community Health Center	Cash flow, working capital
The Storefront Group	Working capital
West Side Community Health Services	Real estate construction, working capital
Women's Health Center Duluth	Working capital

STORIES FROM THE FIELD

The following stories describe the policy and health reform climate faced by primary care providers during the past decade as Minnesota has expanded efforts to provide health care to vulnerable populations. These stories also shed light on the impact that funding cuts and reimbursement delays have on the day-to-day and long-term financial sustainability of community based providers and on the importance of the MPC's flexible, accessible financing and financial management expertise.

Apple Tree Dental

Since 1986, Apple Tree Dental had been providing dental care to elderly and disabled persons in nursing homes and community settings throughout the Twin Cities. In the late 1990s, Minnesota launched the Alliance of Purchasing Excellence (APEX), an initiative designed to combine publicly funded dental care programs (Medicaid, MinnesotaCare) with state employee dental benefits. Apple Tree viewed APEX as an opportunity to expand services into northwest Minnesota and agreed to participate in this new program by joining forces with Delta Dental.



Unfortunately, after Apple Tree invested considerable political and financial capital to setting up a clinic in the town of Hawley, the state decided not to go forward with APEX and Delta Dental backed out of the partnership, leaving Apple Tree financially at risk, with significant cash flow problems.

Apple Tree applied for and received assistance from NAF. "Without their help we wouldn't be around," said Dr. Michael Helgeson, executive director, Apple Tree. "The Primary Care Loan Fund helped us through a number of rocky periods when we weren't 'bankable' and needed help with cash flow, due to delays in reimbursement and state rate increases when the Governor froze payments in 2004."

In addition to providing Apple Tree with several loans totaling \$280,000, NAF connected the organization with other foundation and financial resources, as well as providing technical assistance in the areas of nonprofit management and rural health care finance.

Looking ahead, Apple Tree sees an ongoing need for the MPC, particularly for clinics that lack a predictable stream of revenue due to state payment fluctuations. Apple Tree currently operates two rural and one metro-area clinic in addition to their mobile care. Furthermore, providing dental care to 14,000 patients, many of them public assistance clients in a managed care system, creates a unique set of political and financial dynamics that often leave dentists at the mercy of policy decisions that impact their short and long-term financial sustainability.

Cedar Riverside People's Center

The Cedar Riverside People's Center has been providing primary health care to low-income and socially disenfranchised communities for 35 years. Located near the University of Minnesota, the clinic provides services on a sliding fee scale to students and a growing Somali population. In 2003, the clinic received FQHC status. At the same time, the clinic experienced a 26 percent growth in patient visits over a three year period, seeing more than 11,300 clients a year in their cramped, outdated space. The combination of rapid growth in patients and delays in payments from the State of Minnesota put enormous pressure on the clinic's cash flow. The MPC provided a \$125,000 line of credit to supplement the People's Center bank credit line.

In 2005 and 2006, the clinic worked with the MPC to put together financing from a variety of sources, including bonding, foundation grants and \$150,000 from the MPC funds to extensively renovate the facility. In addition to expanding the physical plant to support more staff, the clinic upgraded medical equipment and created a central computer system to help with scheduling and to improve billing and collections.

In 2006, Hennepin County began reimbursing the Cedar Riverside People's Center on a per patient visit, rather than on a lump sum annual grant, providing the clinic with cash flow that better matched revenues with expenses as more patients were served. The new payment arrangement offset prior cash flow gaps that resulted from delays in insurance and state reimbursements and improved cash flow enough to pay off the line of credit.

Peggy Metzger, executive director of the Cedar Riverside People's Center, enthusiastically described her experience with the MPC. "Nonprofits Assistance Fund believed in us and helped us get on top of our financial situation as our business expanded. I appreciated Kate's understanding of the nonprofit, health care and finance/lending sectors. She was professional, disciplined and direct in helping me know what I was getting in to."

Asked about future needs for financial assistance from NAF, she was quick to say that as the clinic continues to grow, her ability to manage growth, weather gaps in reimbursement and access other sources



of financing is key. Given her background in economic development, Peggy was concerned about her ability to “purchase” debt at the best interest rate and its impact on the clinic’s long-term financial sustainability. She applauds the willingness of the RWJ Foundation to invest its resources in PRIs. It is essential to the future of Minnesota’s community health center infrastructure, given the lack of federal support through capital loan funds for clinics.

ELEAH Medical Center

NAF provided its most recent loan to ELEAH Medical Center, a 20-bed hospital in west-central Minnesota. As the primary source of care for a predominantly elderly population in rural Minnesota, ELEAH serves the communities of Elbow Lake, Evansville, Ashby and Hoffman.

In most rural communities, Medicare reimbursements to hospitals are considerably less than other locations, which impacts a facility’s ability to buy equipment, make capital improvements and pay practitioners. In 2006, ELEAH made the decision to become a Critical Access Hospital, which would increase the level of Medicare reimbursement to cost plus one percent. An unintended result of this decision was a three-month delay in reimbursement due to difficulties in converting the billing and payment systems.

While ELEAH had an ongoing relationship with a local bank, the urgent need to make payroll was the impetus for contacting NAF. The MPC lending staff worked with ELEAH’s banker to understand the bank’s loan policy and their reluctance to expand the credit line during the hospital’s transition in payment systems and software. Cash flow had become a problem and the MPC was able to leverage a \$200,000 loan with another loan fund to provide \$400,000 in crucial working capital for payroll and accounts payable. The favorable interest rate offered through the MPC was a key factor in making the decision.

Mary Rapp, chief systems director, described ELEAH’s experience with NAF as: “Excellent; they were wonderful to work with, understood our situation and went out of their way to accommodate us.” In her estimation, the rural elderly population has few options, in terms of transportation, family or providers. The MPC plays a critical role in supporting the rural health safety net.

The Storefront Group

In 2002, four agencies that have been providing mental health and human services to school age children and their families in the Twin Cities and surrounding suburbs since 1970 merged to become the

Storefront Group. This new agency experienced a significant cash flow problem in 2003 and 2004 when Hennepin County and the Department of Human Services delayed reimbursement payments totaling \$350,000.

Pat Dale, executive director of the Storefront Group, describes himself and his newly appointed board of directors as financially conservative and “bottom line” focused. He explained that the “myth” of the lack of need for mental health and human services in the suburbs has definitely played a role in their inability to obtain foundation and grant support. When the board reviewed the impact of the delay in reimbursement from government payors on its business and financial models, they opted to apply for a loan with low interest rates that they could pay off on a predictable monthly schedule.

The MPC and Bremer Bank worked with the Storefront Group to structure a \$350,000 loan with a fixed interest rate that made it viable for the agency. Pat describes the experience as having been “highly professional, collegial and responsive.” Never required to borrow money before, he appreciated that he didn’t feel embarrassed, nor was he alone in experiencing cash flow problems as a result of reimbursement delays. In the future, he’d be interested in exploring “entrepreneurial” ways to work with NAF to serve new populations.

West Side Community Health Services

West Side Community Health Services is the largest community clinic organization in Minnesota, with multiple locations in the metropolitan area. The agency has provided multicultural and multilingual healthcare services and education to immigrant and low-income communities since 1969. The clinic’s patient numbers have grown every year to the current level of 30,000 annually.

In 2003, the clinic began a major capital renovation project to expand its central clinic site. The technical assistance offered by NAF was instrumental in helping the clinic think through ways to structure its construction loan. It was also beneficial in helping to broker relationships with other lenders and financial consultants who could negotiate Tax Increment Financing through Ramsey County.



A capital bridge loan of \$600,000 helped close the gap in the complex financing for the \$12 million project. The funds from the MPC were the first to be advanced and helped the other lenders feel comfortable at the closing table.

Like many other community clinics, West Side experienced delays in receiving payments from the Department of Human Services and other payors. Again, NAF provided bridge funding that allowed the clinic to meet obligations to suppliers and staff during 2005.

Mavis Brehm, executive director of West Side Community Health Services, described NAF as being “responsive, flexible and creative.” Before approaching the organization, the clinic had been told by a national bank that they did not fit the bank’s lending criteria. A smaller community bank was willing to make loans to the clinic with a reasonable interest rate. However, the lending cap was \$100,000 and the timeframe was too long.

The MPC fills the gap created by the absence of federal loan guarantee funds for working capital or bridge funds needed by community health centers.

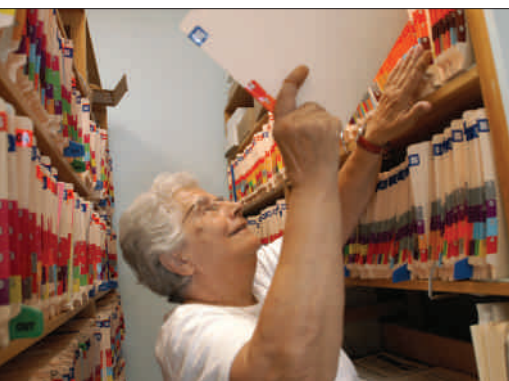
Women’s Health Center of Duluth

The Women’s Health Center of Duluth has provided family planning, reproductive health and abortion services to women in northern

Minnesota, Wisconsin, Michigan and Ontario for 27 years. Despite owning its own building and demonstrating a high level of financial stability over time, recent changes in state and federal policy about family planning and reproductive health services have put the clinic in financial jeopardy.

In addition, Minnesota’s state government experienced an unprecedented state shut down in the summer of 2005 because of a budget impasse at the legislature. The sudden shut down had immediate consequences for the clinic’s cash flow. When the Department of Human Services began to

process claims that had been frozen during the shut down, claims were further delayed because of a computer conversion.



During the 2005-2006 legislative session, the clinic's family planning funds were cut by \$180,000. Similarly, the "Woman's Right to Know" legislation passed during this period resulted in dramatic increases in malpractice insurance, which cost the clinic an additional \$100,000.

This convergence of policy and administrative shifts has resulted in significant cash flow problems for the clinic. In October of 2005, the clinic approached the MPC for help in meeting payroll and covering an insurance premium. Executive Director Tina Welsh describes her experience with NAF as "tremendous." As a seasoned professional with extensive background in creative and successful fundraising, her need for immediate help was met swiftly. She appreciated that NAF staff "walked the extra mile with me to make it work." Despite having significant assets, these short-term cash flow problems could have resulted in the clinic closing its doors.

LESSONS LEARNED

Fund structure

The key to successfully negotiating the set up and launch of the MPC can be attributed to the ability of the ORHPC, the RWJ Foundation and NAF staff to find common ground between three very different cultures: government, foundations and nonprofit consultants. The initial loan structure proposed by the RWJ Foundation for this new venture was understandably cautious, with clear guidelines about the assignment of financial risk and liability.

Over time, it was clear that the structure and conditions of the PRI were barriers to clinics' willingness to apply for loans. The Minnesota project partners discovered that clinics and hospital administrators were very sensitive to loan interest rates, even for projects that would be considered "unbankable." The initial interest rate on the PRI and the costs of marketing and operating the funds resulted in interest rates that weren't competitive with other lending sources. In addition, the requirement that the RWJ Foundation funds be matched at a 5-to-1 ratio became an obstacle to devising the best structure and leverage on a project-by-project basis. At the same time, the sharp drop in interest rates from 2000 to 2004 resulted in pressures to reduce rates on loans at the same time that interest earned on cash balances reduced income available to pay staff for lending and technical assistance.

In response to these challenges, the RWJ Foundation agreed to reduce the interest rate on the PRI to zero percent in 2003. NAF also proposed that instead of requiring that each loan leverage other funds in a 5-to-1 ratio, the leverage measure would be applied to the entire loan portfolio. These changes resulted in greater utilization of the MPC by providers.

Need for technical assistance

In conjunction with the interest rate reduction, the RWJ Foundation agreed to provide a challenge grant to support increased marketing and technical assistance services for eligible health care organizations. The challenge grant was matched with funds from The Minneapolis Foundation, Otto Bremer Foundation, Medica Foundation and NAF. As the RWJ Foundation had learned through other PRI programs, loan funds are most effective when they are supported with meaningful technical assistance services, ample staff, and expertise to find, underwrite and structure loans, and to work with borrowers in long-term relationships.



The technical assistance provided directly by the ORHPC has been an essential component of MPC's effectiveness. Staff from the MPC and the state have worked together to help clinics improve their management of billing and reimbursement systems and the resulting cash flow problems. The challenge grant from the Foundation allowed NAF to significantly increase the amount of staff time devoted to health care nonprofits and to create an expanded financial management assistance program for a handful of clinics to implement projects to enhance financial stability.

Market challenges

At a more fundamental level, the project partners perceived that community clinics viewed borrowing money to be a sign of "weakness." Despite the fact that the MPC was specifically set up to offer access to working capital and/or bridge funding for clinics facing challenges, boards of directors of nonprofits are often hesitant to consider borrowing to help address these challenges. Staff from the MPC and ORHPC needed to continually educate clinic directors and boards about the role and value of using credit to help maintain stable services.

Gaining visibility for the fund and identifying prospective borrowers was a challenge from the beginning. A \$1 million loan fund is a small

player in a large health care financing market, especially for hospitals. These realities factored into changes in the marketing strategies employed by the MPC. Initially, the ORHPC was responsible for marketing the program throughout the state to a variety of nonprofit health care organizations, including hospitals and private practice clinics. Over time, NAF increased its role in marketing the program by participating in conferences and meetings, delivering educational sessions on financial topics, and strengthening relationships with several statewide health care networks and associations. Ultimately, NAF found its “niche” with FQHCs that experienced reimbursement delays as a result of federal and state policy reforms and needed help managing rapid patient growth.

In addition to providing bridge loans to address short-term cash flow problems, the MPC helps community health centers access long-term capital from other financial institutions to make necessary facilities and equipment improvements. Throughout, NAF provides technical assistance that is flexible, knowledgeable and non-judgmental. As a result, borrowers have found a trusted ear and discovered new approaches to ensuring their long-term financial sustainability.

During the past 10 years, the MPC has played an important role in maintaining and strengthening the health care safety net and demonstrating the continued need for accessible and flexible working capital. As community health care providers anticipate future expansion needs, they have clearly indicated their preference for working with NAF. The initial risk undertaken by the RWJ Foundation has proved to be the critical link in creating a successful and lasting partnership between the ORHPC, the lending community and community health centers.

FUTURE PLANS

At the conclusion of the 10-year term for the MPC, The Robert Wood Johnson Foundation recognized the value of this unique loan fund for primary care clinics and approved a five-year renewal of the PRI through 2012. The extension will enable the MPC to continue to serve the community and to seek additional capital sources to grow the fund.

The Minnesota Primary Care Fund is a loan fund program of Nonprofits Assistance Fund. Nonprofits Assistance Fund is a certified Community Development Financial Institution (CDFI). Nonprofits Assistance Fund's mission is to foster community development and vitality by building financially healthy nonprofits. NAF provides financing for working capital, cash flow, equipment and facilities projects with a focus on strengthening the operation and mission of nonprofits. The organization also offers financial management workshops and advice that improve nonprofits' capacity to carry out their mission. Find out more by visiting NAF on the web at www.nonprofitsassistancefund.org.

Loan Advisory Committee

Mark Schoenbaum, MN Department of Health, Office of Rural Health & Primary Care

Vickie Benson, McKnight Foundation

Alison Halley, Wells Fargo Bank

Barb Jeanetta, Twin Cities LISC

Brad Kruse, Hugh J. Andersen Foundation

Jewell Mohn, U. S. Trust Co.

David Swanson, US Bank

Gary Taverna, US Bank

Linda White, Fannie Mae

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Michael Wirth-Davis

Minnesota Primary Care Fund financial partners

The Robert Wood Johnson Foundation

Medica Foundation

Otto Bremer Foundation

The Minneapolis Foundation

Many lenders do not understand your nonprofit mission, structure or funding sources. Because our mission is to build financially healthy nonprofits, we work with you to find the right solutions for your immediate and long-term financial needs in order to achieve your mission. Whether you are expanding your programs, buying much-needed equipment or facing a cash flow shortage, we have the expertise and resources to help you thrive.

Loan Information

Amount: Up to \$450,000

Term: Up to five years

Interest rate: The rate is based on the organization and type of loan, with rates from 4% to 8%

Collateral: Collateral is required. Terms are generally more flexible than conventional financing

Processing time: Decisions are made 1 – 3 weeks from time application is received

Criteria: The organization must demonstrate the ability to repay

Eligible borrowers: 501(c)(3) nonprofit organizations in the health care field that serve low income or rural communities

For further information or to discuss financing, please contact:

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