

## COMMUNITY HEALTH FACILITIES FUND

The Community Health Facilities Fund (CHFF) was established in Washington, D.C. in 1991 as a 501(c)3 corporation to assist unrated community based behavioral healthcare organizations improve their access to capital by financing in the tax-exempt bond market. The National Council for Community Behavioral Healthcare and US Psychiatric Association sponsor CHFF. It is governed by a Board of Directors consisting of Charles Ray, President, CGR & Associates; Scott Graham, President and CEO of The Family Service Foundation, Inc.; Paul Thompson, retired analyst, AMBAC; Michael Beachler, Director, Rural Health Policy Center; and B.R. Pete Kennemer, CEO, Western Arkansas Guidance and Counseling Services. The Fund Manager of the Community Health Facilities Fund is Christopher Conley of Nonprofit Capital, LLC based in Stamford, CT.

The mission of CHFF is to improve access to capital for community based behavioral care providers. To date, CHFF has financed approximately \$100 million in capital projects for these organizations.

CHFF is funded by two program-related investments from The Robert Wood Johnson Foundation totaling \$8.2 million.

### CHFF Financing Programs

CHFF has created two financing programs.

The first program financed facilities through pooled loan programs in Illinois and Florida. These two transactions total approximately \$30 million in tax-exempt bonds. CHFF provided a special debt service reserve fund in the amount of \$3 million for credit support in these transactions. These two programs financed the real estate needs of 10 providers.

The CHFF financing program was redesigned during 1995 and 1996 to permit borrowers to be funded one at a time, on their own schedule, rather than through pools within a state. The main problem with pools is that they force borrowers to wait for every other borrower to be ready to close at the same time, which rarely occurs.

The CHFF financing program places tax-exempt bonds into a Massachusetts business trust called the Tax Exempt Securities Trust (TEST), which is a trust treated as a partnership for tax purposes. The trust issues three series of trust certificates that are also privately placed: senior certificates which are rated "A-" by Fitch IBCA, an unrated mezzanine layer, and a subordinated layer that is purchased by CHFF. When completed, the trust is expected to have a senior, "A" rated layer totaling \$70 million, a mezzanine layer totaling of \$20 million, and a subordinated layer totaling \$10 million to be purchased by CHFF. The TEST has issued senior, mezzanine,

and subordinate certificates in 11 trust supplements since December 1996, totaling \$37.9 million for 21 borrowers in 10 states.

In addition to these two programs, CHFF has served as financial advisor on transactions totaling in excess of \$20 million, bring the program total to about \$100 of financing.

#### Target Borrowers

The target borrowers for this program are community based behavioral health care providers. These community health centers include substance abuse, alcoholism, family treatment centers, developmental disabilities, and other programs. The program can accommodate loan sizes as small as \$2,000,000, although larger sizes are preferable.

The objective is to finance providers that operate within a statewide program. The underwriting process therefore involves an understanding of the reimbursement and regulatory environment in which the provider operates as well as an understanding of the individual provider itself.

Borrowers in the program have annual revenues that range from \$2 million to \$20 million. Financing needs include any one of the following: new construction of office or clinical space; renovation; refinancing; acquisition; or reimbursement of prior capital expenditures. CHFF finances real estate and some equipment.

As part of the preparation for financing, CHFF provides Strategic Financial Planning services to assist behavioral care providers answer questions about the amount of debt they are incurring, their financial policies and their ability to adhere to them.

#### CHFF Financing Process

CHFF has established a relationship with Eaton Vance Management to finance community based behavioral care providers. Eaton Vance and CHFF have jointly developed credit parameters and security requirements.

Nonprofit Capital, LLC, as the Fund Manager of CHFF, completes the initial screening of credits for itself and on behalf of institutional investors. The initial screening includes a review of credit information, including audited financial statements, feasibility studies, and other information regarding the institution. If approved by CHFF, the credit is forwarded to Eaton Vance for review and approval. CHFF will arrange a site visit for all credits that receive initial approval, which may include the institutional investors. Fitch Investors Services also reviews all the credit profile of all borrowers to provide a credit assessment and determine the impact on the overall pool.

The credit objective for the pool as a whole is to obtain an underlying average rating in the “BB” category.